



# Equity issuances and agency costs: The telling story of shareholder approval around the world<sup>☆</sup>

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## ABSTRACT

Mandatory shareholder approval of equity issuances varies across and within countries. When shareholders approve issuances, average announcement returns are positive. When managers issue stock without shareholder approval, returns are negative and 4% lower. The closer the vote is to the issuance or the greater is the required plurality, the higher are the returns for public offers, rights offers, and private placements. When shareholder approval is required, rights offers predominate. When managers may issue stock without shareholder approval, public offers predominate. These findings suggest that agency problems affect equity issuances and challenge existing adverse selection, market timing, and signaling explanations.

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## 1. Introduction

In the United States and a few other countries, management typically needs only board of director approval to issue common stock. In most countries, however, by law or stock exchange rule, shareholders must vote to approve equity issuances undertaken by a certain method or exceeding a specified fractional threshold. In some countries, shareholders must approve all equity issuances. Even in the United States, shareholder approval is mandatory under certain circumstances.

This widespread heterogeneity in shareholder approval, which has been overlooked in the academic literature, is associated with two robust empirical regularities. First,

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shareholder-approved issuances are associated with positive and higher announcement returns compared with managerial issuances, 2% versus –2%. This holds across and within countries as well as for public offers, rights offers, and private placements. Second, when shareholders must approve equity issuances, rights offers are far more common than public offers. When managers may issue equity without shareholder approval, public offers are far more common than rights offers. These empirical regularities suggest that agency problems affect equity issuances.

These findings emerge from an unconventional meta-analysis of more than one hundred existing studies of the stock price reaction to equity issuances by public corporations around the world. Mandatory shareholder approval explains the disparate results of these studies, which range from strongly negative to strongly positive. Mandatory shareholder approval also explains the disparate methods firms use to issue stock, which range from overwhelmingly through public offers to overwhelmingly through rights offers. These patterns have gone undetected because researchers to date have compared their findings with only those from the United States, as if each country were an isolated peninsula connected only to the United States. The importance of shareholder approval is revealed only after pooling the data from many countries and different methods to issue common stock.

In his seminal work on the methodology of economics, John Neville Keynes (1890, p. 22) wrote that “the object of a positive science is the establishment of uniformities.” The basic contribution of this paper is to identify a new consideration, the divide between shareholder-approved and managerial stock issuances, and to show that this divide is associated with robust empirical uniformities across many diverse countries on both how firms issue equity and the market’s reaction to that decision. This is not to say that the heterogeneity with shareholder approval explains everything about equity issuances by public corporations. In this paper, I abstract from these other considerations to focus on shareholder approval.

The divide between shareholder-approved and managerial stock issuances offers new insights into many regularities that could first appear to be anomalous. For example, many papers seek to understand two salient regularities associated with equity issuances by public firms; that is, public offerings predominate and the resulting announcement effect is typically negative. Although this characterizes the United States, it is true about only three other countries among the 23 countries I study (Canada, –2.04%; Israel, –4.26%; Japan, –1.17%).<sup>1</sup> These four countries are the only ones in which managers may broadly issue stock without shareholder approval. When shareholder approval is required, either public offers are rare or the average announcement effect is positive, or both. For example, the average announcement effect of public offers is positive in all countries where shareholder approval is required (Hong Kong, 3.14%; Taiwan, 1.74%; the United Kingdom, 1.19%).

Shareholder approval also offers new insights on rights offers. The announcement effects are negative and large in some countries, among them Australia (–3.53%) and the Netherlands (–2.17%), but positive and equally large in other countries, among them Finland (4.29%) and Singapore (3.69%). I am unaware of any effort to reconcile these divergent findings. In Australia and the Netherlands, managers may unilaterally undertake rights offers, but in Finland and Singapore they must obtain shareholder approval.

Mandatory shareholder approval also offers new insights on the third major way that corporations issue equity: private placements. For instance, in Sweden (7.27%) and India (6.18%), the announcement effects are positive, but they are negative in the Netherlands (–0.52%). Shareholder approval of private placements is required in Sweden and India but not in the Netherlands.

Shareholder approval also recasts established findings of private placements from the United States. Barclay et al. (2007) propose that many private placements reflect entrenched managers placing large blocks of stock at discounts to the exchange price to sympathetic investors. They find that the largest discounts are with placements to the managers themselves. These placements, however, are associated with strongly positive announcement returns. The authors are unable to reconcile these findings with their thesis of managerial entrenchment. Under domestic stock exchange rules, disinterested shareholders must approve placements made to managers.

Shareholder approval helps to resolve confusion in other countries as well. An example is provided for Hong Kong by Wu and Wang (2002). They find large and positive announcement returns for public offers (3.14%) but large and negative returns for rights offers (–7.64%). They struggle to understand these findings in two respects. First, public offers in the United States are associated with negative returns. Why should Hong Kong be different? Second, most of the academic literature assumes that managers are acting solely in their existing shareholders’ best interests when issuing equity. Why then would managers institute rights offerings that appear to substantially reduce their shareholders’ wealth? In Hong Kong, shareholders must approve public offers, but managers may undertake rights offers unilaterally.

In most countries, either public offerings are rare or rights offers are rare. Commentators have long been “puzzled by the apparent preference of companies for general cash offers” because rights offers avoid any underpricing and have lower direct costs (Brealey et al., 2014, p. 390). This is widely known as the right puzzle. The standard response is that rights issues “are required by law in many other countries” (Ross et al., 2011, p. 637) or “obligatory” (Brealey et al., 2014, p. 389). Such claims are incorrect. Although in many countries shareholders have preemptive rights (that is, they must be offered the opportunity to purchase stock before it is sold to outsiders), in all countries shareholders may waive their rights and firms may then sell stock to outsiders. No method of issuance is prohibited. Shareholders often waive their preemptive rights for private placements but seldom for public offerings. Frequent public offerings of seasoned equity are limited to those few countries where managers may unilaterally issue

<sup>1</sup> The papers showing the results noted in the Introduction are found in Table 2. When multiple papers use the same method of issuance in the same country, I calculate an average return weight by the number of observations in each study. These figures are reported in Table 4.

stock. When shareholder approval is required, rights offers instead are overwhelmingly used.

In aggregate, these findings suggest that **agency conflicts affect equity issuances by public corporations**. This conflicts with the widely held view that managers are acting solely in their existing shareholders' best interests when issuing stock. For example, two of the seminal papers in this area, [Myers and Majluf \(1984\)](#) and [Miller and Rock \(1985\)](#), explicitly make this assumption. It would be surprising, however, if agency considerations were present with many corporate decisions but absent with something as fundamental as the issuance of common stock [a point made by [Berger et al. \(1997\)](#) and [Myers \(2000\)](#)].

One agency interpretation that is consistent with the evidence and builds on the [Jensen \(1986\)](#) free cash flow theory is that stock prices decline **when managers unilaterally issue stock because market participants believe the new capital may enable managers to empire build or pursue growth for growth's sake. When shareholders must approve equity issuances, these threats to firm value are curbed**. This agency interpretation also complements the [Hart and Moore \(1995\)](#) analysis of **how the seniority of long-term debt constrains managers from raising short-term debt to fund unprofitable but empire-building investments**. They do not consider why managers confronted with such constraints do not instead simply issue equity. Mandatory shareholder approval of equity issuances addresses this possibility.

In contrast, several major findings are inconsistent with existing theories of equity issuances. Most of these theories assume the absence of agency conflicts, so shareholder approval should not matter. Yet, many robust differences exist across and within countries with shareholder approval both on how firms issue equity and the market's reaction to that decision. In addition, certain findings seem inconsistent with key predictions of specific theories. The adverse selection theory of [Myers and Majluf \(1984\)](#) predicts that **firms will choose the issuance method that suffers the least from the inefficiencies caused by information asymmetries between managers and investors on firm value. Yet, when managers issue stock without shareholder approval, they choose public offers far more often than rights offers even though rights offers would reduce these inefficiencies**. [Myers and Majluf](#) also predict a negative stock price reaction to public offers of seasoned stock. Yet, when shareholders approve public offers, the average stock price reaction is positive. The market timing theory of [Baker and Wurgler \(2002\)](#) predicts that **firms will time the public issuance of stock to when their stock is overvalued**. Yet, public issuances of stock are rare in most countries, which are those countries where shareholder approval is required. The signaling theory of [Miller and Rock \(1985\)](#) predicts a negative stock price reaction to any form of equity financing. Yet, when approved by shareholders, public offers, private placements, and rights offers of equity are all associated with a positive average stock price reaction.

These findings suggest many follow-on analyses, ranging from revisiting existing studies in which mandatory shareholder approval was present but unrecognized to investigating whether managers are more likely to issue debt

when shareholder approval is required for equity issuances to considering mandatory shareholder approval of other major corporate decisions. The last is a fundamental issue for any firm but one that has been surprisingly little studied.

## 2. Equity issuances and mandatory shareholder approval

Equity issuance, along with a few other matters such as charter amendments and mergers, is seen as so fundamental and susceptible to agency conflicts that "all jurisdictions regulate some aspects of the corporate decision to issue new shares. Like the merger decision, the decision to issue shares can significantly affect shareholders' interest. ... Managers' incentives are also problematic: share issuance can be used to build empires, entrench managers, and dilute control. Not surprisingly, then, we find the familiar requirements of board and shareholder approval" ([Kraakman et al., 2009](#), p. 193). Shareholder approval of equity issuances is determined by several factors.

### 2.1. Corporate law

National (or state) corporate law governs equity issuances in three different ways. The first approach is to require that shareholders vote to approve all equity issuances. Some countries require shareholder approve of specific issuances. Other countries allow shareholders to vote to give management the option to issue a limited amount of stock for a limited period of time.

The second approach is to require that shareholders vote to approve only those equity issuances that are not offered pro rata to existing shareholders. These preemptive rights mean that shareholders do not have to approve rights offers but must approve private placements and public offers. Preemptive rights can be either mandatory or enabling. With mandatory preemptive rights, companies cannot opt out on a general basis. Shareholders, however, can always waive their preemptive rights for a specific equity issue or time period. With enabling preemptive rights, firms can adopt preemptive rights but are not required to do so. When firms adopt such provisions, shareholders again can waive their preemptive rights for specific issues or time periods.

The third legal approach is to allow managers to issue equity with only board of director approval. No shareholder vote is required (managerial issuances). This approach gives rise to the difference between authorized stock and issued stock. Shareholders must vote to authorize stock, but managers may without further shareholder action sell authorized (but unissued) stock. (Countries following the other two legal approaches do not recognize the difference between authorized and issued stock. Instead, shareholders must vote to authorize stock, which can stay unissued for a limited time only.) In the United States (at least in Delaware) no limit exists on the number of authorized but unissued shares or on how long stock can be authorized before it is issued ([Pistor et al., 2003](#)). [Ganor \(2011\)](#) shows that firms going public in 2009 typically had five times as many shares authorized but unis-

sued as they had shares issued. For example, Facebook has 4.1 billion shares authorized but only 117 million of them were issued prior to its IPO. Its shareholders, consequently, did not have to approve the issuance of any of the 180 million primary shares sold in its initial public offering. In fact, Facebook shareholders did not vote on the decision to go public. The only apparent direct cost of authorized but unissued stock is that the Delaware franchise tax increases with the number of authorized shares. This tax is capped at \$180,000 a year.

It is important to recognize that no method of issuance is prohibited under any of these approaches. Shareholders often waive their preemptive rights for private placements but seldom for public offers. Similarly, in those countries where shareholders must approve all equity issuances, they often approve rights offers and private placements, but they seldom approve public offerings.

## 2.2. By-laws and articles of incorporation

These become relevant if the corporate law on preemption is enabling as opposed to mandatory. In both the United States and Japan, for instance, preemptive rights are enabling, but few companies in either country have adopted them (Kraakman et al., 2009, p. 196).

## 2.3. Exchange rules

Exchange listing rules requiring shareholder approval of equity issuances have received little attention in the academic literature, but they can be important. Both the NYSE and Nasdaq require shareholder approval of any private placement of more than 20% of a firm's outstanding equity if the offer is priced at a discount to the exchange price. Both exchanges also require shareholder approval of most private placements to insiders even when the placement is not at a discount to the exchange price. Australian corporate law does not mandate preemptive rights, but the Australian Stock Exchange requires shareholder approval of any stock issuance greater than 15% of existing capital that is not offered pro rata to all shareholders. This means that private placements and public offers, but not rights offers, greater than 15% of existing capital must be approved by shareholder vote.

## 2.4. Classification of shareholder approval

I classify shareholder approval of equity issuances on a 1–5 scale as the laws and rules fit into five distinction groups. These classifications are based both on a top-down analysis, from reviewing primary and secondary legal sources, and a bottom-up analysis, from reviewing press reports on individual equity issuances. I also consulted with academics and practitioners in many of the countries. Part of this process was to incorporate industry practices, as illustrated with Finland and the United Kingdom. In all instances, the vote is binding, not just advisory (in contrast to many shareholder votes in the United

States).<sup>2</sup> These classifications serve as the foundation for most of my empirical analyses.

**Shareholder approval is classified as 5 if shareholders must approve a specific equity offer by a supermajority vote.** This vote must occur within one year of issuance (usually it is shorter than that). An example is private placements in Sweden, which by law must be approved by either a 66% or 90% majority depending on whether the placement goes to outsiders (66%) or to insiders (90%).

**Shareholder approval is classified as 4 if shareholders must approve a specific issue by majority vote.** The stock must be issued within one year of the vote. Typically, the issuance comes more quickly after the vote. An example is rights offers in Finland. Sonera's board on October 22, 2001 recommended a rights offering of up to 700 million shares. Management announced that it "intends to use the proceeds from the rights offering to retire a portion of its outstanding indebtedness and thereby strengthen the financial position of the company and to maintain its investment grade credit ratings."<sup>3</sup> Shareholders approved the issue at an extraordinary general meeting on November 9. Later that day, the board confirmed the final conditions for the offering. The \$889 million rights offering commenced on November 15 and successfully closed on November 28, 2001.

This example illustrates the importance of industry practices. In Finland shareholders legally may approve a rights offer for as long as five years. But, the widespread practice, discerned from reviews of individual cases and discussions with Finnish academics, is that rights offers typically occur within a few months (sometimes within a few days) following the shareholder vote, as with Sonera. Hence, I classify rights offers in Finland as 4.

**Voting is classified as 3 if shareholders approve an issuance within one year through what is often called a general mandate at the annual meeting.** An example would be most private placements in Singapore. Under Singapore Exchange rules, shareholders may grant a one-year general mandate for private placements totaling up to 20% of a firm's equity. This gives management the option but not the obligation to issue the stock. (General mandate provisions also typically impose other limitations, notably with pricing.) Under Singapore Exchange rules, other private placements, including those to insiders, must be approved by a shareholder vote on the specific issue. I classify a general mandate as 3 and a vote on a specific issue as 4. Because most private placements in Singapore are done pursuant to general mandates, Singaporean private placements are classified as 3.

**Shareholder approval is classified as 2 if the shareholder vote occurs more than one year but less than five years before the issuance.** This is a less restrictive general mandate than the previous category. An example would be public offerings and rights offerings in France. Under corporate law, all French equity issuances must be approved by shareholders. They may grant an authorization for a

<sup>2</sup> Yermack (2010) reviews shareholder voting in the United States.

<sup>3</sup> Business Wire, October 22, 2001 (Sonera Corporation Announces Rights Offering).



maximum amount to be raised within five years by rights, three years without rights, or 26 months when the type of security and flotation method is not specified in the shareholders' resolution.

Under United Kingdom law, shareholders may waive their preemptive rights for five years. This would suggest that public offerings in the United Kingdom should be classified as 2. "In practice the issuance process in the United Kingdom is structured around the more restrictive provisions on pre-emption contained in the Pre-Emption Group/Investor Protection Committee guidelines" (Myners, 2004, p. 12). These guidelines, issued by the Association of British Insurers, specify that shareholders should waive their preemptive rights and sell stock to the public only for an issuance of no more than 5% of capital and only until the next annual meeting. The guidelines also hold that any such issuances may be sold at a maximum discount to the exchange price of 5%. Given that most public offerings in the United Kingdom fall within these parameters, I classify public offerings in the United Kingdom as 3. This is another example of the importance of industry practices with equity issuances.

Finally, **shareholder approval is classified as 1 if there is no shareholder vote**. The United States is classified as 1 for all equity offerings except for those private placements that must be specifically approved by shareholders because of exchange rules, which are classified as 4.

Table 1 shows the requirements for shareholder approval of equity issuances both across and within countries. Further information on the classification system is found in the Online Appendix. Other aspects of shareholder voting are not considered in this classification, including quorum requirements and whether conflicted shareholders may vote or whether if, they may vote, they do, in fact, vote. This is not to gainsay the potential importance of these factors but rather to focus on the highest-level question of whether shareholders must approve equity offerings.

### 3. Methodological approach and data

In this section, I explain why data availability led me to the unusual approach (for finance) of a meta-analysis of existing studies. I also briefly describe these studies.

#### 3.1. Meta-analysis

One approach for studying shareholder approval of equity issuances would be to identify quasi-natural experiments involving the laws and exchange rules mandating such approval and then measure the impact on firms using identification techniques such as regression discontinuity, event studies, or difference-in-differences. Although this approach is desirable because it can help eliminate alternative explanations, in my setting it is infeasible. The laws mandating shareholder approval are determined by different sovereign governments and independent stock exchanges and tend to be stable for decades. I have been unable to identify any credible instruments that create good-as-random variation in the requirements for share-

holder approval of equity issuances across a large number of countries.

An alternative approach would be to use electronic data to identify equity issuances around the world and then conduct event studies. I investigated this possibility but discovered that the electronic data are deeply flawed. I illustrate this with Sweden and Italy, although I could use any country other than the United States and possibly Canada. Considering public offers and rights offers, Securities Data Company (SDC) reports for Sweden that 62% are public offers, and Bloomberg (the other electronic source) reports that 22% are public offers. Cronqvist and Nilsson (2005), however, report that public offerings of equity in Sweden are exceedingly rare and that rights offerings far predominate. SDC reports for Italy that 75% of issuances are public offerings (as opposed to rights), and Bloomberg reports a figure of 33%. The *Official Statistics of the Italian Stock Exchange* reports that it is only 20% (5% on a value-weighted basis). One reason that the electronic data are so inaccurate is that rump sales of unsubscribed stock from rights offerings are often coded exclusively as public offerings.

I eventually concluded that the only realistic way to obtain reliable results for a large number of countries and methods of issuance is to use the findings from existing studies. This is a meta-study or study of studies. Meta-analysis has been widely used in science for over a century but less so in finance or economics.

This approach has several advantages. A meta-analysis seems appropriate given that one of my goals is to understand apparent anomalies from existing studies. Another benefit is that in some dimensions a meta-analysis involves a level of independence and rigor lacking in more traditional analyses because the results have been established by many different researchers using a variety of methodologies and data sources over different time periods. This is a form of replication, albeit here of a heretofore unrecognized pattern, which is a process that lies at the heart of scientific inquiry (Popper, 2002). Also, in this case, the data are broad as they encompass 29,745 issuances from 102 studies, 23 countries, and all three primary ways to issue equity.

Many of the studies I use have been published and thus peer-reviewed. To further address the accuracy of the studies, I investigated the consistency of the within-country results. Eighteen events are covered in multiple event study papers, for example rights offers in Australia (Table 2). Within all but two of these categories, the studies agree on the sign of the announcement effect. The exceptions are private placements in Singapore (which must be approved by shareholders) and public offers in Japan (which managers undertake unilaterally). I investigated the studies underlying these two observations and concluded that the observations are not a concern.<sup>4</sup> Furthermore, results

<sup>4</sup> One study of Singaporean private placements finds positive short-run returns; the other, negative short-run returns. Both studies find positive returns over longer event windows that include the date of shareholder approval. Two studies of Japanese public offers find positive returns (with mixed significance). Two others find negative returns (which are highly significant). The papers finding positive announcement effects consider

**Table 1**

Shareholder voting on equity issuances.

This table covers those instances in which announcement returns or frequencies of issuance are available. Each issuance is classified on a 1–5 scale: 1, signifies that no shareholder vote approving the issuance has taken place within five years of the issuance; 2, that shareholders approve an issuance between five years and one year before the issuance through a general mandate at the annual meeting; 3, shareholders approve the issuance within one year through a general mandate at the annual meeting; 4, shareholders must approve the specific issue within one year; and 5, shareholders must approve the specific issue within one year of the issuance by supermajority vote.

Country	Shareholder voting requirements	Classification
United States		
Public	No vote required.	1
Rights	No vote required unless underwritten. If underwritten, placement rules could apply. A few nontransferable rights must be approved.	1
Placement	Vote required if issue is >20% equity and at a discount to the exchange price, issue is to insiders at any price, or there is a change in control.	4 or 1
Australia		
Public	Vote required if issue is >15% of equity.	4 or 1
Rights	No vote required.	1
Placement	Vote required if issue is >15% of equity.	4 or 1
Canada		
Public	No vote required.	1
Rights	No vote required.	1
Placement	Vote required if issue is >25% of equity and at a discount to the exchange price, if issue is >10% of equity and made to insiders, if issue is at a discount to the exchange price that exceeds exchange guidelines, or if firm is cross-listed on a US exchange and thus subject to those rules.	4 or 1
Finland		
Public	Vote required.	4
Rights	Vote required (although can be waived for weighty financial reason).	4
Placement	Vote required.	4
France		
Public	Vote required within three years.	2
Rights	Vote required within five years.	2
Germany		
Rights	Vote required within one year for ordinary issuance. Vote required within five years for an authorized share issuance, but cannot exceed 50% of capital. Most rights issues are authorized.	2
Greece		
Rights	Vote required.	4
Hong Kong		
Public	Vote required.	4
Rights	No vote required if offer is ≤50% of total share capital. If offer is >50%, shareholder approval required in some instances.	1
Placement	Vote required. Shareholders may give one-year general mandate approval for an issue of up to 20%. Shareholders must approve all conflicted placements.	4
India		
Public	Vote required with 75% approval.	5
Rights	No vote required.	1
Placement	Vote required with 75% approval.	5
Israel		
Public	No vote required.	1
Rights	No vote required.	1
Placement	Vote required if placement is to a substantial shareholder or causes someone to become a substantial shareholder.	4 or 1
Italy		
Public	Vote required.	4
Rights	Vote required usually given via one-year mandate.	3
Placement	Vote required.	4
Japan		
Public	No vote required.	1
Rights	No vote required.	1
Placement	Vote required with 66% approval if price of placement is particularly advantageous to the purchaser or lacks reasonable justification.	5 or 1
Korea		
Public	Vote required.	4
Rights	No vote required.	1
Placement	Vote required for conflicted placements	4 or 1
Malaysia		
Public	Vote required and must occur within one year. Any offer that is >10% of equity must be specifically approved by shareholders.	4
Rights	Vote required and must occur within one year. Any offer that is >10% of equity must be specifically approved by shareholders.	4
Placement	Vote required and must occur within one year. Any offer that is >10% of equity must be specifically approved by shareholders.	4

(continued on next page)

Table 1 (continued)

Country	Shareholder voting requirements	Classification
Netherlands		
Public	Typically delegated to board for up to five years.	2
Rights	No vote required unless part of an acquisition equal to at least 50% of firm value.	1
Placement	Typically delegated to board for up to five years.	2
New Zealand		
Public	Vote required.	4
Rights	No vote required if rights are transferable (most are).	1
Placement	Vote required on specific issue if it is >20% of equity (previously 10%).	4 or 1
Norway		
Public	Vote required either on specific issue or for a one-year authorization.	3
Rights	Vote required either on specific issue or for a one-year authorization.	3
Placement	Vote required either on specific issue or for a one-year authorization.	3
Singapore		
Public	Vote required.	4
Rights	Vote required.	4
Placement	Vote required. Shareholders may give a one year general mandate for a private placement of up to 20% of equity (previously 10%). Specific shareholder vote required for all conflicted private placements. Most private placements made pursuant to a general mandate.	3
Spain		
Rights	Vote required within five years.	2
Sweden		
Public	Vote required.	4
Rights	Vote required.	4
Placement	Vote required (66% to outsider; 90% to insiders).	5
Switzerland		
Rights	Vote required. Ordinary offers must be completed within three months. Authorized offers must be completed within two years. Most rights offerings are ordinary.	4
Taiwan		
Public	Vote required (book building).	4
Rights	No vote required (fixed-price).	1
Placement	Vote required with at least 66% of the votes in a meeting attended by at least 50% of all shareholders.	5
United Kingdom		
Public	Vote required. Shareholders may give one-year approval for issue of <5% of equity.	3
Rights	No vote required if offer is <66% of equity.	1

remain qualitatively unchanged if these two categories are excluded from the analyses.

Even though a meta-study is the only realistic option if I want reliable results for a large number of countries, potential limitations exist. One issue is the file-drawer problem. Some commentators believe that insignificant (or possibly negative) results are less likely to be published. Consequently, if I rely solely on published results, my findings could reflect a selection bias. In this case, however, I use both negative and positive event study results, so a selection bias in this dimension does not appear to exist. The positive results are noteworthy because they differ from what has been shown for the United States and predicted by existing theories. Researchers finding positive announcement returns are often perplexed by them. I also use unpublished studies, which is a standard response to the file-drawer problem. In all cases, published and unpublished papers agree on the sign of the event study.

Another issue with using published studies is that many tests are, by necessity, based on country averages

not firm-level observations. Holderness (2016) analyzes the three problems with using aggregate data to understand individual-level phenomena. The first problem is that individual observations (in my case, individual equity issuances) are weighted differently with observations from small countries usually being overweighted. I am able to correct this problem in robustness tests by re-weighting so that each individual equity issuance receives equal weight. Results remain qualitatively unchanged.

The second problem involves standard errors and statistical significance. Country averages eliminate the within-country spread in results (here, the announcement effect of equity issuances) and replace it with the spread around the country averages. Furthermore, with country averages, the number of observations is the number of countries, but, with individual observations, it is the number of individual equity issuances. Given that standard errors reflect both the number of observations and the standard deviation of those observations, standard errors can either increase or decrease with the movement from individual observations to country averages. In light of the large number of individual observations (29,745) and the small number of clusters (a given issuance method for a given country, or 42 in most analyses), in my case standard errors are higher with the country averages. Nevertheless, virtually all of my findings using country averages are highly significant.

only the initial announcement of the offering. This announcement, however, seldom reports the offering's amount or discount to the exchange price. The two papers considering all of the key dates of a public issuance in Japan, including release of information on the amount and discount of the offering, find strongly negative returns. The Online Appendix has a more extensive discussion of Singaporean private placements and Japanese public offers.

**Table 2**

Announcement returns of equity issuances around the world.

This table reports abnormal announcement stock returns associated with the three major types of equity offerings by public corporations. These abnormal stock returns are the basis for the returns reported throughout the paper. When more than one study is cited for a given issuance method in a country, I form an average return that is weighted by the number of observations in each study. The results for a given issuance method for a given country are found in Table 4. \*\*\* means the *p*-value of the *t*-statistic is less than 0.01, \*\* means the *p*-value is greater than or equal to 0.01 but less than 0.05, and \* means that the *p*-value is greater than or equal to 0.05 but less than 0.10. A blank significance cell means that the abnormal returns are not statistically significance.

Country	Type	Study	Sample size	Period	Abnormal return (%)	Period (days)	Significance
Australia	Placement shareholder approved	This paper	221	1999–2004	6.39	–1,1	**
Australia	Placement not shareholder approved	This paper	289	1999–2004	1.68	–1,1	***
Australia	Rights	Agrawal et al. (2010)	568	2003–2008	–6.30	–1,5	***
Australia	Rights	Arsiraphongphisit (2008)	158	1991–2004	–2.99	–1,1	***
Australia	Rights	Balachandran et al. (2008)	636	1995–2005	–1.74	–1,1	***
Australia	Rights	Owen and Suchard (2008)	207	1993–2001	–1.83	0,1	***
Canada	Placement	Maynes and Pandes (2011)	347	1993–2005	2.96	–1,1	***
Canada	Public	Pandes (2010)	717	1993–2005	–2.04	–1,1	***
Finland	Rights	Berglund et al. (1987)	90	1972–1981	3.58	1	***
Finland	Rights	Hietala and Löytyniemi (1991)	63	1975–1988	4.15	–1,1	***
Finland	Rights	Ikaheimo and Heikkilä (1996)	42	1972–1987	6.00	–1,0	***
France	Public	Gajewski and Ginglinger (2002)	22	1986–1996	–0.42	0,1	
France	Public	Gajewski et al. (2007)	41	1986–2000	–0.65	0,1	
France	Public	Ginglinger et al. (2009)	46	1995–2006	–2.01	–1,0	***
France	Rights	Gajewski and Ginglinger (2002)	197	1986–1996	–0.85	0,1	***
France	Rights	Gajewski et al. (2007)	243	1986–2000	–0.52	0,1	
France	Rights	Ginglinger et al. (2009)	132	1995–2006	–0.30	–1,0	
Germany	Rights	Gebhardt et al. (2001)	190	1981–1990	0.18	–2,1	
Greece	Rights	Tsangarakis (1996)	59	1981–1990	3.97	–1,0	***
Hong Kong	Placement	Lee et al. (2014)	157	2003–2011	7.90	–1,1	***
Hong Kong	Placement	Wu et al. (2005)	99	1989–1997	3.51	–1,1	***
Hong Kong	Public	Wu et al. (2005)	306	1989–1997	3.14	–1,1	***
Hong Kong	Rights	Lee et al. (2014)	110	2003–2011	–11.90	–1,1	***
Hong Kong	Rights	Wu and Wang (2002)	180	1989–1997	–7.64	–1,1	***
India	Placement	Anshuman et al. (2011)	164	2001–2009	6.18	–10,10	***
India	Rights	Marisetty et al. (2008)	67	1997–2005	0.03	0, 2	
Israel	Public	Hauser et al. (2003)	76	1989–1997	–4.26	–5,5	Not reported
Italy	Rights	Bigelli (1998)	82	1980–1994	0.79	–1,1	
Japan	Placement	Kang and Stulz (1996)	69	1985–1991	3.13	–1,1	**
Japan	Placement	Kato and Schallheim (1993)	76	1974–1988	4.98	0, 1	***
Japan	Placement	Suzuki (2009)	906	1998–2005	2.17	–1,1	***
Japan	Public	Cooney et al. (2003)	407	1974–1991	0.50	–1,1	***
Japan	Public	Kang and Stulz (1996)	185	1985–1991	0.45	–1,1	*
Japan	Public	Christensen et al. (1996)	16	1984–1991	–2.05	0	***
Japan	Public	Kato and Suzuki (2012)	821	1994–2009	–2.35	–1,1	***
Japan	Rights	Kang and Stulz 1996	28	1985–1991	2.02	–1,1	**
Korea	Placement	Baek et al. (2006)	262	1989–2000	1.85	–1,1	***
Korea	Rights	Kang (1990)	89	1984–1988	0.95	–1,1	
Malaysia	Placement	Dewa and Ibrahim (2010)	96	2002–2007	4.01	–29,0	***
Malaysia	Placement	Nor (2007)	46	1994–2003	2.42	–10,0	**
Malaysia	Rights	Phoon (1990)	64	1978–1989	1.36	–10,0	Not reported
Malaysia	Rights	Salamudin et al. (1999)	72	1980–1995	2.99	–8,1	**

(continued on next page)



Table 2 (continued)

Country	Type	Study	Sample size	Period	Abnormal return (%)	Period (days)	Significance
Netherlands	Placement	de Jong and Veld (2001)	16	1977–1996	−0.52	−1,1	
Netherlands	Public	de Jong and Veld (2001)	17	1977–1996	−0.41	−1,1	
Netherlands	Rights	de Jong and Veld (2001)	51	1977–1996	−1.46	−1,1	*
Netherlands	Rights	Kabir and Roosenboom (2003)	58	1984–1995	−2.79	0,1	***
New Zealand	Placement	Anderson et al. (2006)	70	1990–2002	0.15	0,1	
New Zealand	Rights	Marsden (2000)	88	1976–1994	−1.01	0,1	***
Norway	Placement	Eckbo and Norli (2004)	136	1980–1996	2.66	−2,2	**
Norway	Rights	Eckbo and Norli (2004)	219	1980–1996	0.38	−2,2	
Singapore	Placement	Chen et al. (2002)	53	1988–1993	−0.89	−1,0	**
Singapore	Placement	Tan et al. (2002)	67	1988–1996	0.31	−1,1	
Singapore	Rights	Ariff et al. (2007)	139	1983–2003	4.32	0,1	***
Singapore	Rights	Tan et al. (2002)	65	1988–1996	2.34	−1,1	Significant
Spain	Rights	Arrondo and Gomez-Anson (2003)	48	1990–1998	−1.42	−1,1	*
Spain	Rights	Martin-Ugedo (2003)	57	1989–1997	−1.24	−1,0	***
Sweden	Placement	Conqvist and Nilsson (2005)	136	1986–1999	7.27	−1,1	***
Sweden	Placement to outsiders	Conqvist and Nilsson (2005)	91	1986–1999	5.10	−1,1	***
Sweden	Placement to insiders	Conqvist and Nilsson (2005)	45	1986–1999	11.67	−1,1	***
Sweden	Rights	Conqvist and Nilsson (2005)	160	1986–1999	0.37	−1,1	
Switzerland	Rights	Loderer and Zimmermann (1988)	122	1973–1983	2.00	month	
Taiwan	Public	Wang et al. (2008)	45	1996–2006	1.74	−7,3	Not reported
Taiwan	Placement	Wang et al. (2008)	209	2002–2007	3.18	−10,10	Significant
Taiwan	Placement	Liang and Jang (2013)	302	2002–2008	1.42	−3, 0	***
Taiwan	Rights	Huang and Chan (2013)	296	1996–2006	−1.82	−7,3	Not reported
UK	Public	Barnes and Walker (2006)	268	1989–1998	0.53	0	
UK	Public	Korteweg and Renneboog (2003)	38	1992–1999	1.00	−1,0	
UK	Public	Slovin et al. (2000)	76	1986–1994	3.31	−1,0	***
UK	Rights	Barnes and Walker (2006)	600	1989–1998	−0.72	0	**
UK	Rights	Korteweg and Renneboog (2003)	38	1992–1999	−2.90	−1,0	***
UK	Rights	Slovin et al. (2000)	220	1986–1994	−3.09	−1,0	***
UK	Rights	Armitage (2002)	702	1985–1996	−2.24	−1,0	***
US	Public	Eckbo et al. (2007) <sup>a</sup>	15,017	1963–2001	−2.22	−1,1	***
US	Placement	Eckbo et al. (2007) <sup>b</sup>	2,830	1979–2000	2.45	−1,1	***
US	Rights	Eckbo et al. (2007) <sup>c</sup>	402	1963–1989	−1.23	−1,1	***
US	Placement shareholder approved	Park (2014)	406	1995–2010	2.52	−1,1	***
US	Placement not shareholder approved	Park (2014)	2,060	1995–2010	−0.34	−1,1	
US	Placement shareholder approved	This paper	206	1979–1997	3.55	−1,1	***
US	Placement not shareholder approved	This paper	388	1979–1997	1.04	−1,1	**

<sup>a</sup> Based on 15 studies.<sup>b</sup> Based on six studies.<sup>c</sup> Based on five studies.

**Table 3**

Data sources on frequency of different methods to issue equity.

This table reports the sources of the data on the frequency of the three major methods to issue equity. The data are equally weighted.

Country	Source
Australia	Atanasov and Shekhar (2008), 1998–2004. Arsiraphongphisit (2008), 1991–2004.
Canada	E-mail from Professor Ari Pandes, University of Calgary, Finance Department, Calgary, Alberta, Canada, about his ongoing research. Hand-collected data. 1993–2010.
Finland	Nero (2004). 1991–1999. E-mail from Professor Sami Torstila, Aalto University, Finance Department, Helsinki, Finland.
France	Ginglinger et al. (2009). 1995–2006. Hand-collected data. E-mail from Professor Edith Gingliner, University of Paris-Dauphine, Paris, France, confirms private placements in France (although they are not included in her database).
Germany	E-mail from Professor Richard Stehle, Humboldt-Universität zu Berlin, Berlin, Germany. Jones et al. (2003) confirm relatively few private placements or public offerings in Germany.
Greece	Tsangarakis (1996, p. 21). E-mail from Professor N. V. Tsangarakis, University of Piraeus, Piraeus, Greece.
Hong Kong	Wu and Wang (2002, Table 1). Wu et al. (2005, Table 1).
India	Reserve Bank of India, <i>Handbook of Statistics on Indian Economy 2011. National Stock Exchange of India Fact Book 2011.</i>
Israel	Tel-Aviv Stock Exchange, <i>Annual Review 2003–2015</i> (in Hebrew).
Italy	Italian Stock Exchange website 2005–2011, <a href="http://www.borsaitaliana.it/borsaitaliana/statistiche/mediaitaliano/statistiche/mercatoprimario/2011/amentipagamento.en.pdf.htm">http://www.borsaitaliana.it/borsaitaliana/statistiche/mediaitaliano/statistiche/mercatoprimario/2011/amentipagamento.en.pdf.htm</a> .
Japan	Tokyo Stock Exchange, <i>Fact Book</i> , 2000–2010.
Korea	Jang et al. (2009, Table 1). 2000–2007.
Malaysia	Dewa and Ibrahim (2011, Table 1). 2000–2007.
Netherlands	de Jong and Veld (2001, Table 3). 1977–1996.
New Zealand	Marsden (2000) reports 32 rights offers a year from 1976 to 1994. Anderson et al. (2006) report eight private placements a year from 1990 to 2002.
Norway	Eckbo and Norli (2004, Table 2). 1980–1996.
Singapore	Tan et al. (2002). 1988–1996.
Spain	E-mail from Professor Juan Francisco Martin-Ugedo, University of Murcia, Spain.
Sweden	Cronqvist and Nilsson (2005, Table 1). Conversations with and e-mails from with Professor H. Cronqvist, Miami Business School, University of Miami, Miami, FL, Dr. M. Nilsson, Division of Economic and Risk Analysis, US Securities and Exchange Commission, Washington, DC, and Dr. Gabriel Urwitz, Segulah Advisor AB, Stockholm, Sweden.
Switzerland	Loderer and Zimmermann (1988). Also conversations with and e-mails from Professor Claudio Loderer, University of Bern, Bern, Switzerland.
Taiwan	Wang et al. (2008, Table 1). 1996–2006.
United Kingdom	Capstaff and Fletcher (2011, Table 1), Ho (2005, Table 2), and Slovin et al. (2000, Table 1).
United States	Eckbo et al. (2007). 1980–2003. Rights frequency based on finding of Heron and Lie (2004) and Eckbo et al. (2007, Table 12).

The third problem is that with country averages, controlling for firm-level determinants is not possible. I am, however, able to conduct traditional firm-level analyses and control for firm-level determinants with private placements in the United States and Australia. These results are consistent with the meta-analyses that use country averages and thus cannot control for firm-level determinants.

### 3.2. Data

I started with the countries covered in Spamann (2010) because I wanted to use his international survey of corporate laws. I then searched the Internet [particularly Google Scholar and the Social Science Research Network, (SSRN)] for event studies of equity issuances in the countries covered by Spamann. The 102 studies are reported in Table 2. In the meta-analyses I generally use the short-run abnormal stock returns reported in these papers, ideally the three-day return from day  $-1$  to day 1. If a study highlights another return, I use that return on the theory that the authors made an assessment that a longer window incorporates more of the relevant announcement effects. (The event windows and other information are reported in Table 2.) The unit of analysis in most tests is a particular issuance method for a given country. Thus, for example, the Australian rights offering observation is the average of the four event studies I was able to identify, weighted by the number of observations in each study (–3.53%, as

noted in Table 4). As a robustness test, I weighted each study equally (–3.22% with Australian rights offers).

I also analyzed the methods firms use to issue equity, whether by a public offering, rights offering, or private placement. For India, Israel, Italy, and Japan, these data come from the local stock exchange. For the remaining countries, I relied on existing studies supplemented by discussions with local academics (Table 3).

## 4. Shareholder approval and announcement effects

This section presents the key empirical findings in the paper. I first show the association between the existence or lack thereof of shareholder approval and the announcement effects of stock offerings in general. I next partition the announcement effects by how the stock is issued. I pay special attention to US and Australian private placements because shareholders must approve some but not all placements. Finally, I examine the within-country announcement effects. This examination holds constant countrywide factors that might affect the market's reaction to stock issuances, such as investor protection laws and the level of financial development.

### 4.1. Announcement effects in general

Table 4 shows the association between mandatory shareholder approval and the announcement effects of common stock issuances by public corporations in the 23

**Table 4**

Announcement returns of equity issuances and shareholder approval.

This table reports announcement returns of equity offerings by public corporations in 23 countries and whether they were approved by a vote of the shareholders. The papers citing these returns are reported in Table 2. There are 29,745 individual issuances. Shareholder approval is classified as “Yes” if shareholders vote within one year to approve the stock issuance. This corresponds to a classification of 5 through 3, inclusive, in the shareholder voting classification summarized in Table 1.

Country	Type of issuance	Shareholder approved	Abnormal returns (%)
Sweden	Private placements to insiders	Yes	11.67
Australia	Private placements shareholder approved	Yes	6.39
Hong Kong	Private placements	Yes	6.20
India	Private Placements	Yes	6.18
Sweden	Private placements to outsiders	Yes	5.10
Finland	Rights	Yes	4.29
Greece	Rights	Yes	3.97
Singapore	Rights	Yes	3.69
Malaysia	Private placements	Yes	3.49
Hong Kong	Public offerings	Yes	3.14
Canada	Private placements	Some	2.96
United States	Private placements shareholder approved	Yes	2.87
Norway	Private placements	Yes	2.66
Japan	Private placements	Some	2.44
Malaysia	Rights	Yes	2.22
Taiwan	Private placements	Yes	2.14
Japan	Rights	No	2.02
Switzerland	Rights	Yes	2.00
Korea	Private placements	Some	1.85
Taiwan	Public offerings	Yes	1.74
Australia	Private placements not shareholder approved	No	1.68
United Kingdom	Public offerings	Yes	1.19
Korea	Rights	No	0.95
Italy	Rights	Yes	0.79
Norway	Rights	Yes	0.38
Sweden	Rights	Yes	0.37
Germany	Rights	No	0.18
New Zealand	Private placements	Some	0.15
United States	Private placements not shareholder approved	No	0.13
India	Rights	No	0.03
Singapore	Private placements	Yes	−0.22
Netherlands	Public offerings	No	−0.41
Netherlands	Private placements	No	−0.52
France	Rights	No	−0.58
New Zealand	Rights	No	−1.01
Japan	Public offerings	No	−1.17
France	Public offerings	No	−1.18
United States	Rights	No	−1.23
Spain	Rights	No	−1.32
United Kingdom	Rights	No	−1.79
Taiwan	Rights	No	−1.82
Canada	Public offerings	No	−2.04
Netherlands	Rights	No	−2.17
United States	Public offerings	No	−2.22
Australia	Rights	No	−3.53
Israel	Public offerings	No	−4.26
Hong Kong	Rights	No	−9.25

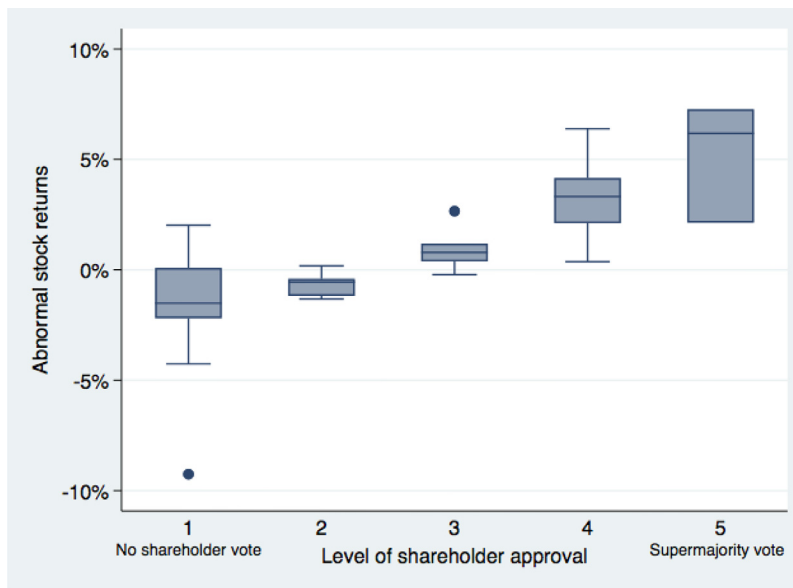
sample countries. In this table approval is classified simply by whether a shareholder vote has taken place within one year of the issuance. This corresponds to 3 through 5 in my classification system.

Table 4 reveals a positive association between shareholder approval and the announcement returns. When shareholders vote to approve an offering, the average announcement effect for a given issuance method within a country is positive in all instances save one. When no shareholder vote takes place (within a year of the issuance), the corresponding announcement effect is typically negative. When announcement returns are rank-ordered (as in Table 4), little overlap exists between those

offers that are approved by shareholders and those undertaken unilaterally by management (that is, with only board of directors approval).

Fig. 1 shows that the type of shareholder vote seems to matter, not just whether a vote took place. Each successive level of shareholder voting, how close the vote is in time to the issuance or the requisite plurality of approval, is associated with higher median announcement returns than the immediately lower level of approval.

Table 5 presents regression analyses of the announcement returns on different measures of shareholder approval. Announcement returns average 4.38 percentage points higher when there is a shareholder vote within



**Fig. 1.** Shareholder approval of equity issuances and announcement returns. This figure shows the level of mandatory shareholder approval (if any) of equity issuances and the abnormal stock returns associated with the initial public announcement of the equity issuance. The thin black horizontal line represents the median abnormal announcement return. The beginning and end of the shaded boxes represent the first and third quartiles, respectively. The ends of the whiskers represent the minimum and maximum return, except when there is a dot, which represents an outlier. Outliers are those observations that are 1.5 times greater than the interquartile range. There are 23 countries and 29,745 individual equity issuances. This figure is based on a given issuance method for a particular country (42 observations). It excludes private placements from Canada, Japan, Korea, and New Zealand because shareholders approve some but not all private placements. Private placements from the United States and Australia are included and divided between those that are shareholder approved and those that are not approved. The level of shareholder approved is shown in Table 1. The announcement returns are reported in Table 4.

**Table 5**

Regressions of announcement returns and shareholder approval.

This table reports regression analyses of the abnormal stock returns associated with the initial public announcement of common stock issuances by public corporations from around the world. *Shareholder approved* means that shareholders have voted their approval within one year of the actual issuance, categories 3–5, inclusive in the classification described in Table 1. There are 23 countries and 29,745 individual issuances. All regressions have 42 observations. The unit of analysis is a particular issuance method for a given country (Table 4). These regressions exclude private placements from Canada, Japan, Korea, and New Zealand because shareholders approve some but not all private placements. Private placements from the United States and Australia are included and divided between those that are shareholder approved and those that are not approved. (*p*-values based on Huber–White robust standard errors are in parentheses.)

	1	2	3	4	5	6
<i>Shareholder approved</i>	4.38 (0.00)			3.75 (0.00)	6.46 (0.00)	6.41 (0.05)
Continuous shareholder approval measure (1–5)		1.67 (0.00)				
Categories (compared with no vote, 1)						
Vote within five years (2)			0.96 (0.19)			
Vote within one year (3)			2.56 (0.00)			
Vote on specific issue (4)			4.97 (0.00)			
Supermajority vote (5)			6.80 (0.00)			
Constant	–1.34 (0.01)	–3.48 (0.00)	–1.60 (0.03)	–1.04 (0.03)	–2.32 (0.04)	–1.42 (0.71)
Method of issue dummies	No	No	No	Yes	No	Yes
Country dummies	No	No	No	No	Yes	Yes
$R^2$	0.50	0.59	0.60	0.54	0.74	0.77

one year compared with when there is no such vote (Column 1).<sup>5</sup> Columns 2 and 3 confirm that announcement returns increase with the degree of shareholder approval. Although the difference between categories 1 (no vote) and 2 (vote one to five years before the issuance) is insignificant ( $p$ -value = 0.19), the differences between no shareholder vote and each of the other three categories are highly significant. On average, equity issuances following shareholder supermajority approval (category 5) are associated with 6.80 percentage points higher abnormal stock returns than issuances without any shareholder vote (category 1). Method of issuance and country dummies are added in Columns 4–6. The positive association between shareholder approval and announcement returns remains significant throughout.

To test the robustness of these results, I add shareholders' rights to sue corporate directors, the legal protections of minority shareholders against self-dealing by corporate insiders, legal origins, ownership concentration, institutional stock ownership, log of Gross Domestic Product (GDP) per capita, and growth of GDP to Column 1 of Table 5. (All of these variables are defined in Table A1.) I also rerun all Table 5 and robustness regressions as weighted least squares, in which the weights are proportional to the number of issuances underlying each observation so that each individual issuance is weighted equally. In all of these untabulated regressions, the *Shareholder Approval* dummy remains significant and ranges between 4.34 and 6.01.

#### 4.2. Announcement effects by method of issuance

Once I control for shareholder approval, the individual method of issuance dummies in Table 5 becomes insignificant in all instances except one (private placements in Column 4 with the omitted category being public offers, untabulated). Table 6 breaks out the announcement returns by the method of issuance. Although these methods are usually treated as being fundamentally different, for all three methods, shareholder approval (defined as 3 through 5 on my scale) is associated with positive announcement returns that are higher than when there is no approval. This finding is confirmed by untabulated regressions of the individual issuance methods.

##### 4.2.1. Public offerings

The major empirical regularity that many studies of seasoned equity issuances seek to understand is the negative announcement effect of public offerings. Table 6 shows that the announcement effects are negative in the United States and in all other countries where management may unilaterally publicly issue seasoned equity. But when shareholder approval is required, the average announcement effect for public offerings is positive in each case (Hong Kong, Taiwan, and the United Kingdom).

<sup>5</sup> Table 5 excludes private placements from countries where the vote is classified either 4 or 1 because I lack the information to divide the sample accordingly (Canada, Japan, Korea, and New Zealand). If the private placements from these countries are included and classified as 4, the *Shareholder Approval* dummy in Column 1 becomes 4.61 ( $p$ -value = 0.00). If the placements are classified as 1, the dummy becomes 4.37 ( $p$ -value = 0.00).

##### 4.2.2. Rights offerings

Shareholder voting approval of rights offers likewise is always associated with positive average announcement effects. This holds both for the country observations and for all of the individual studies that underlie these observations. With no shareholder approval, average returns are typically negative and are sometimes large.

##### 4.2.3. Private placements

Management must obtain shareholder approval for all private placements in some countries (Sweden and Malaysia are examples). In these countries, the average announcement effect is positive with the lone exception of Singapore. In all of the other sample countries save the Netherlands, shareholders must approve some but not all private placements. The Netherlands has the lowest average announcement returns of any sample country for private placements.

Because the authors of published studies of private placements apparently were unaware of the requirements for shareholder approval, they do not separate announcement returns by shareholder approval (for example, Barclay et al., 2007; Hertz and Smith 1993; Wruck 1989). I now do so with firm-level data for the United States and Australia.<sup>6</sup>

Under NYSE Rule 312 and Nasdaq Listing Rule 5635, shareholders must approve private placements in three situations: placements of more than 20% of the outstanding common stock that are sold at discounts to the exchange price; placements to insiders independent of pricing; and placements that trigger a change in control. Under Chapter 7 of the Australian Stock Exchange Listing Rules, shareholders must approve any non-pro rata issuance, including private placements, that constitute more than 15% of a firm's outstanding equity. Table 7 reports that the abnormal announcement returns are between 1.63 percentage points and 12.90 percentage points higher with shareholder approval. This is true even though in both countries the discounts and percent placed are larger with the shareholder-approved placements. The differences in announcement returns persist for both countries (Table 8) when I control for firm and placement characteristics that others have found help explain private placement announcement returns. Regressions of longer-run returns produce similar results.<sup>7</sup>

Further, managers in both countries seem to avoid some shareholder votes by clustering private placements below

<sup>6</sup> The United States data come from Barclay et al. (2007) and consist of 594 private placements made between 1979 and 1997. The Australian data come from Vladimir Atanasov and Chander Shekhar's ongoing study of corporate governance in Australia. Their sample consists of 510 placements made between 1999 and 2004. I thank Professors Atanasov and Shekhar for their generous assistance.

<sup>7</sup> The shareholder-approval dummy for the United States is 0.13 ( $p$ -value = 0.05) when days –10, 120 abnormal returns is the dependent variable. Park (2014), who studies the 20% threshold, finds similar overall results for United States private placements. He reports short-run returns (days –1, 1) that are positive (2.52%) and significant for shareholder-approved placements, but negative and insignificant for non-approved placements (–0.34%). His long-run returns (which are reported in an earlier version of his paper) are positive and insignificant for the approved sample (3.10%), but negative and significant for the non-approved sample (–4.59%). Park confirms these differences with multiple regressions.



**Table 6**

Method of issuing equity, shareholder approval, and announcement returns.

This table reports abnormal announcement returns associated with the three major methods of issuing equity. There are 23 countries and 29,745 individual issuances. Shareholder approval is measured on a 1–5 scale, with 1 being no requirement that shareholders vote for an equity issuance. The level of shareholder approval is summarized in Table 1.

Method and country	Level of shareholder approval	Abnormal returns (%)
<b>Public offerings</b>		
Hong Kong	4	3.14
Taiwan	4	1.74
United Kingdom	3	1.19
Netherlands	2	−0.41
Japan	1	−1.17
France	2	−1.18
Canada	1	−2.04
United States	1	−2.22
Israel	1	−4.26
<b>Rights offerings</b>		
Finland	4	4.29
Greece	4	3.97
Singapore	4	3.69
Malaysia	4	2.22
Japan	1	2.02
Switzerland	4	2.00
Korea	1	0.95
Italy	3	0.79
Norway	3	0.38
Sweden	4	0.37
Germany	2	0.18
India	1	0.03
France	2	−0.58
New Zealand	1	−1.01
United States	1	−1.23
Spain	2	−1.32
United Kingdom	1	−1.79
Taiwan	1	−1.82
Netherlands	1	−2.17
Australia	1	−3.53
Hong Kong	1	−9.25
<b>Private placements</b>		
Sweden (insiders)	5	11.67
Australia (shareholder approved)	4	6.39
Hong Kong	4	6.20
India	5	6.18
Sweden (outsiders)	5	5.10
Malaysia	4	3.49
Canada	4 or 1	2.96
United States (shareholder approved)	4	2.87
Norway	3	2.66
Japan	5 or 1	2.44
Taiwan	5	2.14
Korea	4 or 1	1.85
Australia (not approved)	1	1.69
New Zealand	4 or 1	0.15
United States (not approved)	1	0.13
Singapore	3	−0.22
Netherlands	2	−0.52

the regulatory thresholds. Panel A of Fig. 2 shows clustering below the 20% threshold for United States; Panel B shows clustering below the 15% threshold for Australia. Clustering in the United States is confirmed by the Interpretative Comments of the Nasdaq Listing Rules, which has several pages critiquing actions managers had taken, or had attempted to take before exchange officials stopped them, to avoid shareholder votes on private placements. Clustering in Australia is confirmed by Chan and Brown (2004), who study the July 1, 1998 (July

1, 1997 for mining companies) change in the threshold from 10% to 15%. They find clustering below 10% when that was the rule. When the rule changed to 15%, the clustering changed immediately to 15%. Chan and Brown (2004, p. 310) conclude that this constitutes “strong evidence that many companies tailor the issue so that it falls just below the ceiling specified in the listing rules.” The Online Appendix reviews efforts by managers in the United States to influence or avoid shareholder voting on equity issuances in other settings, including equity-

**Table 7**

United States and Australian private placements.

This table presents summary statistics on 589 United States and 510 Australian private placements, with 206 of the US placements and 221 of the Australian placements approved by a vote of the shareholders. The firm size is in US dollars for the US firms and in Australian dollars for the Australian firms. (*p*-values based on Huber–White robust standard errors are in parentheses.)

	United States			Australia		
	Shareholder approval	No shareholder approval	Difference	Shareholder approval	No shareholder approval	Difference
Abnormal returns (days)						
–1, 1	3.55% (0.00)	1.04% (0.03)	2.51% (0.01)	6.39% (0.01)	1.68% (0.00)	4.71% (0.04)
–10, 10	11.6% (0.00)	3.06% (0.00)	8.54% (0.01)	7.32% (0.02)	5.69% (0.00)	1.63% (0.61)
–10, 120	2.68% (0.64)	–10.21% (0.00)	12.90% (0.04)	4.37% (0.35)	–1.44% (0.59)	5.81% (0.25)
Premium	–28%	–14%	14% (0.00)	–14%	–8%	6% (0.00)
Percent placed	48%	12%	36% (0.00)	38%	9%	29% (0.00)
Premium as percentage of firm value	–8.13%	–1.38%	6.76% (0.00)	–5.04%	–0.70%	4.33% (0.00)
Firm size	\$78 million	\$187 million	\$108 million (0.03)	\$505 million	\$187 million	\$318 million (0.00)

**Table 8**

Regression analyses of private placements and shareholder approval.

This table reports regression analyses of the abnormal stock returns associated with private placements in the United States and Australia. Under exchange rules, some placements require prior approval by a vote of the shareholders, *shareholder approved*. The dependent variable is the abnormal stock returns associated with the initial public announcement of the placement (days –1, 1). *Premium* is the dollar premium (or discount) per share times the number of shares placed divided by the market value of the firm. *Firm size* is the natural log of the market value of equity. *Leverage* is short- and long-term debt divided by book value of assets. *Active buyer* is a dummy variable that takes a value of one if the buyer of the placement becomes publicly active in the firm in the two years following the placement and zero otherwise. (*p*-values based on Huber–White robust standard errors are in parentheses.)

Variable	US	Australia
<i>Shareholder approved</i>	0.02 (0.04)	0.08 (0.08)
<i>Premium</i>	–0.12 (0.30)	–0.34 (0.04)
<i>Firm size</i>	–0.00 (0.96)	–0.01 (0.37)
<i>Leverage</i>	0.28 (0.13)	0.01 (0.83)
<i>Active buyer</i>	0.06 (0.00)	0.12 (0.00)
<i>Constant</i>	–0.01 (0.34)	0.18 (0.38)
<i>R</i> <sup>2</sup>	0.05	0.09
Number of observations	567	358

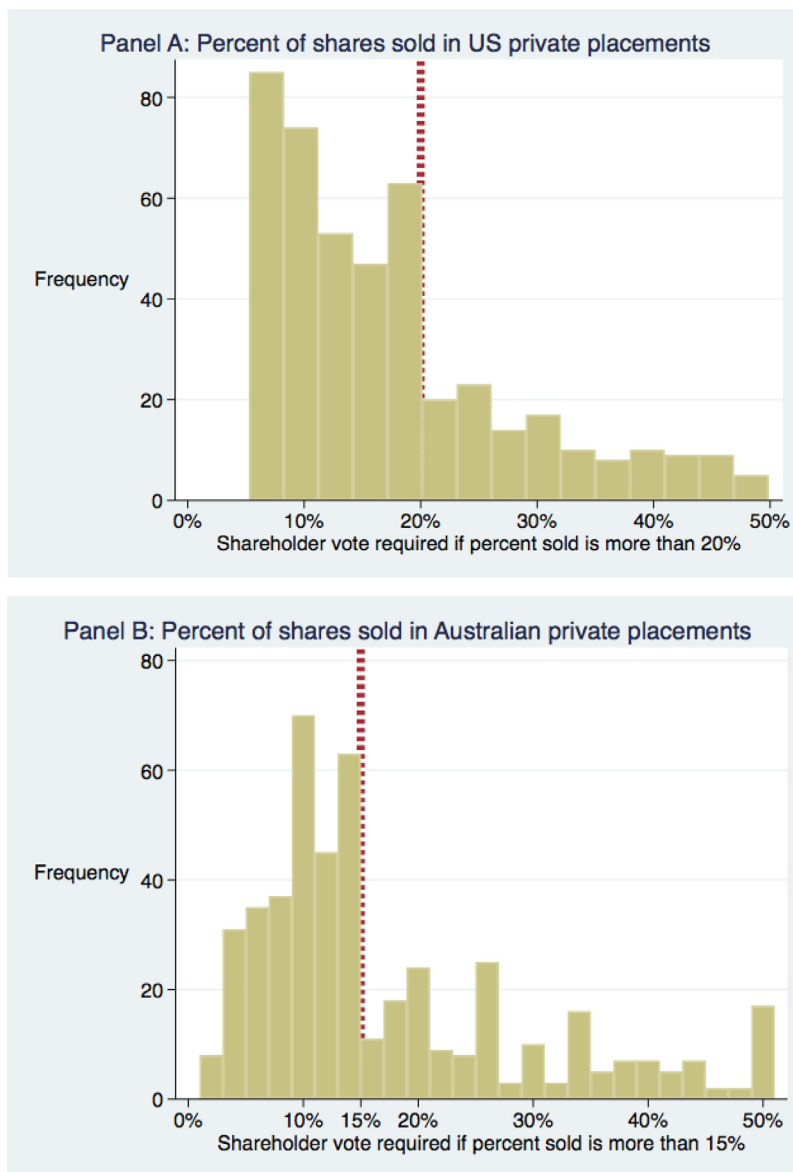
based compensation plans and stock payments for acquisitions.<sup>8</sup>

#### 4.3. Within-country announcement effects

Within-country announcement effects are shown in Table 9. By making within-country comparisons, country-level factors, such as GDP per capita, investor base, culture, and other investor protection laws are held constant. There is not a single country where an issuance method with a lower level of shareholder approval has a higher average announcement return than an issuance method with a higher level of shareholder approval. For example, in India rights offers are not subject to a vote (vote 1), but private placements (specifically, preferential allotments) must be approved by 75% of the shareholders voting (vote 5). Indian rights offers are associated with an average announcement return of 0.03%, but preferential allotments are associated with an announcement return of 6.18%.

In Sweden, all stock issuances require shareholder approval, but the plurality of approval required varies with the type of issuance. Rights need to be approved by only a simple majority, and the associated announcement effect is 0.37%. Private placements to outside investors must be approved by a 66% vote, and the associated announcement effect is 5.10%. Private placements to insiders need

<sup>8</sup> Becht et al. (2016) study the United Kingdom's legal requirement that bidding firms' shareholders approve certain mergers. In contrast to the situation with private placements, United Kingdom law stipulates four criteria, any one of which triggers mandatory shareholder approval. Becht et al. could find no evidence of management clustering acquisitions below any of the four thresholds. They hypothesize that although gaming one threshold could be feasible (as with private placements), gaming multiple thresholds is too difficult.



**Fig. 2.** Shares sold in US and Australian private placements, in percent. Panel A is the percent of shares sold in 447 US private placements of common stock between 1979 and 1997. Panel B is the percent of shares sold in 468 Australian private placements of common stock between 1999 and 2004. The requirement for shareholder approval of a private placement depends on the percent of shares sold and is different in the two countries as indicated. (Both panels exclude placements greater than 50%.)

approval by 90% of the shareholders voting, and the associated announcement effect is 11.67%.

Under Hong Kong law public offerings and private placements are subject to shareholder approval while rights offerings are not.

Notwithstanding anything in a company's memorandum or articles, the directors shall not without the prior approval of the company in general meeting exercise any power of the company to allot shares: provided that no such prior approval shall be required in relation to the allotment of shares in the company under an offer made pro rata by the company to the members of

the company." [Ordinances of Hong Kong, Chapter 32 (Companies Ordinance), Section 57B (Approval of company required for allotment of shares by directors)].

The returns associated with the two methods of issuance that are subject to prior approval (private placements and public offerings, 6.20% and 3.14%, respectively) are substantially higher than the returns associated with pro rata rights offerings (−9.25%), which do not require shareholders' prior approval.

Because the importance of shareholder approval has been overlooked to date, few papers compare announcement effects from shareholder-approved offerings with

**Table 9**

Within-country announcement returns and shareholder approval.

This table reports equity issuances and the associated abnormal announcement returns for all countries from Table 4 that have multiple methods of issuance. Shareholder vote is measured on a 1–5 scale, with 1 being no requirement that shareholders vote for an equity issuance. The level of shareholder vote is summarized in Table 1.

Country and method of issuance	Shareholder vote	Abnormal returns (%)
United States		
Private placements shareholder approved	4	2.87
Private placements not shareholder approved	1	0.13
Rights	1	–1.23
Public offerings	1	–2.22
Australia		
Private placements shareholder approved	4	6.39
Private placements not shareholder approved	1	1.68
Rights	1	–3.53
Canada		
Private placements	4 or 1	2.96
Public offerings	1	–2.04
France		
Rights	2	–0.58
Public offerings	2	–1.18
Hong Kong		
Private placements	4	6.20
Public offerings	4	3.14
Rights	1	–9.25
India		
Private placements	5	6.18
Rights	1	0.03
Japan		
Private placements	5 or 1	2.44
Rights	1	2.02
Public offerings	1	–1.17
Korea		
Private placements	4 or 1	1.85
Rights	1	0.95
Malaysia		
Private placements	4	3.49
Rights	4	2.22
Netherlands		
Public offerings	2	–0.41
Private placements	2	–0.52
Rights	1	–2.17
New Zealand		
Private placements	4 or 1	0.15
Rights	1	–1.01
Norway		
Private placements	3	2.66
Rights	3	0.38
Singapore		
Rights	4	3.69
Private placements	3	–0.22
Sweden		
Private placements to insiders	90% vote	11.67
Other private placements	66% vote	5.10
Rights	50% vote	0.37
Taiwan		
Private placements	5	2.14
Public offerings	4	1.74
Rights	1	–1.82
United Kingdom		
Public offerings	3	1.19
Rights	1	–1.79

**Table 10**

Frequency of issue methods when shareholders approve all equity issuances.

This paragraph reports the frequency of the three major methods of issuing equity when shareholders must vote to approve all equity issuances. “Negligible” means that the particular issuance method is used in 0.01 or less of all seasoned equity offerings (SEOs). The data are equally weighted by issuance, and the sources are reported in Table 3.

Country and method of issuance	Fraction of SEOs
Finland	
Public offerings	Negligible
Private placements	0.41
Rights	0.59
Malaysia	
Public offerings	Negligible
Private placements	0.51
Rights	0.49
Norway	
Public offerings	Negligible
Private placements	0.40
Rights	0.60
Singapore	
Public offerings	Negligible
Private placements	0.51
Rights	0.49
Sweden	
Public offerings	Negligible
Private placements	0.54
Rights	0.46

those that have not been so approved. An exception is the Wang et al. (2008) study of seasoned equity offerings in Taiwan, although their focus is not shareholder voting but the investment banking process. Two methods are used to issue seasoned stock in Taiwan (other than through private placements): book building and fixed price. Shareholders must approve the former, and most of the shares are sold to the public. The latter method does not require shareholder approval, and most of the shares are sold to existing shareholders in what is effectively a rights offering. Wang, Chen, and Huang regress the announcement returns (days  $-7, 3$ ) on a dummy variable that indicates book building and use control variables for firm size, offering size, leverage, pre-issuance accounting profitability, and characteristics of the investment banks involved in the issuance. The book-building dummy (for my purposes, the shareholder vote dummy) indicates that after the other firm- and issue-level variables have been controlled for, the announcement returns are 15.24 percentage points higher with shareholder approval ( $t$ -statistic = 2.04).

## 5. Method of issuance and shareholder approval

Table 10 reports the frequency of the issuance methods in the sample countries where shareholders must approve all equity issuances. Two patterns emerge in all five countries. First, public offerings are negligible and rights offerings are common. Second, a rough equality exists in the frequencies of private placements and rights offers. Thus, although shareholders regularly vote to approve stock issuances, they seldom approve public offerings.

**Table 11**

Frequency of issue methods when managers unilaterally choose the method.

This table reports the frequency of the three major methods of issuing equity when managers unilaterally choose the issuance method and shareholders do not have to approve equity issuances. In all of these countries, certain private placements must be approved by shareholders. The conditions that trigger a shareholder vote vary by country. “Negligible” means that the particular issuance method is used in 0.01 or less of all seasoned equity offerings (SEOs). The data are equally weighted by issuance, and the sources are reported in Table 3.

Country and method of issuance	Fraction of SEOs
United States	
Public offerings	0.84
Private placements	0.16
Rights	Negligible
Canada	
Public offerings	0.48
Private placements	0.42
Rights	0.10
Israel	
Public offerings	0.20
Private placements	0.62
Rights	0.16
Japan	
Public offerings	0.30
Private placements	0.69
Rights	Negligible

Table 11 presents the same information for the other end of the spectrum, for those countries where managers may unilaterally select the issuance method. Here, the key pattern of Table 10 is reversed, as in all of these countries public offerings are more common than rights offerings. One similarity with the countries where shareholders must approve all issuances is that private placements are also frequent. (In virtually all of the sample countries, including these four countries, shareholders must approve certain private placements.)

The remaining countries are those where managers must secure shareholder approval for some but not all issuance methods (Table 12). In seven of these nine countries, firms make most frequent use of the issuance method requiring the lowest level of shareholder approval, typically a rights offer that requires no vote.<sup>9</sup>

Just as the failure to recognize the requirement for shareholder approval has resulted in few analyses of announcement returns controlling for shareholder approval, so, too, is the situation with the choice between issuance methods requiring different levels of shareholder approval. An exception is the Lee et al. (2014) analysis of private placements and rights offers in Hong Kong. Under Hong Kong law, private placements must be approved by shareholders, but rights offers may be undertaken unilaterally by management. Lee et al. find that, compared with firms making private placements, firms making rights offers have poorer corporate governance, lower growth prospects, and more cash on hand.

<sup>9</sup> The findings of Tables 10–12 are confirmed by untabulated regressions with country-level controls including the level of institutional stock ownership and ownership concentration.



**Table 12**

Frequency of issue methods when managers have a choice.

This paper reports the frequency of the three major methods of issuing equity when managers have a choice between issuance methods that require a shareholder vote and others that do not require a shareholder vote. Shareholder approval is measured on a 1–5 scale with 1 being no requirement that shareholders vote for an equity issuance. The shareholder vote is summarized in Table 1. “Negligible” means that the particular issuance method is used in 0.01 or less of all seasoned equity offerings (SEOs). A cell means the data are unavailable. The data are equally weighted by issuance, and the sources are reported in Table 3. This table does not include France because both issuance methods require the same level of shareholder approval. The table also does not include Germany, Greece, Spain, and Switzerland because only qualitative information on the frequency of issuance method is available.

Country and method of issuance	Shareholder vote	Fraction of SEOs
Australia		
Public offerings	4 or 1	Negligible
Private placements shareholder approved	4	0.24
Private placements not shareholder approved	1	0.50
Rights	1	0.25
Hong Kong		
Public offerings	4	0.52
Private placements	4	0.17
Rights	1	0.31
India		
Public offerings	5	Negligible
Private placements	5	0.93
Rights	1	0.06
Italy		
Public offerings	4	0.16
Private placements	4	0.21
Rights	3	0.63
Korea		
Public offerings	4	0.11
Private placements	4 or 1	0.56
Rights	1	0.33
Netherlands		
Public offerings	2	0.20
Private placements	2	0.19
Rights	1	0.61
New Zealand		
Public offerings	4 or 1	Negligible
Private placements	4 or 1	0.20
Rights	1	0.80
Taiwan		
Public offerings	4	0.15
Private placements	5	
Rights	1	0.85
United Kingdom		
Public offerings	3	0.34
Rights	1	0.66

## 6. Interpretation of the evidence

I now consider alternative interpretations of the evidence. Stock issuance is inherently endogenous as managers can always choose not to issue stock and thereby avoid any laws mandating shareholder approval. Their endogenous decision to call a shareholder vote for the issuance of equity or refrain from so doing is likely to be correlated with both observable and unobservable factors, and quasi-experimental data to control for these factors do not exist. Consequently, I cannot make causal inferences. Nevertheless, the patterns associated with mandatory shareholder approval are broad and consistent.

### 6.1. Agency interpretation

A variety of patterns with the laws, announcement effects, and method of issuance support an agency interpretation of the evidence.

#### 6.1.1. Rationale for shareholder approval

Mandatory shareholder approval of any management proposal is widely seen as **one way to limit agency conflicts**. From a legal perspective, **Easterbrook and Fischel (1983, p. 427)** write that, **“common law rules of shareholders voting can, in the main, be analyzed as attempts to reduce agency costs.”** **Kraakman et al. (2009, p. 193)**, also from a legal perspective, apply this reasoning to the de-

cision to issue shares: “Like the merger decision, the decision to issue shares can significantly affect shareholders’ interest. ... Managers’ incentives are also problematic: share issuance can be used to build empires, entrench managers, and dilute control. Not surprisingly, then, we find the familiar requirements of board and shareholder approval.”

Fama and Jensen (1983) explain that one way to reduce agency costs is for shareholders to retain the right to ratify major proposals made by management. They, too, use shareholder approval of share issuance to illustrate this point (p. 313): “Internal control in the open corporation is delegated by residual claimants [shareholders] to a board of directors. Residual claimants generally retain approval rights (by vote) on such matters as board membership, auditor choice, and new stock issues.” When analyzing how to constrain managers from securing capital for empire building, Hart and Moore (1995, p. 583) observe that “voting [is an] important constraining force on management.”

Consistent with this rationale, many of the laws and regulations mandating shareholder approval of equity offerings seem tailored to protect shareholders from overreaching managers. For instance, many countries require shareholder approval of private placements to managers. Other laws and regulations limit the discounts for issuances to outsiders made unilaterally by management.

#### 6.1.2. Announcement returns

If agency conflicts are absent, these laws and regulations would be superfluous and shareholder voting on equity issuances should not matter. The absence of agency costs implies that managers are doing what shareholders themselves would do. Yet, the announcements returns are positive and significant with shareholder approval and negative and more than 4 percentage points lower when management unilaterally issues stock (Tables 4 and 5). Moreover, the greater is the intensity of shareholder approval, that is the closer the vote is to the issuance date or the greater is the required plurality, the higher are the (positive) announcement returns (Fig. 1 and Table 5).

If agency considerations are at work, they should be at work no matter how a firm issues equity. This, too, is consistent with the evidence. For all three issuance methods, managerial issuances are on average associated with negative announcement effects and shareholder-approved issuances are associated with positive announcement effects (Table 6).

If mandatory approval is to reduce agency costs, shareholders must be sophisticated enough to distinguish value-enhancing from value-reducing issuances. This implies that (effective) shareholder approval should be associated with a positive announcement effect. Although this is true on average, some negative individual reactions are associated with shareholder approval. Some of these negative reactions could reflect the limitations of any event study; that is, the event date has been misidentified, there is confounding news, or shareholders and market participants disagree over the value effects. More nuanced explanations could also be at work. One possibility is that managers misinform shareholders about the likely value effects. This explanation finds support in two recent share-

holder votes in different countries (albeit not involving equity issuances). In both cases, management opposed plans advanced by activist shareholders. In both cases management won very close votes, apparently by convincing small shareholders to support them, and in, both cases, the outcome of the vote triggered a negative stock price reaction.<sup>10</sup>

Another possible explanation for negative reactions to some shareholder-approved issuances involves large shareholders who are also top managers. If these blockholders use their voting power to ratify stock issuances that are not in the best interests of smaller shareholders, a negative stock price reaction could ensue even though shareholders as a group have approved the issuance. This highlights the need to study other aspects of shareholder voting, including quorum requirements and whether conflicted shareholders may vote or if they may vote whether they refrain from voting to protect themselves from lawsuits filed by other shareholders.

#### 6.1.3. Methods of issuance

The rights puzzle is a puzzle only when agency conflicts are assumed away. The puzzle is limited to the four countries where managers may generally unilaterally choose the method of issuance plus Hong Kong.<sup>11</sup> When shareholders must approve a public offer, which is the case in the other 18 sample countries, rights offers are far more common than cash offers (Table 10). This makes sense from the shareholders’ perspective because it avoids underpricing and has lower investment banking fees.<sup>12</sup>

Managers could personally prefer public offers over rights offers for several reasons. With public offers, managers do not have to make the case to shareholders that the new capital will enhance firm value, and they do not risk losing face if shareholders fail to subscribe to a rights offering. Some commentators further suggest that managers could receive side benefits from underwriters, per-

<sup>10</sup> The first involved Nelson Peltz’s proposal for board seats at DuPont. Shareholder rejection of his proposal was associated with a one-day stock price decline of 7.4%. *Wall Street Journal*, May 13, 2015 (“DuPont Defeats Peltz, Trian in Board Fight”). The second was in South Korea and involved the defeat of Elliott Management’s opposition to the acquisition of Samsung C&T by Cheil Industries. That shareholder vote triggered a one-day stock price decline of 10.8%. *Wall Street Journal*, July 18–19, 2015 (“Samsung’s Victory over Elliott Leaves Investors at a Loss”).

<sup>11</sup> In Hong Kong, these are called “placings.” In placings, an investment bank buys seasoned equity from a public company and then re-sells it to investors who have no prior relation with the company. Lee et al. (2014) study equity issuances in Hong Kong but do not address placings. They interpret their findings on the choice between private placements, which require shareholder approval, and rights, which do not require shareholder approval, as supporting the theory that “agency costs and private benefits of control matter in equity financing” (p. 176). Equity issuances in Hong Kong warrant additional study, especially the unique combination (for my sample countries) of cash offerings and shareholder approval.

<sup>12</sup> Chan and Chan (2014) show that discounts on public seasoned equity offerings in the United States between 1995 and 2007 averaged approximately 3% and have increased over time. Smith (1977) finds that the direct costs of underwritten public seasoned equity offerings average 6.17% of the proceeds, but the direct costs of pure rights offerings average only 2.45%. In a more recent survey, Ross et al. (2011, p. 638) report that the direct costs of public seasoned equity offerings between 1990 and 2008 constituted 6.72% of the proceeds.

haps in the form of access to underpriced initial public offerings. As the underwriting fees for public offers are higher than for rights offers, any side benefits to managers also could be higher (Eckbo et al., 2007, pp. 296–297).

The clustering of private placements in the United States and Australia at levels that avoid the need for shareholder approval (Fig. 2) suggests agency conflicts involving managers' choices of equity issuances. Agency conflicts are further suggested by untabulated results showing that the announcement effects vary not only with the level of shareholder approval but also with whether other issuance methods are available that require either higher or lower levels of shareholder approval. When the issuance method chosen by management requires a greater (lesser) level of shareholder approval than other available methods, announcement returns tend to be higher (lower).

#### 6.1.4. Summary

An agency interpretation was offered by an institutional investor in Sweden to explain the overwhelming popularity of rights offerings over public offerings in his country.<sup>13</sup> In Sweden shareholders by law must approve all equity offerings. This investor, who is a former finance professor, said that if a firm wants to raise equity, large shareholders in Sweden want management to make the case that the issuance will enhance firm value. If the shareholders become convinced that this is the case, he said, "We want to participate in the financing to secure the expected returns. Why would we want to offer a valuable investment opportunity to outsiders? If some shareholders do not want to participate, in Sweden they can easily sell their rights." He explained that private placements are often different. Some are motivated by a desire to establish a link between two firms or to bring in a large investor with a special set of skills. Existing shareholders, almost by definition, cannot provide such valuable services. Shareholders, accordingly, often ratify such placements. If an outside investor does not bring such benefits but is being offered a large discount, shareholders typically oppose the placement. If they believe a profitable investment opportunity exists but the firm is financially constrained, they push for a rights offering.<sup>14</sup>

The Online Appendix develops a simple theoretical framework that allows for agency costs with equity issuances and helps explain several empirical regularities associated with equity issuances both in the United States and around the world.

#### 6.2. Adverse-selection interpretation

An alternative interpretation of the evidence is that stock issuances reflect adverse selection by the issuing

corporations involving information asymmetries between managers and investors over firm value (Myers and Majluf, 1984).

A key prediction of this theory and the related pecking order theory is that managers, who are assumed to make decisions solely in the interests of existing shareholders, will choose the method of issuance that minimizes the inefficiencies caused by information asymmetries. Debt is chosen over equity. When equity is issued, rights offers are chosen over public offers because, if all shareholders participate proportionally in a rights offer, there will be no wealth transfers and therefore no adverse selection problem (Myers and Majluf, 1984, p. 195; Fama and French, 2005, p. 554; Berk and DeMarzo, 2017, p. 856). The paucity of public issuances of seasoned equity in 18 of the 23 sample countries and the infrequency with which shareholders waive their preemptive rights for public offers are both consistent with this interpretation. The fact that managers in the remaining five sample countries (including the United States), who do not have to obtain shareholder approval, choose public offerings far more often than rights offerings, is inconsistent with this adverse selection interpretation.

In those infrequent cases in which public offers occur as a last resort, Myers and Majluf (1984) and many subsequent papers predict a negative stock price reaction.<sup>15</sup> This is normally interpreted as a reaction to the selection bias that overvalued firms are more likely to issue stock than undervalued firms (Berk and DeMarzo, 2017, p. 856; Brealey et al., 2014, pp. 386–389; Myers 2015, pp. 10–11). The positive stock price reaction associated with public issuances in three countries is inconsistent with this reasoning. These are the sample countries where shareholders must approve public issuances, but shareholder approval should not matter if no agency conflicts exist.

Subsequent papers, including Cooney and Kalay (1993) and Edmans and Mann (2018), develop models that generate positive as well as negative announcement effects. These analyses propose that two types of firms publicly issue seasoned equity: overvalued firms attempting to profit from information asymmetries and undervalued firms with valuable investment opportunities but are financially constrained. Even after the announcement of a stock issuance, the market is unable to distinguish the two types of firms. These forced-pooling theories would require that financially constrained firms with valuable investment opportunities be substantially more common when shareholders must approve equity issuances.

#### 6.3. Market timing interpretation

The market timing theory of Baker and Wurgler (2002) assumes that investors do not always have rational expectations. This behavioral approach creates the possibility of stock mispricing and the opportunity for firms

<sup>13</sup> I thank Gabriel Urwitz of Segulah Advisor AB, Stockholm for these insights.

<sup>14</sup> In the United Kingdom, certain mergers are subject to mandatory approval by the acquiring firms' shareholders. Management may unilaterally undertake other mergers. This is analogous to my situation. Becht et al. (2016) find that the average announcement returns for the acquiring firms are 1.74% higher (median 1.14%) with shareholder approval, or somewhat less than half the difference I find with equity issuances. Becht, Polo, and Rossi interpret their findings as a straightforward agency effect.

<sup>15</sup> Others papers predicting or seeking to understand a negative stock price reaction to public seasoned equity offers include Ross (1977), Krasker (1986), Noe (1988), Korajczyk, Lucas, and McDonald (1990), Lucas and McDonald (1990), and Poitevin (1989).

to time the sale of stock to when it is overpriced. Market timing largely concerns the public issuance of stock and has little to say about the stock price reaction to private placements or rights offerings.

The biggest challenge for a market timing interpretation is that public offerings of seasoned equity are infrequent, often virtually nonexistent, in 18 of the 23 sample countries. The customary response is that rights offerings are required. This is incorrect. Some firms, for example, in Australia, Singapore, or Sweden must be overvalued, but these countries (among many other countries) have essentially no public offerings of equity. One response could be that management wants to avoid a vote because shareholders are unsophisticated and could reject an issuance of overvalued equity. However, when shareholders approve an issuance, the announcement effects are generally positive, suggesting that shareholders in a wide variety of settings are sophisticated enough to ratify value-enhancing stock issuances. Another response could be that shareholder votes are costly to hold. But shareholder votes authorizing stock issuances are common worldwide, including in those countries where public offers are rare, but just not for public offerings. Many of these votes are held during regularly scheduled annual meetings. A final response could be that investors are more sophisticated in those countries where shareholder approval is required, thus making market timing more difficult. This would mean, for instance, that Greece and Spain have more sophisticated investors than the United States and Canada. Moreover, I find in untabulated regressions no relation between the level of institutional stock ownership in a country and either the announcement effects or the choice between rights offers and public offers. Finally, the within-country results seem at odds with this explanation because the sophistication of investors should be similar across security issuances within the same country.

Why the existence of market timing would be (almost perfectly) negatively correlated with national laws or exchange rules requiring shareholder approval of equity issuances remains unclear. One could argue that stock mispricings and, hence, the opportunities for market timing should be the greatest in less developed financial markets.<sup>16</sup> In many of these markets, public offerings are virtually unheard of. India and Malaysia are two examples. Following this line of argument, public offerings should be the least frequent in the United States because it is seen as having the most developed financial markets and should thus have the most sophisticated investors and the fewest stock mispricings. Instead, public offerings are the most frequent in the United States. Moreover, if differences in investor sophistication were the driving force, a pronounced within-country difference perhaps would not exist between public offers and rights offers. Instead, a more balanced approach would be evident. This is true only in Hong Kong.

A variation of the market timing theory is that firms will publicly issue stock when the market overvalues their

stock but will use rights offerings when the market undervalues their stock. This implies that firms will use a mixture of public and rights offers. Hong Kong, however, is the only sample country where both types of offers are relatively common. Moreover, the market's reaction to rights offers in Hong Kong is decidedly negative (−9.25%), suggesting that market participants do not consider firms using rights offers to be undervalued, and the reaction to public offers is positive (3.14%), suggesting that market participants do not consider firms using public offers to be overvalued.

#### 6.4. Signaling interpretation

In contrast to the adverse-selection and market timing theories, a signaling model by [Heinkel and Schwartz \(1986\)](#) does generate predictions about the stock price reaction to rights offers. Like the adverse selection and market timing interpretations, this model assumes that managers have private information on firm value and there are no agency costs. To help ensure the success of a rights offer, lower quality firms set a lower subscription price (a greater discount to the exchange price). Higher quality firms can signal their higher quality by pricing the offer closer to the exchange price. This predicts a positive association between the pricing of a rights offer and the market's reaction to it. In the one across-country study to address this possibility, [Loderer and Zimmermann \(1988\)](#) find that Swiss rights offers are priced at an average discount of 60% and the average American discount is 6%. In contrast to the prediction of Heinkel and Schwartz, Loderer and Zimmermann find that the announcement effects are significantly higher in Switzerland. Shareholders must approve rights offerings in Switzerland but not in the United States ([Table 1](#)).

The Online Appendix offers a case study of two major rights offerings, which also appears to be inconsistent with the signaling theory of Heinkel and Schwartz. Both were at deep discounts to the exchange price, so one would expect a negative abnormal stock price reaction in both cases. This was true of the one management undertook unilaterally (−6.9%) but not of the one approved by shareholders (11%).

A signaling interpretation also underlies [Miller and Rock \(1985\)](#). In their analysis, which assumes that managers have private information and there no agency costs, firms raise external capital when cash flows from existing operations turn out to be lower than anticipated. This decision, which applies to any method used to raise equity (or debt), is interpreted as a negative signal. The challenge for this interpretation is that many equity issuances around the world are associated with a positive reaction. These tend to be the ones approved by shareholders, which should not matter given Miller and Rock's assumptions of no agency costs and rational investors.

## 7. Conclusion

This paper shows and analyzes the widespread heterogeneity in the mandatory shareholder approval of equity issuances by public corporations. The differences between shareholder-approved and managerial issuances are

<sup>16</sup> I say “argue” because I am unaware of any evidence on the proportion of sophisticated versus unsophisticated investors either within or across countries.

**Table A1**  
Variable definitions.

Variable	Description	Source
<i>Legal origins</i>	Identifies the legal origins of a country: English (common law), French (civil law), German (civil law), and Scandinavian (civil law).	La Porta et al. (1998).
<i>Anti-director rights index</i>	"Aggregate index of shareholder rights. The index is formed by summing: (1) vote by mail; (2) shares not blocked or deposited; (3) cumulative voting; (4) oppressed minority; (5) pre-emptive rights; and (6) capital." Djankov et al. (2008, Table 9).	La Porta et al. (1998) first proposed the index. These are the corrected data from Spamann (2010). Robustness tests use the index as corrected by Djankov et al. (2008).
<i>Anti-self dealing rights index</i>	Incorporates both ex ante controls and ex post penalties on self-dealing transactions by corporate insiders, especially by controlling shareholders.	Djankov et al. (2008).
<i>Ownership concentration</i>	Aggregate ownership of all shareholders who own at least 5% of the common stock.	Holderness (2009).
<i>Institutional stock ownership</i>	Percent of value of all domestic, public stock held by institutional shareholders at the end of 2007.	Fact/Set/LionShares Database.
<i>Per capita GDP</i>	Natural logarithm of GDP per capita in Purchasing Power terms in 1994.	World Development Report 1995.
<i>Growth of GDP</i>	Average annual percent growth of per capital gross domestic product for 1970–1993.	World Development Report 1995.
<i>Listed companies per capita</i>	Average ratio of the number of domestic firms listed in a given country to its population (in millions) for 1999–2003.	Emerging Market Factbook and World Development Report.

consistent within and across 23 diverse countries. When shareholders approve an equity issuance, the average announcement effect is positive. The closer the vote is to the issuance or the greater is the required plurality, the higher are the returns. In contrast, when managers unilaterally issue stock, the average announcement effect is negative and more than 4 percentage points lower. These regularities hold for public offerings, rights offerings, and private placements. When shareholder approval is required, rights offers predominate over public offers. When managers may unilaterally issue stock, the opposite is the case. Managers avoid some shareholder votes by clustering private placements below the fractional threshold that triggers a vote. In aggregate, these findings suggest that agency conflicts affect equity issuances by public corporations.

The United States is atypical in that shareholders do not have to approve most stock issuances. One of many topics for future investigation is why domestic shareholders have not pushed for this right. One possibility is that, in spite of the evidence in this paper, such approval does not enhance firm value. Another possibility is that investors are unaware of the potential importance of mandatory shareholder approval, perhaps because they have focused on the practice in their home country alone. Klausner (2013) finds that historically few firms in the United States tailored their charters and by-laws for virtually anything, much less for the issuance of stock. In contrast, Acheson et al. (2016) show that firms in Victorian Britain tailored their charters in ways consistent with value enhancement, and Min (2016) finds that corporations in the United States are beginning to do this. In a similar vein, institutional investors in Hong Kong and France have started resisting managerial requests for broad stock issuance authorization.<sup>17</sup> These trends suggest that shareholder approval of

equity issuances could figure more prominently in corporate governance going forward.

Although shareholder retention of key decision rights is fundamental for any corporation (Fama and Jensen, 1983), it has been surprisingly little studied. One way to do so is to exploit across- and within-country legal differences as in this paper. Stock repurchases also could be similarly analyzed. In some countries, shareholders must approve repurchases, while in other countries managers may do so unilaterally.

A related topic is whether mandatory shareholder approval of key decisions leads management to consult more with large shareholders, ultimately creating a more sophisticated shareholder base and a change in the dynamics of corporate decision making.<sup>18</sup> In a market economy, owners always exercise some key decision rights. This means that the value of any asset varies with who owns it. Establishing a connection between the allocation of key decision rights, the sophistication of major shareholders, and important corporate decisions would, in this respect, be unsurprising but far-reaching.

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<sup>17</sup> Institutional Shareholder Services (2018), Hong Kong proxy voting guidelines; conversations with Professor Edith Ginglinger, Paris Dauphine University.

<sup>18</sup> An investment banker who has been based both in New York and London observed, "American institutional investors act like investors. European institutional investors act like owners."



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