

How Shareholder Voice Shapes Board Agendas by Malenko, Masulis & Wang

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Not prepared by AI – I feel old... :)

Summary

- **A creative, data-rich & super interesting paper; a highly recommended reading!**
- Unusually extensive disclosures allow the authors to trace the full decision chain: board agendas, each director's vote, links to shareholder-meeting (SHM) agendas, and SHM vote outcomes.
- Opens the black box between boards and shareholder meetings...
- Cool and sophisticated empirical tests.

Summary

- Friendly & supportive comments:
 - (i) My priors and what I learnt from the paper;
 - (ii) Potential extensions;
 - (iii) Some clarifications re the findings, and
 - (iv) Further highlighting/celebrating the importance of the findings

Caveat: I'm a law professor

Initial Priors (and what I learnt from the paper...)

Corporate governance in China:

- “China is known in the West for many things. However, a rules-based market for shareholder activism is not one of them.” (Puchniak et al.)
- Chinese companies have a combination of unusually extensive disclosures & minority veto power on conflicted transactions.
- **Be like Delaware - out?**
- **Be like China – in?**

Initial Priors (and what I learnt from the paper)

Law in books v. law in action; the role of culture/norms (e.g. Licht,)

- Corporate culture and rule of law norms may be as important – **if not more important** – in determining the efficacy of its RPT regulation (Puchniak et al).
- MBDs can credibly threaten opposition at SHMs -> they influence which proposals reach the agenda, especially conflicted related-party transactions -> **rule-based market activism even in the presence of weak private enforcement etc.**

Do politics play a role in Chinese companies?

Authors define “institutions” broadly to include **state-controlled, private, and foreign**, rather than only asset managers...”

- Does the identity of MBD matter?
- Does the identity of the targets matter?

You have the data to check it.

FWIW, Puchniak et al. (2024) find no relation in the success rate of activism.

Think about adding a few illustrative examples (maybe in an appendix)

Dynamics between minority holders

Is there any evidence of coalition buildings?

Examine the votes of the minority directors at the board/SH meetings:

- Do they vote together? Does it matter to the outcome?
- What happens when the vote of the minority directors are different?
- Do you see any additional sign of activism around the dissent? Do they submit a shareholder proposal? Use other levers? (Kastiel, 2016; Puchniak et al., 2024)
- Quid pro quo → are there agenda resolutions that provide private benefits to the minority directors?

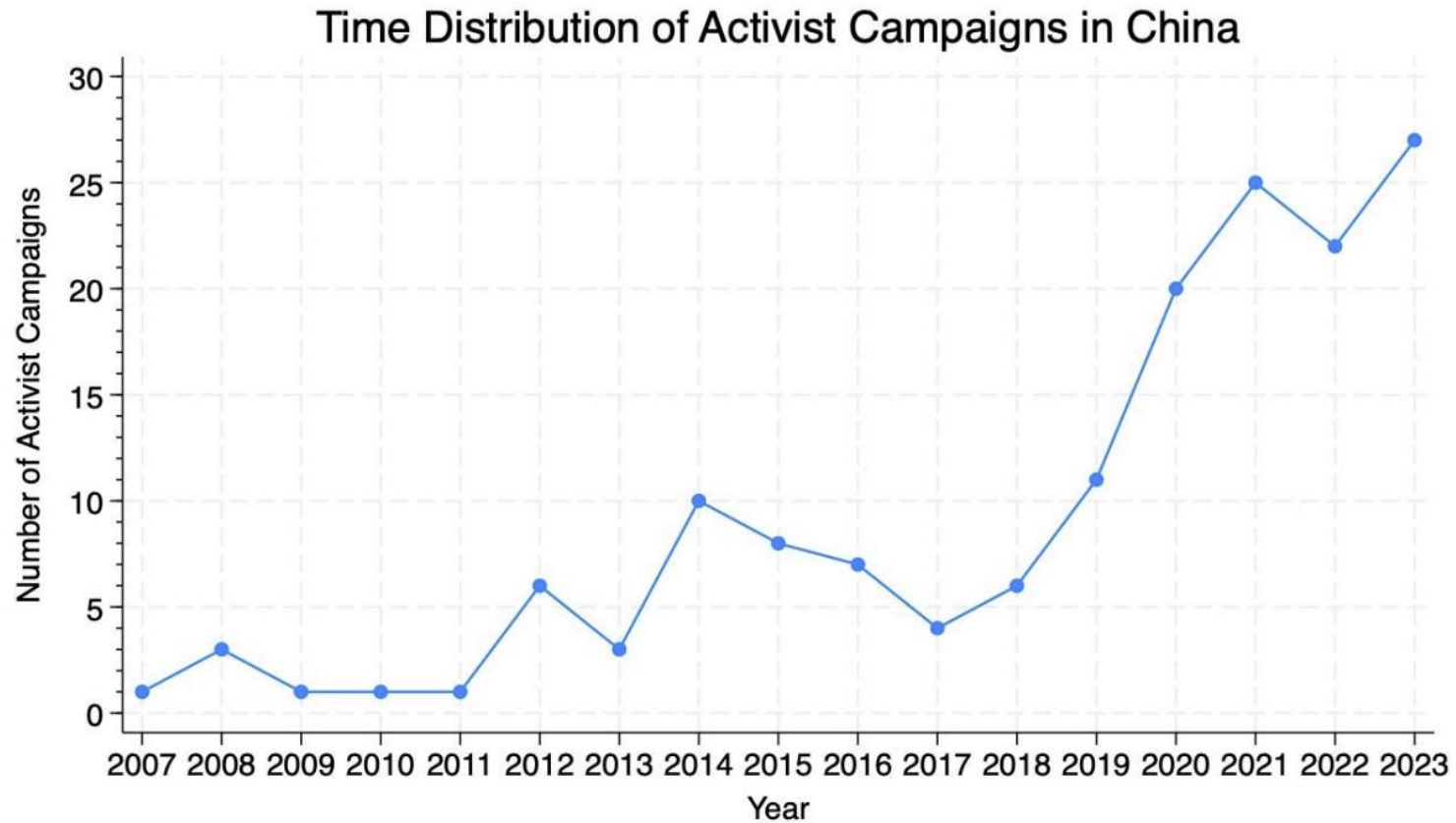
Exploit the variation in Related Party Transactions

RPT proposals account for 77,644 board proposals. **Exploit the variation in them?**

- The most concerning ones v. the others;
- Size of RPTs as a proxy;
- Is it possible to challenge the transactions in court? Does judicial review matter? Bargaining in the shadow of it (or without it)?

There are many opportunities with such a rich dataset!

Going Beyond 2019?



The Significance of the Results

- “For a nine-member board, one additional MBD seat... implying a 0.17 percentage-point decline in the likelihood of observing an RPT proposal” → economically meaningful?
- There are 77,644 RPTs that are brought on the agenda. The expected of effect is a decline of a few cases per year (9 cases?). Very few RPTs attract opposition (1%).
- Support by shareholders holding less than 5% averages 88.05%.
- It’s uncommon that the third largest shareholder (4.2%) has a board representation (0.13 seats, on average).

The shock: Disclosure of minority vote v. disclosure of below 5% shareholder votes

- The additional disclosure is mostly relevant when the **5%+ holder** and **the other minority holders** vote **differently**.
 - When the 5%+ MBD is excluded, do we observe stronger opposition?
 - Does it affect the outcome? Stronger effect?
- Otherwise, does this **additional disclosure** matter to the controller?
It does not change the power dynamics in a substantive manner.
- Does it matter to outsiders? Why? The role of norms?

Shenzhen v. Shanghai Firms

1. In Shenzhen, headcount of below 5%-shareholder is disclosed.

- Why is it important?
- The response: a dissenting vote may create more pressure if it comes from 600 minority shareholders than from 6.
- But, does it affect the bargaining power vis a vis the controller? Does it affect media coverage? Any evidence? What is the channel of influence?
- Try to check it?

Shenzhen v. Shanghai Firms

2. In Shanghai, **information appeared at the end of the disclosure in a way that made proposal-level dissent harder to track.**
- Is it still possible for sophisticated investor/proxy advisor/media reporter to track it/figure it out?
 - **Proxy advisors** - to what extent they are active in China? Do they play a coordination role?

The implications

Financial – Decline in PBC? (Zingales et al.); impact on capital market?

Legal: “While China provides the empirical setting, the forces we highlight are more general”

- Consider highlighting the normative implications of your findings
- **Transparency of minority votes affect the power dynamics in controlled companies!**
- Lessons to the US / UK / Israel & other states with advanced corporate governance.

Many thanks for a fascinating read!!