

Legally powerful shareholder proposals for payout policy: Evidence from Japan*

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Abstract:

We empirically examine the determinants of shareholder proposals for payout policy and the subsequent effect on corporate policies. Unlike in the U.S., the shareholders in Japan have powerful statutory rights on the payout policy. We find that firms with zero leverage and “quiet life” firms are more likely to receive shareholder proposals for profit distribution. This tendency is more pronounced for quiet life firms with poor investment opportunities and with zero leverage. Firms that have received the proposals tend to increase the subsequent dividends, especially after the governance reform in 2013, although all the proposals are voted down by majority voting.

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1. Introduction

There has been an intense debate about how strong rights should be granted to shareholders, i.e., the direction of shareholder activism (e.g., Anderson and Nayar, 2022; Bebchuk et al., 2005, Gantchev and Giannetti, 2021, Harris and Raviv, 2010; Lipton and Savitt, 2007). We note that the legal provisions for payout policy are different among countries. For example, U.S. state laws limit the scope of shareholder intervention and thus do not allow shareholders to resolve the amount of profit distribution. Furthermore, SEC rule 14-8 permits companies to exclude profit disposal proposals, i.e., the proposals that force them to payout a certain amount of cash from their proxy solicitation materials.

In contrast, the Companies Act in Japan allows shareholders to intervene in the decision on the amount of profit distribution in principle (Goto, 2014)¹. Additionally, shareholders can submit resolutions at the companies' costs regarding any matter permitted in the Companies Act. In this sense, we regard shareholder proposals in Japan as having more powerful statutory rights and "low cost" as institutional characteristics.

Furthermore, we note that the role of shareholders in corporate governance has been strengthened in recent years. Although banks have traditionally played a major role in monitoring in corporate governance (Aoki et al., 1994), the Japanese government has launched Japan Revitalization Strategy as a part of "Abenomics," which led to the introduction of Japan's Stewardship Code and Corporate Governance Code. Both codes aim to strengthen the corporate governance of Japanese firms. Reflecting this institutional background, the number of shareholder proposals might be substantially increased. Figure 1 shows that the number of proposals for profit distribution dramatically increased after 2013.

¹ To be precise, the Companies Act in Japan allows companies that meet certain conditions to stipulate in its charter that a resolution regarding profit disposal shall not be resolved at a general meeting of shareholders. However, approximately eighty percent of the listed companies in our sample resolve management proposals on profit distribution at the annual meetings. Moreover, in practice, a shareholder can effectively make a shareholder proposal regarding dividend amount even to such a company by submitting a proposal for profit distribution together with a proposal to amend the charter so that the proposal cannot be excluded.

Taking advantage of these institutional characteristics of Japan, we empirically examine the determinants of proposals for payout policy and the subsequent effect on corporate payout decision. Agency theory suggests that dividend payout mitigates agency problems by decreasing free cash flows under managers' discretion and raising the necessity of future external financing (Jensen, 1986; Easterbrook, 1984; Rozeff, 1982). However, if managers have the incentive to have more cash within a firm, they may not distribute cash to shareholders even when it is efficient. In this situation, shareholder proposals for corporate payout policy might be a good way to deal with the free cash flow problem.

We find that "quiet life" firms² tend to receive profit disposal proposals. Following Ikeda et al. (2018), we measure the extent of quiet life by the ownership ratio of cross-shareholdings. We also find that this tendency is more pronounced for quiet life firms with poor investment opportunities and with zero leverage. These results indicate that the firms with less stock market pressure or debt discipline tend to receive more proposals, implying that the shareholder proposal seems to work instead of market pressure or can substitute for debt governance in the payout policy.

We then find that firms that have received the profit disposal proposals tend to increase the subsequent dividends, especially after the corporate governance reform in 2013. The results indicate that shareholder activism is becoming more pervasive in Japan due to the incremental trend of legal power for shareholder interventions. Note that almost all the proposals result in objections from other shareholders. We find evidence consistent with the argument that the disciplinary effect of profit disposal proposals is generally explained by the indirect costs such as reputational penalty on the management, rather than the binding nature of the resolution. Also, we do not find evidence that profit disposal proposals force the managers to cut down the necessary investment.

There are two strands of previous research. The first is related to the topics of the rights of shareholders. There is still controversy in the U.S. on how strong rights should be granted to

² We define the term "quiet life firms" as firms that are under less pressure from shareholders and are more likely to avoid difficult decisions. Then, we use the term as interchangeable with "firms with less market discipline".

shareholders. Early studies in the U.S. found that shareholder proposals under SEC rule 14a-8 have little effect on the subsequent performance or abnormal returns of target companies (e.g., Karpoff et al., 1996; Del Guercio and Hawkins, 1999), except proposals that received majority support (Ertimur et al., 2010). Among many agendas of shareholder proposals, we focus on the payout policy. We contribute to this strand by investigating the effects of shareholder “voices” with powerful statutory rights on profit disposal proposals and reveal how it works outside the U.S. We especially find surprising results that these proposals successfully change corporate payout policy even though the fact that all of them are voted down by majority voting.

The most related to our papers are Yeh (2014, 2017). They also investigate the shareholder proposals in Japan and found that powerful shareholder proposals can have a positive impact when large shareholders exercise their rights. We note that their sample period is until the Japanese governance reform in 2013. Thus, the number of proposals is hovering lower, and their effectiveness may differ from that in recent years. Therefore, we expand the sample period until recent years covering the governance reform.

The second is the research on the payout policy. The pattern in dividend payouts remains one of the unresolved puzzles in finance (Brav et al., 2005). Especially, agency theory is appealing in explaining payout patterns, but it leaves an important unresolved issue of what drives management to commit to paying dividends (Farre-Mensa et al., 2014). Related to this question, some recent studies analyze the effect of ownership structure, i.e., market forces, on payout policy (Chang et al., 2016; Crane et al., 2016). We contribute to the field by investigating how the legal aspect of shareholder’s voice on payout policy explains the variation in dividends over time and across firms with and without the proposals. Additionally, we focus on the historical change in the role of shareholder proposals in governance because banks historically have played a major monitoring role in Japan.

The construction of the paper is as follows. Section 2 describes the institutional background of shareholder proposals. Section 3 develops the hypotheses. Section 4 describes the research design, and

Section 5 presents the empirical results. Section 6 summarizes our findings and the limitations of the study.

2. Theoretical Background and Hypothesis Development

Determinants of shareholder proposals on profit distribution

In the perfect capital market, it is well known that a firm's value is independent of its payout policy (Miller and Modigliani, 1961). However, information is generally asymmetric among market participants or between management and outside capital suppliers in the modern financial market. Thus, existing studies try to understand the pattern of corporate payout policy by relaxing MM's assumption (e.g., Farre-Mensa et al., 2014). The agency perspective suggests that dividend payout mitigates shareholder-manager agency problems by decreasing free cash flows under managers' discretion and raising the necessity of future external financing, which requires additional monitoring by new capital suppliers (Easterbrook, 1984; Rozeff, 1982). However, managers who prefer to hold free cash flows within a firm may not distribute cash to shareholders even when it improves the firm value. In this situation, shareholder intervention in corporate payout policy can be an excellent way to deal with the free cash flow problem.

Scholars argue that the central tenet of shareholder rights to intervene in corporate policies is to mitigate shareholder-manager agency conflicts (Easterbrook and Fischel, 1983; Karpoff et al., 1996). When shareholders are dissatisfied with the fundamental policy of the investee management, they can intervene by exercising their voting rights. Existing studies report that firms with poor governance or performance tend to receive shareholder opposition, such as opposing votes, shareholder proposals on governance issues, or activist campaigns (Cai et al., 2009; Karpoff et al., 1996; Brav et al., 2008). However, shareholder votes for profit distribution have rarely been the subject of prior studies because most of them are conducted in the U.S., where payout decision rests in the hands of the board in principle (e.g., Goto, 2014). On the contrary, shareholders in Japanese companies can submit shareholder

proposals to require the management to increase the payout.

Given the above argument, shareholder proposals related to payout policy would be submitted primarily to the firms with significant concern about the free cash flow problem. Yeh (2017) finds that the probability of receiving payout-related shareholder proposals is associated with lower Tobin's q , which is consistent with the argument that shareholder intervenes in corporate payout policy when firms have less good investment opportunities.

Additionally, there are two types of firms relevant to this issue. The first is firms with zero leverage. It is measured by cash minus total debt. From the agency view, debt is an alternative to deal with free cash flow problems because firms must spare cash to pay interest or repay debt (Jensen, 1986). Cash holdings to spare debt-related costs are justifiable in this framework. Conversely, firms with significantly low or negative net debt might have more cash reserves and are more likely to be targeted by payout-related shareholder proposals.

The second is firms enjoying the "quiet life." Existing literature argues that Japanese firms tend to conduct "cross-shareholdings," and entrenched managers tend to avoid difficult decisions such as risky investments and restructurings (Ikeda et al., 2018). These firms are not only concerned with having severe agency conflicts but also have unnecessary assets that can be converted into cash (i.e., other firms' stock). Therefore, cross-shareholdings are expected to promote shareholder intervention related to payout increases.

Hypothesis 1. *Firms with severe agency problems and unnecessary liquid assets (i.e., zero-leverage and "quiet life" firms) will likely to receive shareholder proposals related to payout policy.*

Consequence of shareholder proposals on profit distribution

Two mechanisms to explain why shareholder proposals in Japan can change managerial decisions. The first is the binding nature of the shareholder resolution under the Companies Act in Japan.

Early studies in the U.S. found that shareholder proposals under SEC rule 14a-8 have little effect on target companies' subsequent performance or abnormal returns (e.g., Karpoff et al., 1996; Del Guercio and Hawkins, 1999). These studies attributed the insignificance of the results to the non-binding nature of the governance-related shareholder proposals under rule 14a-8. In contrast, all shareholder proposals resolved in Japanese companies are enforceable under the Companies Act. Prior studies recognize the binding nature of shareholder proposals in Japan as a source of disciplinary effects (Yeh, 2014; Yeh, 2017). All payout-related shareholder proposals submitted to Japanese companies have yet to gain the majority support (see panel B of Table 1). However, if the management concerns that the proposals may be submitted repeatedly and be approved in the future, it should encourage management to act in line with the shareholders' interest.

The second is the indirect effect of shareholder proposals. Even if the proposals do not receive majority support, the management will bear some costs associated with proposal receipt. For example, the management of the target company should respond to the contents of the proposals and explain the effectiveness of their decision internally or externally. Other than these administrative costs, the publicity of the proposals may harm the managers' reputation or legitimacy. Existing studies argue that shareholders' opposition (e.g., dissenting votes, shareholder proposals, "just vote no" campaign) has disciplinary effects. It is because the managers are concerned about its negative effect on their reputation in the executive market or further hostile intervention by shareholders in the future (Del Guercio and Hawkins, 1999; Grundfest, 1993). The recent U.S. studies on the effect of shareholder proposals report that the board has become more responsive to non-binding shareholder proposals (Thomas and Cotter, 2007). These studies suggest that the management response to shareholder proposals is explained by its binding nature, or the costs associated with the proposal receipt. Therefore, the proposal submission is expected to promote management to increase distribution to shareholders³.

³ Generally, the purpose of payout-related proposals is to require management to increase profit distribution. On the one hand, the amount of profit distribution is changed by force when the shareholder proposals received majority support. On the other hand, the submission of payout proposals publicizes

Hypothesis 2. *Receipt of shareholder proposals related to profit distribution is associated with an increased dividend payout in the post-resolution period.*

3. Research Design

4.1. Methodology

To investigate how firm characteristics such as debt or cash accumulation affects the proposal submission, we estimate the following regression model by the ordinary least squares (OLS) method:

$$SP_Dist_{it} = \beta_0 + \beta_1 Zero\ Lev_{it} + \sum_{k=1}^n Controls_{kit} + Industry + Year + \varepsilon_{it} \quad (1)$$

where SP_Dist is a dummy variable that takes one if a firm i receives shareholder proposals related to profit distribution corresponding to the fiscal year t . We use two alternative measures for $Zero\ Lev$. The first is $Ncash$, which is defined as cash holding minus the book value of total interest-bearing debt divided by lagged total assets. The second is $d[NCash+]$, which is a dummy variable that takes one if $NCash$ is positive or zero otherwise. Both variables measure whether or how much a firm accumulates cash. $Controls$ consist of control variables based on those of Yeh (2017): Firm size is measured by the book value of total assets ($Firm\ size$). Firm performance is measured by return on assets (ROA). Tobin's q (q) is a proxy for growth opportunities. We also control financial leverage (Lev) and quick ratio ($Quick$). Lev is computed as the total debt divided by total assets. $Quick$ is defined as current assets divided by current liabilities. Regarding ownership structure, we control the ownership by financial institutions ($Fin\%$), the ownership by officer or employee ($Insider\%$), and the ownership by foreign shareholders ($Foreign\%$). When we estimate the coefficient of $Zero\ Lev$, we exclude Lev and $Quick$ to escape the concerns of strong correlations among those variables.

the inefficient payout policy, which hurts the legitimacy of the target management.

To examine how “quiet life” firms affect the receipt of shareholder proposals, we estimate following model:

$$SP_Dist_{it} = \beta_0 + \beta_1 Cross_{it} + \sum_{k=1}^n Controls_{kit} + Industry + Year + \varepsilon_{it} \quad (2)$$

Following Ikeda et al. (2018), we use the ownership ratio of cross-shareholdings (*Cross*) as a primary explanatory variable. The control variables are the same as those of equation (1). We exclude *Fin%* and *Insider%* when we estimate model (2) because these variables might be highly correlated. Some financial institutions might constitute a part of cross shareholders.

Next, we conduct analyses in two steps to estimate the effect of shareholder proposal submission on the subsequent corporate payout policy. In the first step, we need to identify the counterfactual of the target firm of shareholder proposals. Existing studies report significant differences in characteristics between firms targeted by shareholder activism and non-target firms (e.g., Karpoff et al., 1996; Yeh, 2014; Yeh, 2017). Therefore, the simple comparison between target and non-target firms might lead to incorrect inferences about the treatment effects of shareholder proposals. To make a reasonable counterfactual, we calculate propensity scores using control variables based on Yeh (2014) and conduct one-to-one nearest-neighbor matching within the industry-year clusters.

In the second step, we estimate the effect of shareholder proposals on dividend payout using the matched sample derived in the first step. Following Yeh (2017), we construct three years (Year-1, Year0, Year1) data for targeted and matched firms. The estimation model is as follows:

$$Payout_{it} = \beta_0 + \beta_1 Target_{it} + \beta_2 Post_{it} + \beta_3 Target * Post_{it} + Industry + Year + \varepsilon_{it} \quad (3)$$

where *Target* denotes a dummy variable that takes one for Year-1, Year0, Year1 if the firms are targeted

by shareholder proposals in Year0. *Post* is a dummy variable that takes one for Year0 and Year1 (post-resolution period). The variable of interest is the cross terms of group variables and time variables (*Target * Post*), in the spirit of the difference-in-differences analysis. We predict that the coefficient of *Target * Post* should be positive under hypothesis 2. We use four measures of *Payout*. The first is a dummy variable that takes one if a firm *i* increases dividend per share (DPS) in fiscal year *t* (*IncDiv*). The second is DOE calculated as a dividend amount divided by lagged total shareholders' equity (*DOE*). The third is a dummy variable that takes one if the firm conducts an open market repurchase (*OMR*). The fourth is the total amount of open market repurchase divided by lagged shareholders' equity (*Rep / TE*).

3.2. Sample Selection

We gather data on shareholders' meetings of Japanese non-financial listed firms whose fiscal year ends between January 2004 and December 2018 as an initial sample. Following Yeh (2014) and Yeh (2017), we collect information about shareholder proposals from each edition of the *White Paper of Shareholder Meetings* published by *Shoji Homu Kenkyukai* (The Society for the Study of Business Laws). We obtain financial and stock price data from Nikkei NEEDS FinancialQuest 2.0 database. The ownership data, such as cross-shareholdings, is obtained from NEEDS Cges database. The data about open market repurchase is derived from Financial Data Solutions database.

Panel A of Table 1 presents the number of shareholder proposals across the years. As shown in Figure 1, the number of payout-related shareholder proposals has substantially increased since 2014. Panel B shows the statistics of approval rate on payout-related shareholder proposals. The mean value of the approval rate is 15.7%, and the maximum is 40.6%, indicating that almost all of the proposals were hard to passed by majority voting. Table 2 describes the sample selection procedure. The initial sample is non-financial listed firms⁴ in Japan whose fiscal year ended from 01/01/2004 to 31/12/2018.

⁴ We exclude the former state-owned electric power companies from our sample because they have been

We exclude firms with months other than 12 months for fiscal year-end. We exclude observations for which propensity score matching and primary analysis data are unavailable. To ensure that the change in dividend per share reflects the change in the payout volume, we use only firms with the change in the number of shares outstanding from the previous year ranging from 0.8 to 1.2 (for Year-1, Year0, Year1). Also, we exclude firms that received only shareholder proposals other than payout-related proposals from the control group. We exclude firms who receive shareholder proposals in another fiscal year from the candidate of control firms. Lastly, we exclude firms in the industries that have yet to experience payout-related shareholder proposals throughout the analysis period because there may need appropriate candidates to control firms in these industries. The final sample consists of 103 targeted firms and 29,727 candidates of control firms. As a result of one-to-four nearest neighbor matching within 0.01 caliper using propensity score, we derived 95 target firms and 380 control firms for second-step analyses.

4. Empirical Results

5.1 Determinants of Payout-related Shareholder Proposals

Table 4 presents the results of determinants of payout-related shareholder proposals. In column (1), the coefficient of q is significantly negative, indicating that firms with high growth opportunities are less likely to receive payout-related proposals. The coefficients of *Quick* and *Foreign%* are significantly positive, suggesting that firms with large cash reserves and foreign ownership tend to be targeted by payout-related proposals. These results are broadly consistent with Yeh (2014) or Yeh (2017).

Columns (2) and (3) show how *Zero Lev* and *Cross* are related to the probability of the proposal submission. The coefficients of *Zero Lev* and *Cross* are significantly positive. These findings are consistent with the hypothesis that a firm with accumulated cash holdings and firms enjoying a “quiet life” tend to receive shareholder proposals for profit distribution.

subject to shareholder proposals from environmental groups for almost every year in the sample period.

Moreover, we investigate the interactive effects of cross-shareholdings and other determinants of proposal submission. Column 4 shows that the coefficients of the interaction term of *Cross* and *q* are negative but insignificant. We note that the association of *Cross* and proposal submission is more pronounced for the firms with the lowest 10%tile Tobin's *q* (column (5)). These results suggest that shareholders are more likely to submit proposals for profit distribution when firms have excessive cross-shareholdings *and* lack good investment opportunities. These findings are consistent with the notion that payout-related proposals are motivated by the free cash flow problem, as in Jensen (1986).

Columns 6 and 7 show that the coefficients of the cross terms of *Cross* and *Zero Lev* are significantly positive, regardless of proxies of *NCash* or $d[NCash+]$ for zero leverage. These results suggest that cross-shareholdings effect on payout-related proposal submission is more pronounced with firms with zero leverage where debt governance is likely to be absent.

These results suggest that firms with poor debt governance, "quiet life" due to cross-shareholding, and with low investment opportunities tend to be a target of payout-related shareholder proposals. Also, these factors have combined effects on the likelihood of proposal receipt, suggesting that the target firms are those with extreme concerns about free cash flow (agency) problems. These findings are consistent with the agency-based explanations of shareholder activism in the existing literature (Jensen, 1986; Karpoff et al., 1996; Yeh, 2017).

5.2 Effects of Payout-related Shareholder Proposals on Corporate Payout Policy

In the second step, we estimate the effects of payout-related shareholder proposals on corporate payout policy. Before moving toward the estimation, we can graphically compare the trend of dividend payout variables between target firms and matched firms. Panel A of figure 2 illustrates the dividend change of treated- and control firms using the total sample of this study. In Year0, the targeted firms experienced upward dividend increase and DOE spike. However, Yeh (2017) reports that shareholder proposals on profit distribution have little effect on firms' subsequent dividends and stock repurchases.

What explains the inconsistency between our graphical observations and the results reported by Yeh (2017)?

One way to dig deeper is to divide the sample based on reasonable prediction. The limitation of Yeh (2017) is that the analysis does not cover most of the shareholder proposals resolved after 2013 when the Japanese government launched the corporate governance reform. In 2013, the second Abe Cabinet released the “Japan Revitalization Strategy,” which promoted the reform of corporate governance of Japanese companies. Guidelines such as Japan’s Stewardship Code in 2014 and Corporate Governance Code in 2015 were published to promote shareholder-oriented governance. Consistent with this trend, the number of shareholder proposals submitted rapidly increased after 2013, as shown in Figure 1.

Panels B and C of Figure 2 present the trend of dividend change of target firms and matched firms using a sample divided by whether the proposals were submitted in the pre-FY2012 or post-FY2013 period. Using a sample after FY2013, we can observe the spike in dividends in targeted firms (Panel B). The proportion of firms with dividend increase is approximately 0.40 in Year-1 and 0.65 in Year0 and Year1. In terms of DOE, targeted firms show an increasing trend after Year0. On the contrary, the trend difference between target and matched firms is less clear when we use the sample before FY2012 (Panel C). Given these observations, we divide the sample based on the pre/post-governance reform period when we estimate the effect of profit disposal proposals.

Table 5 presents the results of the estimation of the effect of payout proposals on corporate dividend policy. Following Yeh (2017), we construct three years (*Year-1*, *Year0*, *Year1*) data for targeted firms and matched firms derived in the first step and estimate the coefficients of the cross-term of group variables and time variables (*Target * Post*; *Target * Year0*; *Target * Year1*). Using the sample before FY2012, all of the coefficients of the cross terms of interest (*Target * Post*, *Target * Year0*, *Target * Year1*) are statistically insignificant (columns (1) to (4)). On the contrary, using the sample after FY2013, the coefficients of *Target * Post*, *Target * Year0*, and *Target * Year1* are all positive and significant at

the 1% level (columns (5) to (7) and (9)). Also, to deal with the concern that the difference in trend in Year-1 drives the results, we construct four years data (*Year-2* to *Year1*) and estimate the model adding the cross-term of *Target* and *Year-1*. However, the coefficients of *Target * Year-1* are insignificant, and the sign and significance of the variables of interest are mainly unchanged (see column (8) and (10)). Regarding the economic significance of our results, payout-related proposals increase the probability of deciding dividend increase by 23.4% (0.3% impact on DOE) in *Year0* and 19.3% (0.3% impact on DOE) in *Year1* (columns (7) and (8)). Overall, we find that payout-related shareholder proposals promote corporate dividend increases, and this effect is primarily observed in the post-governance reform period in Japan. These results suggest that the solid legal power of shareholders in Japan has a disciplinary effect on corporate payout policy, and the corporate governance reform after 2013 complements the effectiveness of shareholder proposals.

In Table 6, we test the effect of payout-related proposals on the alternative payout decision: open market repurchase. The coefficients of *Target * Post* on *OMR* and *Rep/TE* are statistically insignificant, regardless of the sample period (before FY2012 or after FY2013). Using *Year0* and *Year1* separately as time variables, the results remain similar. In sum, the effect of payout-related proposals on corporate payout policy is mainly driven by the effect on dividend increase.

5. Robustness Check and Extensions

6.1 Robustness Check

Using one-to-four nearest neighbor matching with propensity score, we observe that the receipt of payout-related shareholder proposals has an impact on the target firms' dividend policy. However, there are some issues with the robustness of our results. First, our sample includes firms that have been targeted by profit disposal proposals in the previous year. Also, some firms have received consecutive proposals both in *Year0* and *Year-1*. These firms may react differently than firms that receive proposals for the first time or that have not received proposals in a row. To deal with these possibilities, we re-

estimate the regression using the sample that excludes firms with proposal experience in the previous year or firms that received proposals in *Year-1*. Second, there may be a concern that PSM in the main analysis selected a “convenient” control group by chance. To mitigate this possibility, we check the robustness of our results using different matching candidates.

Table 7 shows the results of the estimation of the effect of payout-related proposals on corporate dividend policy using the sample that excludes firms with proposal experience or firms with proposals in *Year-1*. For brevity, we restrict our sample to proposals submitted after 2013. Using the “first proposal” sample, we observe a significant coefficient of *Target * Post*, although the effect on *DOE* seems to be weakened (columns (1) to (4)). Also, using the sample without consecutive proposals, we find that the coefficients of the variables of interest are all positive and significant as in Table 5 (columns (5) to (8)). These results imply that our results on the effect of profit disposal proposals are robust when we focus on the first proposals or non-consecutive proposals.

Additionally, columns (1) to (4) in Table 8 present the same regression as Table 5 when the variables of interest in Table 3 (*Cross*, *NCash*) are added to the covariates for PSM. To mitigate the concern that the change in earnings performance in *Year0* drives the results, we also add ΔROA_t as the matching covariates. Also, columns (5) to (8) shows the estimation using the sample matched by covariates in *Year0*, while the main analysis uses that by covariates in *Year-1*. The coefficients of the cross terms of interest (*Target * Post*; *Target * Year0*; *Target * Year1*) are all statistically insignificant in the sample before FY2012 and all positive and significant at the 1% level in the sample after FY2013. Overall, the central insight that payout-related shareholder proposals positively impact corporate dividend policy is robust to the number of selected control firms.

6.2 Additional Analysis: Heterogeneity of the Proposal Effect

In the main analysis, we found that the receipt of payout-related shareholder proposals promotes managers to increase dividends, but we note that all of these proposals are voted down by majority

voting. Therefore, there is still an unresolved issue: *what drives the effectiveness of these proposals in the post-2013 period?* If the binding nature of the proposals is key to affecting the managerial decision, proposals with more votes in favor or proposals from large shareholders would have a more powerful impact on the firms' dividend policy. If proposals discipline managerial decisions by incurring indirect costs such as reputational penalties on the management, the management attributes may explain the effectiveness of profit disposal proposals.

Table 9 shows the results of the analyses on the heterogeneity of the proposal effect. To measure the closeness of the resolution, we use the approval rate of shareholder proposals (*ForSP*) and an indicator for proposals submitted by large shareholders (ownership > 3%) or investment funds (*Large*). We find that the coefficients of the triple cross term (*Target * Post * ForSP*, *Target * Post * Large*) are statistically insignificant (columns (1) and (2)). To measure the manager's power to the board (susceptibility to reputational concern), we use the tenure of the top executive director. Early in their careers, managers have a strong incentive to avoid being labeled as having the low ability (e.g. Holmstrom, 1999). In the estimation regarding tenure, we control the tenure variable itself, the cross term of *Target* and the tenure variable and the cross term of *Post* and the tenure variable. We found that the top executive tenure is negatively associated with the proposal effect (column (3)). Or, firms with long tenure top executives (tenure more than 10 years) are less likely to increase the dividend in response to profit disposal proposals (column (4)). These results suggest that the binding nature of shareholder proposals does not seem to drive the results, and rather long-tenured executives are not susceptible to the indirect penalties by shareholder proposals. In sum, the effectiveness of post-2013 payout proposals seems to be explained more by the indirect costs incurred on the target manager than by the proposal/proposer characteristics.

6.3 Additional Analysis: Effects of Payout-related Proposals on Investment Policy

In the primary analysis, we find that payout-related proposals promote target firms to increase

dividends. Then, the effect may be observed in other aspects of corporate policy, such as investment. For instance, if firms with efficient investment policies were forced by proposals to increase the dividend, these firms may cut down the expenditure for future investment. Alternatively, if a firm holds unnecessary cash reserves due to free cash flow problem, their investment would be unaffected or increased to appeal that they hold cash necessary for future investment.

In Table 10, we show the results of the regression of investment on shareholder proposal submission. The proxies of investment amount are the change in property, plant, and equipment divided by lagged total assets (ΔPPE) and the cash outflow for the purchase of tangible and intangible assets (ΔNCA). We find that coefficients of the cross terms of interest ($Target * Post$; $Target * Year0$; $Target * Year1$) are all statistically insignificant, regardless of the sample period selection. Primarily, we need help finding evidence that even proposals submitted after 2013, when proposals successfully change corporate dividend policy, have any effect on corporate investment policy. These results suggest that it is unlikely that payout-related proposals in Japan cause the cutdown of necessary investment and distorts investment policy.

6.4 Additional Analysis: Shareholders' Opposition on Management Proposals

While the primary analysis reveals that shareholder proposals on profit distribution encourage firms to increase dividends, the discipline's source still needs to be clarified. Although it is difficult to identify the mechanism behind the managerial response, we can point out that public shareholder opposition, such as shareholder proposals, may attract other shareholders' attention. It facilitates their voice to the target firms, forcing the management to respond favorably to the proposals.

In principle, profit distribution is a matter to be resolved at the general shareholders' meetings in Japan. Therefore, shareholder proposals to require payout increases (primarily dividends) also have meaning of opposition to the target firms' management proposals on profit distribution. If a firm annually resolves management proposals on profit distribution, we can observe how the receipt of

payout-related shareholder proposals affects other shareholders' opposition to the firm's payout policy.

Table 11 shows the results of regressing the voting results of management proposals on profit distribution on the proposal submission dummies. $For(MP_Dist)$ denotes the percentage of affirmative votes (calculated as affirmative votes divided by total votes cast) for the management proposals on profit distribution. $Against(MP_Dist)$ denotes the percentage of dissenting votes. Similar to the analysis in Table 7, the variable of interest is the cross-term of the group dummy and period dummy ($Target * Post$; $Target * Year0$; $Target * Year1$). In general, the percentage of affirmative (dissenting) votes on the target firms' management proposals significantly decrease (increase) in Year0, suggesting that the submission of shareholder proposals negatively affects the shareholders' votes on management proposals on the same issue (column (1) and (2)).

To dig deeper, we use *ISS Voting Analytics* database to analyze the proposal effect on the voting behavior of institutional investors. This database covers the voting results for each proposal by individual fund recorded in the form N-PX. Panel B in Table 11 shows the estimation results using the firm-fund-year level panel data. The independent variables are a dummy that takes one if the fund votes for the management proposal on profit distribution ($Fund_For$) and a dummy that takes one if the fund votes against the proposal ($Fund_Against$). The firm fixed effects, year fixed effects, and fund family fixed effects are included in the estimation. The results suggest that the probability of the fund's affirmative (dissenting) votes significantly decrease (increase) when shareholder proposals on payout issues are resolved at the same time (column (1) and (2)). In sum, submitting shareholder proposals on payout policy negatively affects shareholders' perceptions of corporate payout policy resolved as management proposals. These changes in shareholders' perception may contribute to the disciplinary effect of shareholder proposals.

6. Conclusion

We empirically examine the determinants of shareholder proposals for payout policy and the

subsequent effect on corporate policies. The findings are summarized as follows:

First, we found that firms with zero leverage are more likely to receive shareholder proposals for profit distribution, suggesting that shareholders target firms where debt governance is absent. We also found that cross-shareholding is positively associated with payout-related proposal submission. These results suggest that firms enjoying the “quiet life” is also good candidate for a target of shareholder proposals.

Second, we found that the cross-shareholdings’ effect on proposal submission is more pronounced with firms of zero leverage or firms with the lowest Tobin’s q. These results suggest that “quiet life” firms with extreme concern about holding accumulated cash are the primary target of shareholder proposals on payout policy.

Third, we found that the receiving payout-related shareholder proposals promotes firms to increase dividends. However, Yeh (2017) reports that shareholder proposals on profit distribution have little effect on corporate payout policy. Related to this, although all the proposals result in objections from other shareholders, we found that firms that have received the proposals tend to increase the subsequent dividends, especially after the governance reform in 2013. These results imply that corporate governance reform complements the disciplinary effect of shareholder proposals. We do not observe a significant change in the target firms’ payout policy in the pre-2012 period, which is consistent with Yeh (2017), whose primary period of the analysis is before the governance reform.

Overall, we conclude that the submission of payout-related shareholder proposals is primarily motivated by the concern of free cash flow problems and positively impacts the target firms’ subsequent dividend policy. These results are counter-intuitive from the viewpoint of U.S. style governance system where shareholders’ rights to intervene in corporate payout policy are restricted in principle. However, these U.S. style designs of voting rights would be complemented by solid pressure from outsider-oriented boards or discipline from the capital market, market for corporate control, or the executive labor market. In Japan, this outside market pressure has been almost absent (e.g., Aoki et al., 1994). Our

findings imply that legally strong shareholder rights to intervene in corporate policy work effectively in institutions where capital market pressure is traditionally weak, such as Japan. These findings would enhance our understanding of the effectiveness of international corporate governance schemes.

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Figure 1: The Trend of the Number of Firms Receiving Payout-related Shareholder Proposals

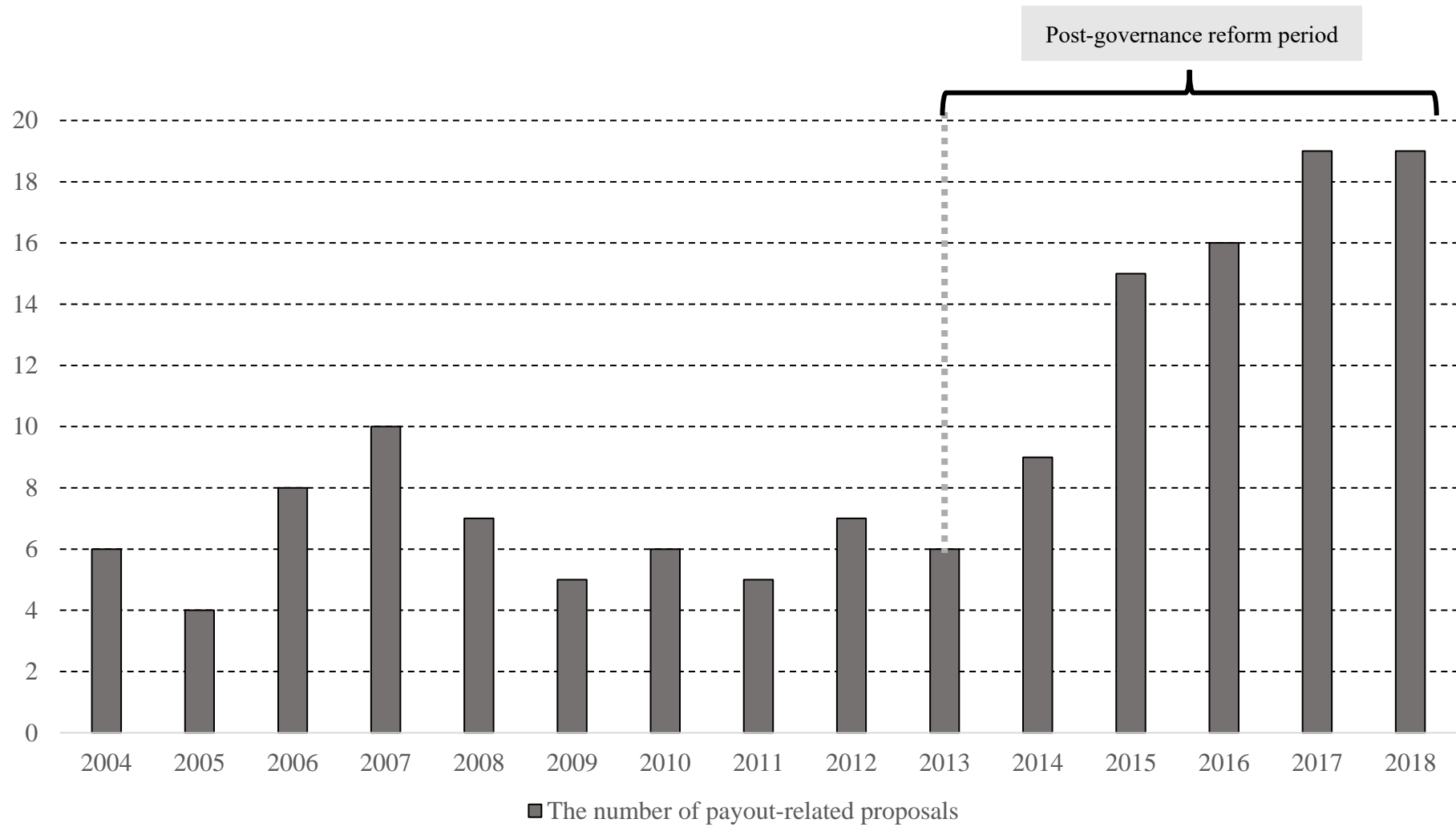
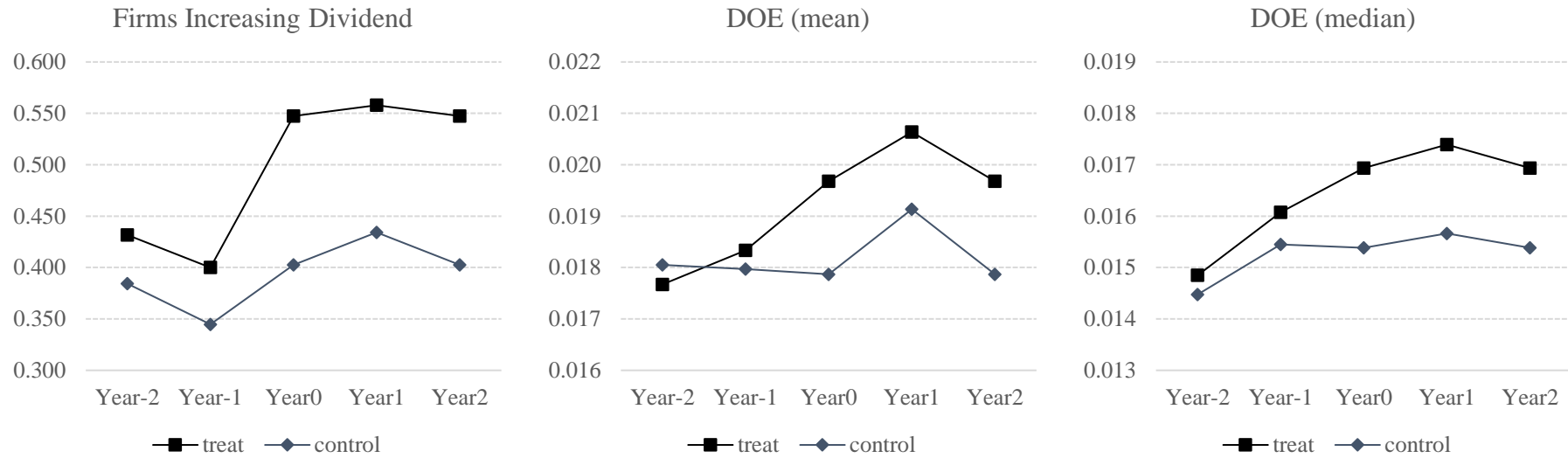


Figure 2: Comparison of dividend payout change between treated firms and matched firms

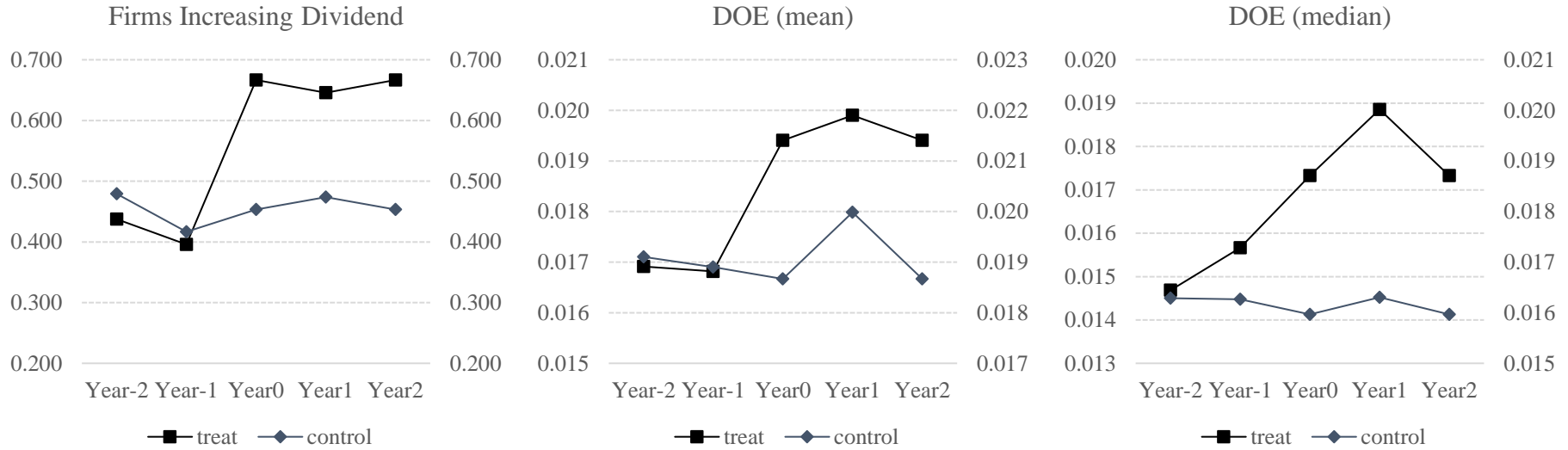
Panel A: Full sample

Note: This figure shows the changes in dividends for the treatment group and the control group for the two years before and after the shareholder proposal. When there is a second axis, the values for the treatment group are shown on the left and those for the control group on the right. To avoid misinterpretation, the widths are aligned on both axes.



Panel B: Sample after FY2013 (corporate governance reform)

Note: This figure shows the changes in dividends for the treatment group and the control group for the two years before and after the shareholder proposal, using observations after FY2013. When there is a second axis, the values for the treatment group are shown on the left and those for the control group on the right. To avoid misinterpretation, the widths are aligned on both axes.



Panel C: Sample before FY2012

Note: This figure shows the changes in dividends for the treatment group and the control group for the two years before and after the shareholder proposal, using observations before FY2012. When there is a second axis, the values for the treatment group are shown on the left and those for the control group on the right. To avoid misinterpretation, the widths are aligned on both axes.

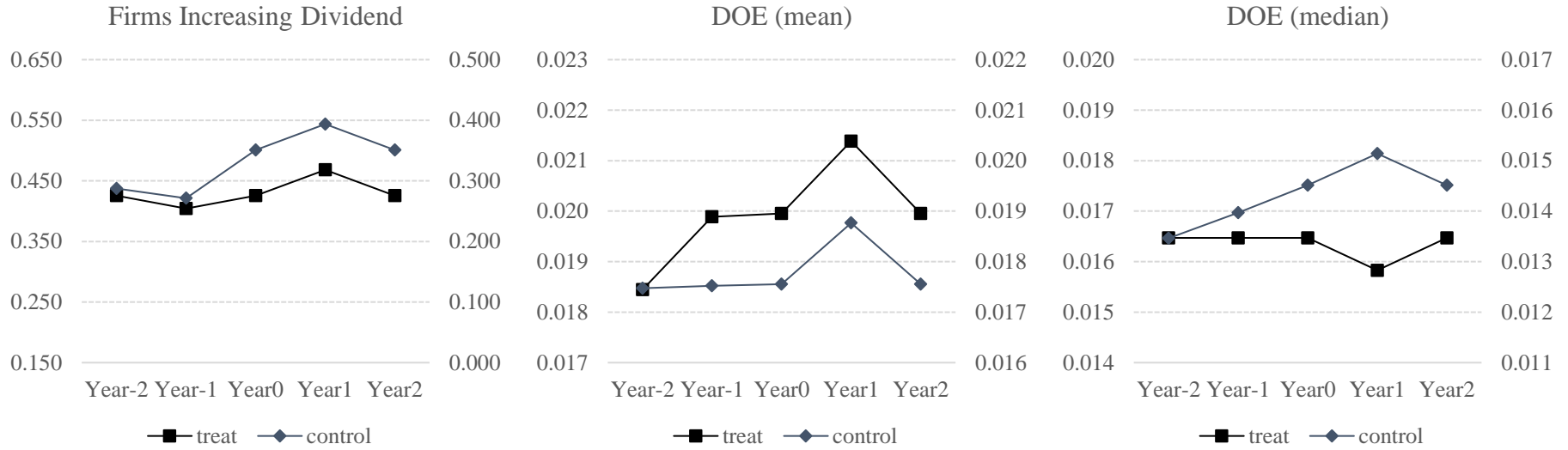


Table 1: The number of payout-related shareholder proposals in Japan

Panel A: The Number of Shareholder Proposals

Fiscal year	All shareholder proposals	Payout-related proposals (PP)	PP: Dividend	PP: Share buybacks
2004	15	6	6	2
2005	10	4	4	1
2006	16	8	8	0
2007	21	10	10	0
2008	26	7	5	3
2009	20	5	3	1
2010	23	6	6	0
2011	21	5	5	0
2012	28	7	7	1
2013	17	6	5	2
2014	26	9	7	6
2015	29	15	12	4
2016	34	16	12	11
2017	36	19	16	5
2018	36	19	16	4
SUM	358	142	122	40

Panel B: The Approval Rate of Payout-related Proposals

	Obs	Mean	STD	Min	p25	p50	p75	Max
<i>Approval Rate</i>	100	0.157	0.095	0.000	0.083	0.145	0.227	0.406

Table 2: Sample Selection

Criteria	Treated firms	Control firms	All firms
Japanese listed firms whose fiscal year ended from 01/01/2004 to 31/12/2018. Firms with months other than 12 months for fiscal year end are excluded. Financial and electric power industries are excluded.	142	52,332	52,474
Data for propensity score matching and payout-related variables are available.	134	44,353	44,487
The change in the number of shares outstanding from the previous year ranges from 0.8 to 1.2 (for Year-1, Year0, Year1) to ensure that the change in dividend per share purely reflects the change in the payout policy.	103	35,984	36,087
Excluding control firms who receive payout-unrelated shareholder proposals.	103	35,834	35,937
Excluding control firms who receive shareholder proposals in another fiscal year.	103	34,457	34,560
Excluding the industry that has not experienced payout-related shareholder proposals throughout the analysis period.	103	29,727	29,830
Matched firms (1:4) within caliper 0.01 in Year-1	95 (*3years)	380 (*3years)	475 (*3years)

Table 3: Descriptive statistics

Note: This table presents descriptive characteristics. *SP_Dist* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Firm size* is total assets. *ROA* is net income divided by lagged total assets. *q* is Tobin's q calculated as (market value of equity + book value of total interest-bearing debt) / (book value of shareholders' equity + book value of total interest-bearing debt). *Lev* is total interest-bearing debt divided by total assets. *Quick* is current assets divided by current liabilities. *Fin%* is ownership of financial institutions. *NCash* is defined as (cash minus total interest-bearing debt) / lagged total assets. *Insider%* is the ownership of the executives and employees. *Foreign%* is the ownership of foreign shareholders. *Inc_Div* is a dummy variable that takes one if the firm increase DPS and zero otherwise. *DOE* is calculated as the dividend amount divided by lagged total shareholders' equity. *OMR* is a dummy that takes one if the firm conducts open market repurchase and zero otherwise. *Rep / TE* is the repurchase amount divided by the lagged total shareholders' equity. *Cross* is the ownership of cross shareholders. ΔPPE is the change in property, plant and equipment divided by lagged total assets. ΔNCA is the change in tangible and intangible assets divided by lagged total assets. Depreciation, amortization and impairment losses are added back when we calculate ΔPPE and ΔNCA .

stats	N	mean	sd	min	p25	p50	p75	max
<i>SP_Dist</i>	29,830	0.003	0.059	0.000	0.000	0.000	0.000	1.000
<i>Firm size</i>	29,830	149,595	404,924	1,600	12,888	32,162	93,871	2,958,317
<i>ROA</i>	29,830	0.027	0.045	-0.157	0.009	0.026	0.048	0.162
<i>q</i>	29,830	1.124	0.713	0.314	0.720	0.938	1.263	4.754
<i>Lev</i>	29,830	0.181	0.169	0.000	0.028	0.142	0.294	0.656
<i>Quick</i>	29,830	2.152	1.625	0.389	1.194	1.654	2.519	10.186
<i>NCash</i>	29,830	0.077	0.184	-0.336	-0.044	0.063	0.181	0.622
<i>Fin%</i>	29,830	0.186	0.132	0.001	0.079	0.162	0.275	0.531
<i>Insider%</i>	29,830	0.092	0.122	0.000	0.009	0.038	0.127	0.553
<i>Foreign%</i>	29,830	0.091	0.114	0.000	0.006	0.041	0.137	0.507
<i>Inc_Div</i>	29,830	0.391	0.488	0.000	0.000	0.000	1.000	1.000
<i>DOE</i>	29,830	0.020	0.015	0.000	0.011	0.017	0.025	0.091
<i>OMR</i>	29,830	0.106	0.308	0.000	0.000	0.000	0.000	1.000
<i>Rep / TE</i>	29,830	0.002	0.008	0.000	0.000	0.000	0.000	0.055
<i>Cross</i>	27,632	0.077	0.084	0.000	0.004	0.053	0.118	0.357
ΔPPE	29,761	0.039	0.042	-0.035	0.011	0.028	0.054	0.221
ΔNCA	29,706	0.039	0.037	0.001	0.012	0.028	0.053	0.196

Table 4: Determinants of payout-related shareholder proposals

Note: This table presents the results of the regression of shareholder proposal submission on firm characteristics. *Cross* is the ownership of cross shareholders. *NCash* is defined as (cash minus total interest-bearing debt) / lagged total assets. *Firm size* is defined as total assets. *ROA* is net income divided by lagged total assets. *q* is Tobin's q calculated as (market value of equity + book value of total interest-bearing debt) / (book value of shareholders' equity + book value of total interest-bearing debt). *Lev* is total interest-bearing debt divided by total assets. *Quick* is current assets divided by current liabilities. *Fin%* is ownership of financial institutions. *Insider%* is the ownership of the executives and employees. *Foreign%* is the ownership of foreign shareholders. Column (1) presents the replication of Yeh (2017) model of propensity score matching. *d[Low q]* is a dummy variable that takes one if q is lower than the lowest 10%tile. *d[NCash+]* is a dummy variable that takes one if *NCash* is positive. Standard errors in parentheses. ***, **, * denotes p<0.01, p<0.05, p<0.10, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Zero Lev</i>		<i>NCash</i>	<i>NCash</i>	<i>NCash</i>	<i>NCash</i>	<i>NCash</i>	<i>d[NCash+]</i>
dep. var.	<i>SP_Dist</i>	<i>SP_Dist</i>	<i>SP_Dist</i>	<i>SP_Dist</i>	<i>SP_Dist</i>	<i>SP_Dist</i>	<i>SP_Dist</i>
<i>Zero Lev</i>		0.006***	0.007***	0.007***	0.006**	0.003	0.000
		(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.001)
<i>Cross</i>			0.012**	0.023**	0.009*	0.008*	-0.003
			(0.005)	(0.010)	(0.005)	(0.005)	(0.007)
<i>Cross * q</i>				-0.011			
				(0.007)			
<i>Cross * d[Low q]</i>					0.051**		
					(0.023)		
<i>Cross * Zero Lev</i>						0.084**	0.022**
						(0.033)	(0.009)
<i>Firm size</i>	-0.000	-0.000	-0.000*	-0.000	-0.000	-0.000	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
<i>ROA</i>	0.004	0.004	0.000	0.001	-0.005	-0.001	0.002
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
<i>q</i>	-0.003***	-0.002***	-0.002***	-0.002***	-0.001	-0.002***	-0.002***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.002)	(0.000)	(0.000)
<i>Lev</i>	-0.005*						
	(0.003)						
<i>Quick</i>	0.001**						
	(0.000)						
<i>Fin%</i>	-0.005	-0.008**					
	(0.004)	(0.004)					
<i>Insider%</i>	-0.006**	-0.007**					
	(0.003)	(0.003)					
<i>Foreign%</i>	0.017***	0.012**	0.013***	0.013***	0.011**	0.012***	0.013***
	(0.006)	(0.005)	(0.005)	(0.005)	(0.004)	(0.005)	(0.005)
<i>Constant</i>	0.012	0.005***	-0.002*	-0.002**	-0.004***	-0.002*	-0.002
	(0.010)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
<i>Industry</i>	Included	Included	Included	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included	Included	Included	Included
Observations	29,830	29,830	27,632	27,632	27,632	27,632	27,632
R-squared	0.006	0.006	0.006	0.006	0.006	0.006	0.006

Table 5: The Effect of Proposal Submission on Dividend Policy before/after the Governance Reform in Japan

Note: This table presents the results of the regression of payout-related variables on shareholder proposal submission using one-to-four nearest neighbor matching. *Inc_Div* is a dummy variable that takes one if the firm increase DPS and zero otherwise. *DOE* is calculated as the dividend amount divided by lagged total shareholders' equity. *Target* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Post* is a dummy variable that takes one for Year 0 and Year 1. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
FY	Before 2012				After 2013					
dep. var.	<i>Inc_Div</i>	<i>DOE</i>	<i>Inc_Div</i>	<i>DOE</i>	<i>Inc_Div</i>	<i>DOE</i>	<i>Inc_Div</i>	<i>Inc_Div</i>	<i>DOE</i>	<i>DOE</i>
<i>Target</i>	0.133*	0.003	0.133*	0.003	-0.021	-0.002	-0.021	-0.042	0.001	-0.002
	(0.072)	(0.002)	(0.072)	(0.002)	(0.073)	(0.002)	(0.074)	(0.083)	(0.002)	(0.002)
<i>Year-1</i>								-0.098**		-0.000
								(0.044)		(0.001)
<i>Target * Year-1</i>								0.021		0.000
								(0.092)		(0.001)
<i>Post</i>	0.093**	0.000			0.011	-0.000				
	(0.041)	(0.001)			(0.041)	(0.001)				
<i>Target * Post</i>	-0.059	0.000			0.214**	0.002**				
	(0.088)	(0.001)			(0.083)	(0.001)				
<i>Year0</i>			0.065	-0.000			0.017	-0.086	0.000	-0.001
			(0.044)	(0.001)			(0.044)	(0.052)	(0.001)	(0.001)
<i>Target * Year0</i>			-0.059	0.000			0.234***	0.255***	0.003**	0.003**
			(0.098)	(0.001)			(0.088)	(0.097)	(0.001)	(0.001)
<i>Year1</i>			0.126**	0.001			-0.003	-0.099	0.001	0.000
			(0.050)	(0.001)			(0.053)	(0.065)	(0.001)	(0.002)
<i>Target * Year1</i>			-0.059	0.000			0.193*	0.214**	0.003**	0.002
			(0.095)	(0.002)			(0.102)	(0.104)	(0.002)	(0.001)
<i>Constant</i>	0.080	0.007*	0.080	0.007*	-0.014	0.014***	-0.020	0.211	0.029***	0.017***
	(0.149)	(0.004)	(0.149)	(0.004)	(0.116)	(0.003)	(0.117)	(0.128)	(0.004)	(0.003)
<i>Industry</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included	Included
Observations	705	705	705	705	720	720	720	960	720	960
R-squared	0.104	0.200	0.106	0.202	0.093	0.148	0.093	0.085	0.117	0.139

Table 6: The effect of proposal submission on repurchase policy

Note: This table presents the results of the regression of payout-related variables on shareholder proposal submission. *OMR* is a dummy variable that takes one if the firm conducts open market repurchase. *Rep/TE* is calculated as the total amount of open market repurchase divided by the lagged total shareholders' equity. *Target* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Post* is a dummy variable that takes one for Year 0 and Year 1. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FY	Before 2012				After 2013			
dep. var.	<i>OMR</i>	<i>Rep / TE</i>	<i>OMR</i>	<i>Rep / TE</i>	<i>OMR</i>	<i>Rep / TE</i>	<i>OMR</i>	<i>Rep / TE</i>
<i>Target</i>	0.106*	0.002*	0.106*	0.002*	-0.094***	-0.002*	-0.094**	-0.002*
	(0.055)	(0.001)	(0.055)	(0.001)	(0.036)	(0.001)	(0.036)	(0.001)
<i>Post</i>	0.022	0.001			-0.027	0.001		
	(0.026)	(0.001)			(0.021)	(0.001)		
<i>Target * Post</i>	-0.056	-0.001			0.031	-0.001		
	(0.063)	(0.002)			(0.029)	(0.001)		
<i>Year0</i>			0.039	0.001			-0.011	0.001
			(0.025)	(0.001)			(0.022)	(0.001)
<i>Target * Year0</i>			-0.069	-0.003			0.036	-0.000
			(0.055)	(0.002)			(0.036)	(0.001)
<i>Year1</i>			0.003	0.000			-0.055*	0.001
			(0.032)	(0.001)			(0.028)	(0.002)
<i>Target * Year1</i>			-0.043	0.002			0.026	-0.001
			(0.082)	(0.003)			(0.041)	(0.001)
<i>Constant</i>	0.030	-0.002	0.030	-0.002	0.166	0.004	0.157	0.004
	(0.075)	(0.002)	(0.075)	(0.002)	(0.133)	(0.005)	(0.133)	(0.005)
<i>Industry</i>	Included	Included	Included	Included	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included	Included	Included	Included	Included
Observations	705	705	705	705	720	720	720	720
R-squared	0.087	0.099	0.089	0.103	0.130	0.090	0.133	0.091

Table 7: Robustness check excluding sample with proposal experience / proposal receipt in Year-1

Note: This table presents the results of the regression of payout-related variables on shareholder proposal submission excluding sample received proposals in Year-1 / experience of proposal receipt in previous years. *Inc_Div* is a dummy variable that takes one if the firm increase DPS and zero otherwise. *DOE* is calculated as the dividend amount divided by lagged total shareholders' equity. *Target* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Post* is a dummy variable that takes one for Year 0 and Year 1. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

Sample dep. var.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	After 2013, first proposal receipt				After 2013, no proposals in Year-1			
	<i>Inc Div</i>	<i>DOE</i>	<i>Inc Div</i>	<i>DOE</i>	<i>Inc Div</i>	<i>DOE</i>	<i>Inc Div</i>	<i>DOE</i>
<i>Target</i>	-0.167* (0.093)	-0.002 (0.002)	-0.167* (0.094)	-0.002 (0.002)	-0.114 (0.078)	-0.003 (0.002)	-0.114 (0.078)	-0.003 (0.002)
<i>Post</i>	0.040 (0.068)	0.001 (0.001)			0.053 (0.051)	0.000 (0.001)		
<i>Target * Post</i>	0.406*** (0.118)	0.003* (0.002)			0.293*** (0.101)	0.003** (0.001)		
<i>Year0</i>			0.028 (0.073)	0.000 (0.001)			0.045 (0.055)	-0.000 (0.001)
<i>Target * Year0</i>			0.427*** (0.136)	0.004* (0.002)			0.329*** (0.108)	0.003** (0.001)
<i>Year1</i>			0.059 (0.083)	0.002 (0.002)			0.060 (0.064)	0.001 (0.002)
<i>Target * Year1</i>			0.385*** (0.147)	0.002 (0.002)			0.257** (0.126)	0.002 (0.001)
<i>Constant</i>	0.063 (0.189)	0.018*** (0.003)	0.069 (0.190)	0.019*** (0.003)	-0.108 (0.146)	0.015*** (0.003)	-0.108 (0.147)	0.015*** (0.003)
<i>Industry</i>	Included	Included	Included	Included	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included	Included	Included	Included	Included
Observations	360	360	360	360	525	525	525	525
R-squared	0.118	0.172	0.120	0.175	0.109	0.130	0.110	0.135

Table 8: Robustness check using PSM with alternative covariates

Note: This table presents the results of the regression of payout-related variables on shareholder proposal submission using one-to-four nearest neighbor matching with alternative matching covariates or covariates in period *Year0*. *Inc_Div* is a dummy variable that takes one if the firm increase DPS and zero otherwise. *DOE* is calculated as the dividend amount divided by lagged total shareholders' equity. *Target* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Post* is a dummy variable that takes one for Year 0 and Year 1. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Matching FY dep. var.	Match + ΔROA , <i>Cross</i> , <i>NetCash</i>				Match with covariates in <i>Year0</i>			
	After 2013				After 2013			
	<i>Inc_Div</i>	<i>DOE</i>	<i>Inc_Div</i>	<i>DOE</i>	<i>Inc_Div</i>	<i>DOE</i>	<i>Inc_Div</i>	<i>DOE</i>
<i>Target</i>	-0.071 (0.081)	-0.000 (0.002)	-0.071 (0.081)	-0.000 (0.002)	-0.078 (0.075)	-0.003 (0.002)	-0.078 (0.075)	-0.003 (0.002)
<i>Post</i>	-0.007 (0.050)	0.001 (0.001)			-0.056 (0.047)	-0.000 (0.001)		
<i>Target * Post</i>	0.298*** (0.093)	0.002** (0.001)			0.256*** (0.089)	0.003** (0.001)		
<i>Year0</i>			-0.027 (0.051)	0.000 (0.001)			-0.018 (0.050)	-0.000 (0.001)
<i>Target * Year0</i>			0.333*** (0.098)	0.002** (0.001)			0.256*** (0.094)	0.003** (0.001)
<i>Year1</i>			0.021 (0.061)	0.002 (0.001)			-0.119** (0.059)	0.000 (0.002)
<i>Target * Year1</i>			0.262** (0.115)	0.002* (0.001)			0.256** (0.110)	0.003** (0.001)
<i>Constant</i>	0.223 (0.148)	0.016*** (0.003)	0.229 (0.148)	0.016*** (0.003)	-0.032 (0.117)	0.014*** (0.004)	-0.044 (0.117)	0.014*** (0.004)
<i>Industry</i>	Included	Included	Included	Included	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included	Included	Included	Included	Included
Observations	630	630	630	630	675	675	675	675
R-squared	0.093	0.128	0.094	0.131	0.090	0.078	0.096	0.079

Table 9: Additional analysis on the heterogeneity of the proposal effect

Note: This table presents the results of the analyses on the heterogeneity of the effect of proposal receipt. *Inc_Div* is a dummy variable that takes one if the firm increase DPS and zero otherwise. *Target* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Post* is a dummy variable that takes one for Year 0 and Year 1. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. *ForSP* is approval rate of the shareholder proposal on the payout policy. *Large* is a dummy variable that takes one for proposals from large shareholders (>3% ownership) or investment funds. *Tenure* is defined as CEO tenure. *Long* is a dummy variable that takes one if *Tenure* is > 10 years. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

	(1)	(2)	(3)	(4)
FY		First proposals after 2013		
Tenure var.	-	-	<i>Tenure</i>	<i>Long</i>
dep. var.	<i>Inc_Div</i>	<i>Inc_Div</i>	<i>Inc_Div</i>	<i>Inc_Div</i>
<i>Target</i>	-0.027 (0.075)	-0.021 (0.074)	-0.096 (0.095)	-0.034 (0.085)
<i>Post</i>	0.021 (0.042)	0.012 (0.041)	-0.009 (0.053)	-0.001 (0.047)
<i>Target * Post</i>	0.191 (0.116)	0.198* (0.102)	0.380*** (0.105)	0.316*** (0.098)
<i>Target * Post * ForSP</i>	0.149 (0.485)			
<i>Target * Post * Large</i>		0.035 (0.111)		
<i>Target * Post * Tenure var</i>			-0.021*** (0.006)	-0.418** (0.180)
<i>Tenure</i>			-0.002 (0.004)	-0.028 (0.083)
<i>Target * Tenure</i>			0.009 (0.006)	0.057 (0.189)
<i>Post * Tenure</i>			0.003 (0.004)	0.049 (0.085)
<i>Constant</i>	-0.177 (0.113)	-0.014 (0.116)	-0.009 (0.118)	-0.030 (0.116)
<i>Industry</i>	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included
Observations	594	720	720	720
R-squared	0.096	0.090	0.097	0.094

Table 10: The Effect of Proposal Submission on Investment Policy

Note: This table presents the results of the regression of investment-related variables on shareholder proposal submission using one-to-one nearest neighbor matching. ΔPPE is the change in property, plant and equipment divided by lagged total assets. ΔNCA is the change in tangible and intangible assets divided by lagged total assets. *Post* is a dummy variable that takes one for Year 0 and Year 1. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

FY dep. var.	(1)	(2)	(3)	(4)
	Before 2012		After 2013	
	ΔPPE	ΔNCA	ΔPPE	ΔNCA
<i>Target</i>	-0.007 (0.005)	-0.003 (0.004)	-0.005 (0.005)	-0.008 (0.005)
<i>Post</i>	0.002 (0.003)	-0.000 (0.002)	-0.000 (0.003)	-0.002 (0.003)
<i>Target * Post</i>	-0.002 (0.004)	-0.002 (0.004)	0.001 (0.004)	0.002 (0.004)
<i>Constant</i>	0.059*** (0.014)	0.060*** (0.011)	0.035*** (0.007)	0.047*** (0.008)
<i>Industry</i>	Included	Included	Included	Included
<i>Year</i>	Included	Included	Included	Included
Observations	675	675	705	705
R-squared	0.190	0.276	0.216	0.231

Table 11: The Effect of Proposal Submission on Shareholder Support for Dividend Policy

Panel A: Aggregate Voting Results for Management Proposals

Note: This table presents the results of the regression of voting outcomes on shareholder proposal submission using one-to-one nearest neighbor matching. *Target* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. Year 0 denotes the fiscal period corresponding to the shareholders' meeting where shareholder proposals are resolved. Year 1 denotes the next fiscal year of shareholders' meeting where shareholder proposals are resolved. *For(MP_Dist)* denotes the percentage of affirmative votes (calculated as affirmative votes divided by total votes cast) for the management proposals on profit distribution. *Against(MP_Dist)* denotes the percentage of dissenting votes. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

dep. var.	(1) <i>For(MP_Dist)</i>	(2) <i>Against(MP_Dist)</i>
<i>Target</i>	-0.026*** (0.009)	0.023** (0.009)
<i>Year0</i>	0.008 (0.005)	-0.009 (0.006)
<i>Target * Year0</i>	-0.059*** (0.017)	0.056*** (0.017)
<i>Year1</i>	0.015 (0.010)	-0.017* (0.010)
<i>Target * Year1</i>	-0.001 (0.011)	0.005 (0.012)
<i>Constant</i>	0.976*** (0.021)	0.021 (0.021)
<i>Industry</i>	Included	Included
<i>Year</i>	Included	Included
Observations	186	186
R-squared	0.453	0.437

Panel B: Voting Outcomes Disclosed by N-PX (Foreign Institutional Investors)

Note: This table presents the results of the regression of fund-level voting outcomes on shareholder proposal submission using panel data. *SP_Dist* is a dummy variable that takes one if the firm receives payout-related shareholder proposals. *Fund_For* is a dummy variable that takes one if the fund vote for the management proposal on profit distribution. *Fund_Against* is a dummy variable that takes one if the fund vote against the proposal. Standard errors in parentheses. ***, **, * denotes $p < 0.01$, $p < 0.05$, $p < 0.10$, respectively.

dep. var.	(1) <i>Fund_For</i>	(2) <i>Fund_Against</i>
<i>SP_Dist</i>	-0.190* (0.098)	0.193** (0.091)
<i>Constant</i>	0.964*** (0.000)	0.010*** (0.000)
<i>Firm</i>	Included	Included
<i>Year</i>	Included	Included
<i>Fund Family</i>	Included	Included
Observations	291,829	291,829
R-squared	0.243	0.373

Appendix

Table A1: Balancing check after propensity score matching

Note: This table presents the mean values of covariates for propensity score matching. *Firm size* is the natural logarithm of the market capital. *ROA* is net income divided by lagged total assets. *q* is the natural logarithm of Tobin's q calculated as (market value of equity + book value of total interest-bearing debt) / (book value of shareholders' equity + book value of total interest-bearing debt). *Lev* is total interest-bearing debt divided by total assets. *Quick* is current assets divided by current liabilities. *Fin%* is the natural logarithm of the ownership of financial institutions. *Insider%* is the natural logarithm of the ownership of the executives and employees. *Foreign%* is the natural logarithm of the ownership of foreign shareholders.

	Target		Non-Target		Diff
	Obs	Mean	Obs	Mean	
<i>Firm size</i>	95	23.625	380	23.735	-0.110
<i>ROA</i>	95	0.029	380	0.029	0.001
<i>q</i>	95	-0.206	380	-0.181	-0.025
<i>Lev</i>	95	0.138	380	0.131	0.007
<i>Quick</i>	95	2.549	380	2.488	0.061
<i>Fin%</i>	95	0.158	380	0.160	-0.003
<i>Insider%</i>	95	0.065	380	0.064	0.001
<i>Foreign%</i>	95	0.108	380	0.108	-0.001