

How Shareholder Voice Shapes Board Agendas

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Global Corporate Governance Colloquium

June 12, 2026

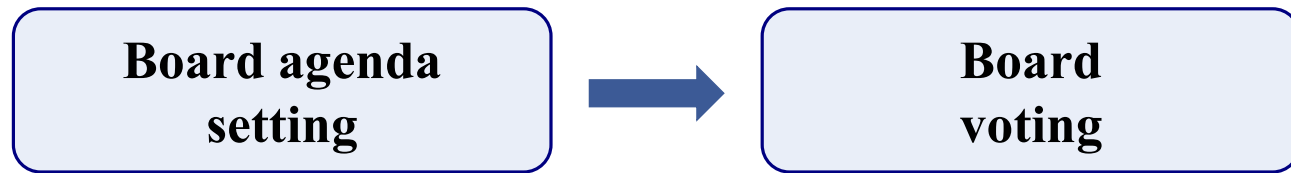
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Agenda-setting as a source of governance power

- In collective decisions, power is exerted not only by casting votes, but also by shaping what reaches the **meeting agenda**



The agenda-setting stage is often hidden, but it can determine which conflicts become visible later

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This paper:

- shifts attention to the **board's agenda-setting** process

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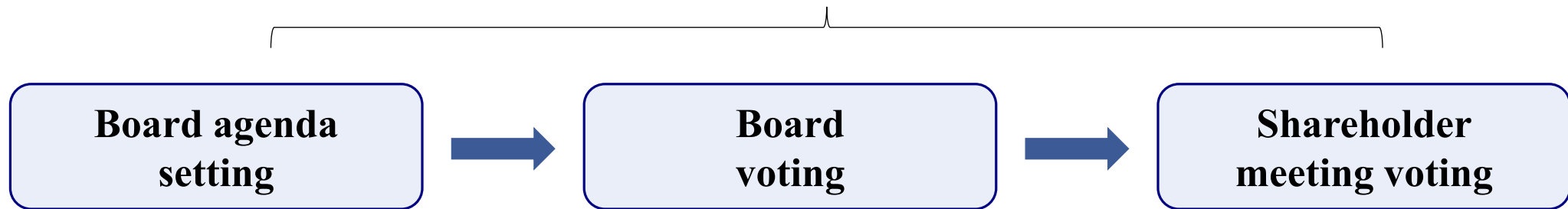
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This paper:

- shifts attention to the **board's agenda-setting** process
- studies how **shareholder voice** feeds back into **board agenda-setting**

Shareholder voice can give directors agenda-setting influence

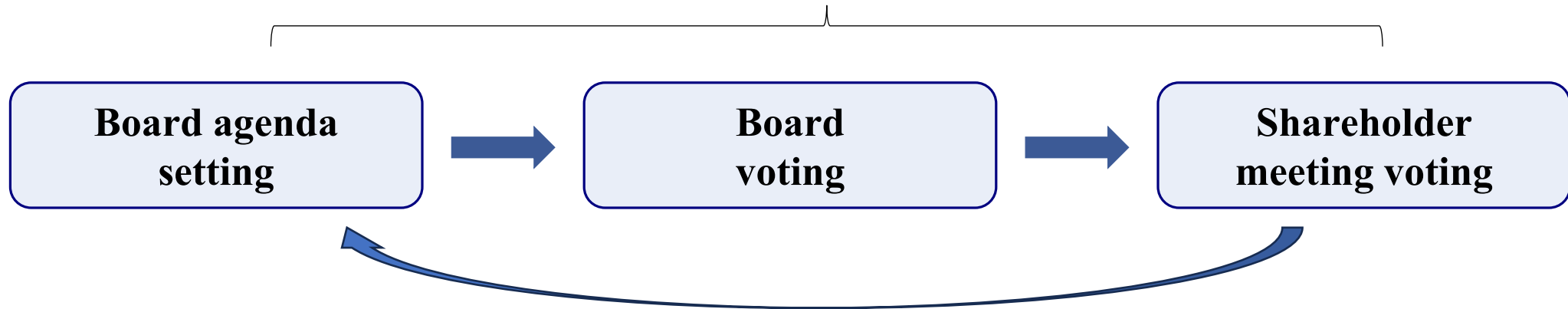
Minority-Blockholder-Affiliated Directors (MBDs) bridge the decision chain



- MBDs generally have few board seats → limited formal authority in the boardroom
- But minority shareholders backing MBDs can oppose proposals reaching future shareholder meetings

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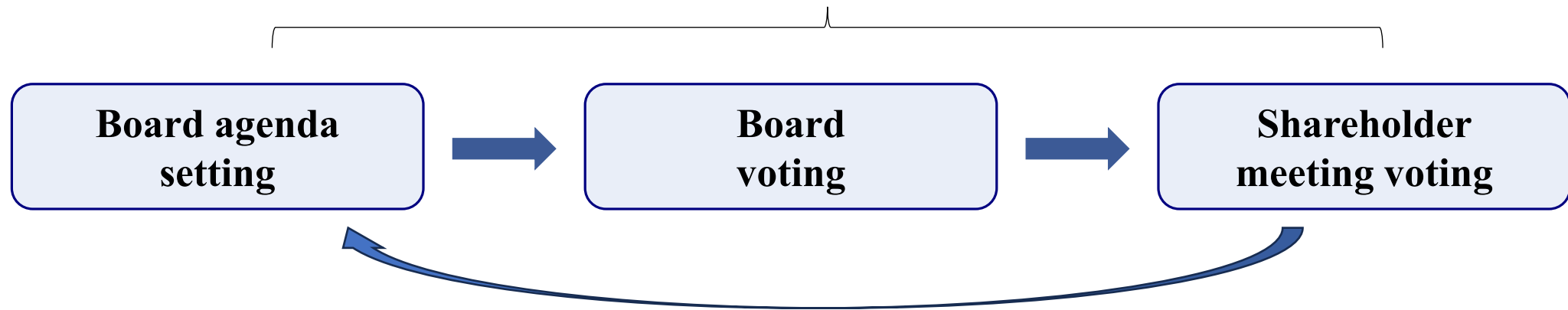


Anticipated SHM stage opposition if MBD's board-stage dissent is ignored

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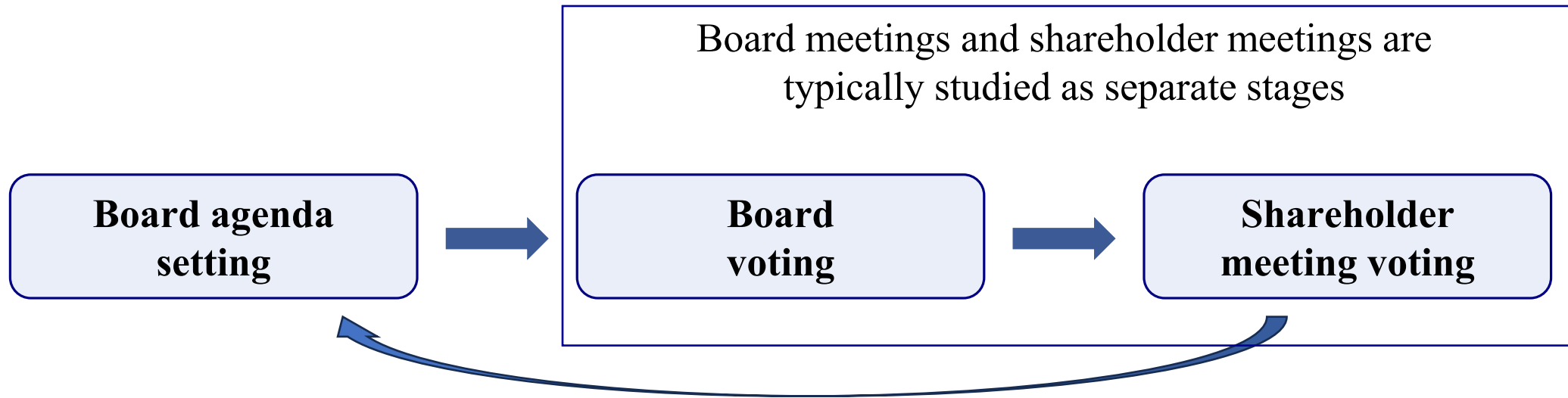


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⇒ Stronger shareholder-meeting voice can reduce problematic proposals on board agendas

Existing literature and this paper's contribution



Our focus: Board-SH Meeting interaction and how they feed back into agenda-setting

Challenges we address:

1. Board agendas and their links to SHM agendas are typically unobserved ➤ Comprehensive new data
2. Board and SH meeting outcomes are endogenously linked ➤ Policy shock; DiD-RDD design

Preview of results

1) Greater MBD presence is associated with fewer tunneling proposals on board agendas

2) **Main result (Shareholder meeting threat → Board agenda spillover):**

- DiD-RDD design: Post-shock greater visibility of minority shareholder dissent at SHMs

⇒ Stronger MBD power at the earlier board agenda-setting stage, leads to **fewer tunneling proposals** appearing on board agendas

Scope: Board proposals that require SH approval + Spillovers to board-only proposals

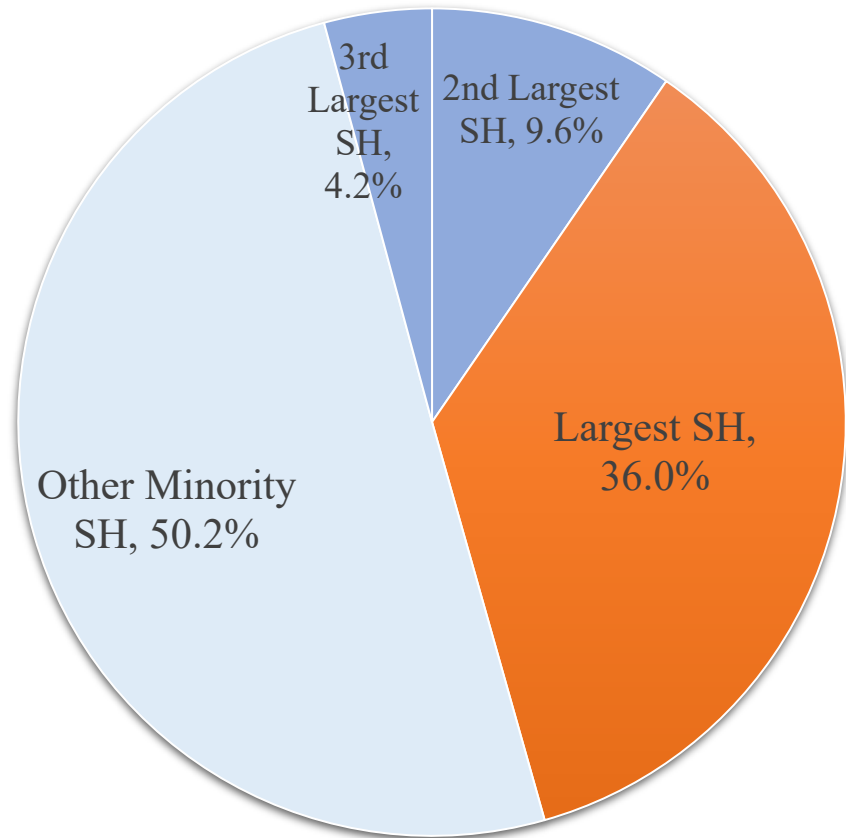
3) **Credible threat channels:** After MBD dissent on a tunneling proposal, in future SHMs, SH participation rises, the focal proposal and cross-proposal opposition rises

Data

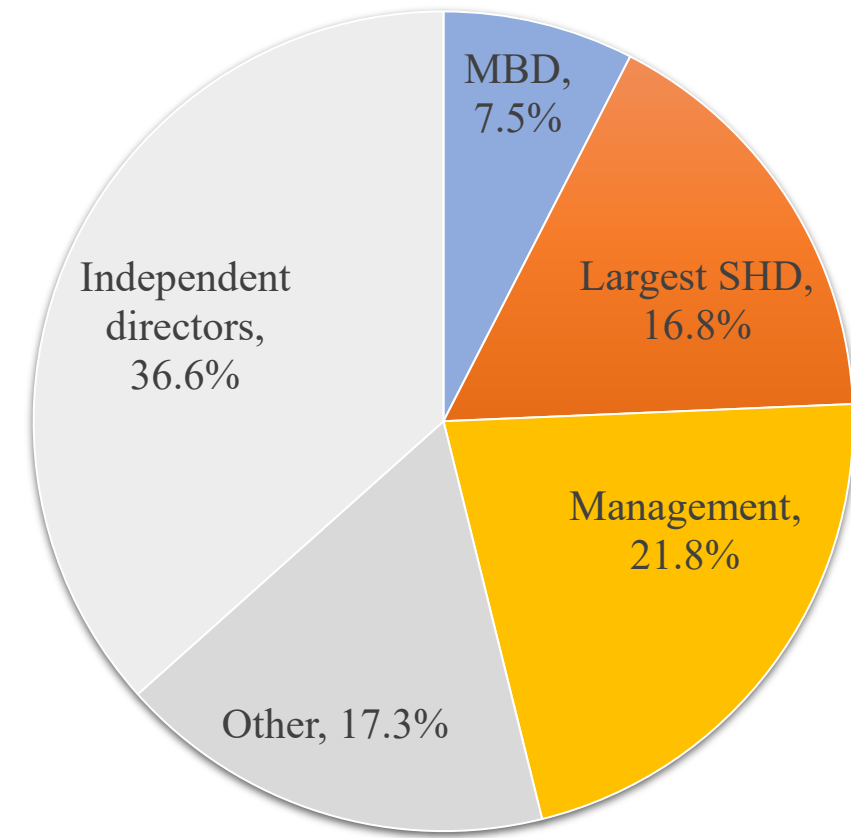
- Full universe of **Board & SHM disclosures** for Shenzhen & Shanghai listed firms, 2005–2018
 - CNINFO daily text-based corporate filings
 - **Board**: agendas; proposal-level director votes; director-shareholder affiliations
 - Full sample: 3,658 firms; 1.2 million board proposals; 10.8 million director votes
 - **SHM**: agendas, proposal-level votes; attendance
 - Full sample: 3,803 firms; 0.8 million SHM proposals
 - **Proposal-level matching** between board & shareholder meetings
 - Identify dropped/revise tunneling proposals
- Comprehensive coverage: **sample size, detailed agendas, director types**
- Observe **complete decision-making chain**: from board agenda-setting to shareholder voting

Board voting power and shareholder voting power

Shareholder Ownership Structure



Board Composition



High support rates at board and SH meetings can be misleading

MBD representation and voting influence at Board and SH Meetings can look weak:

0.67 MBD seats
on a 9-director board

Board:

99.9% support rate
0.02% rejection rate

SHM:

98.8% support rate
0.57% rejection rate

- Does low dissent imply **weak governance** or **successful upstream bargaining**?
- For this reason, we study the full decision chain, rather than board votes or SHM votes in isolation

❖ **Key question: Does shareholder voice change what reaches the board agenda?**

MBDs and tunnelling (RPT) proposals on board agendas

VARIABLES	Dependent Var = RPT Indicator		
	MBD board representation (1)	Ownership backing of MBD seats (2) (3)	
MBD%	-1.542** (0.763)		
Ownership-weighted MBD%		-0.188*** (0.062)	
Large MBD%			-2.275** (0.962)
Small MBD%			-0.628 (1.057)
N	1,106,636	1,106,636	1,106,636
R-squared	0.055	0.055	0.055
Mean Dep Var	6.078	6.078	6.078
Controls	Y	Y	Y
Firm FE & Industry × Year FE	Y	Y	Y

Proposal level regressions; RPT = 1 if proposal is a major related-party transaction and 0 otherwise

- Greater representation by MBDs is associated with fewer tunneling proposals

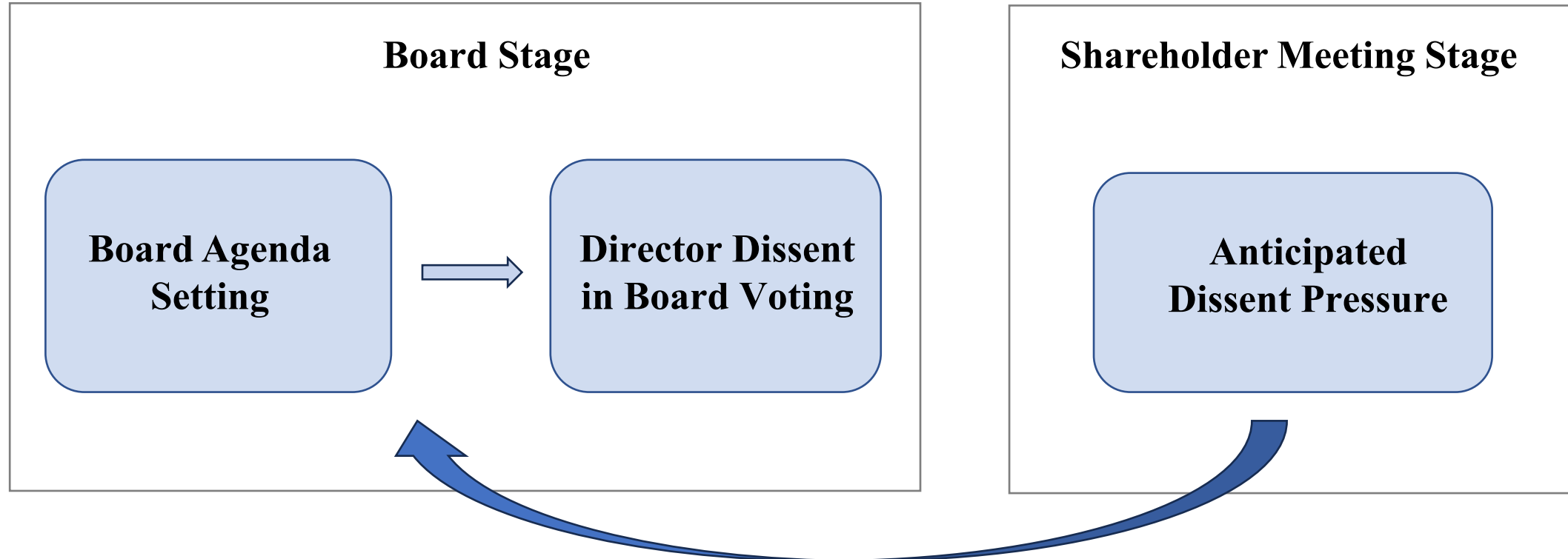
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- Greater representation by MBDs is associated with fewer tunneling proposals
- Especially when the appointing shareholders hold larger stakes

Linking board decision-making and shareholder voting



Potential Dissent at SHM
→ Board Agenda Spillover

Policy shock strengthens minority shareholder voice

- **Policy shock:** Disclosure makes **minority dissent more salient** at shareholder meetings

Pre-2014: Shenzhen (SZ) = Shanghai (SH): No separate disclosure of minority dissent

Post-2014: Minority (<5%) dissent becomes more salient for firms in SZ than in SH:

1. Separate disclosure of minority shareholder (<5%) **headcounts** (“**strength in numbers**”)
 - e.g., 3% dissent from 600 shareholders is more salient than from 6 shareholders
 2. “Minority (<5%) dissent” is shown **next to each proposal for SZ firms**, but only at the very end of the voting report for SH firms
- **Prediction:** **Greater threat of SHM dissent** ⇒ more MBD influence at the board stage
 - **DiD:** Shenzhen (treated) vs. Shanghai (control); Post-2014 vs. Pre-2014
 - **RDD:** “Below 5%” vs. “Above 5%” minority shareholders

DiD-RDD estimation of board tunneling proposal frequency

Board agenda ← MBD bargaining power through influence at shareholder meetings

$$RPT_{p,i,t} = \alpha + \beta_1 \left(Treat_i \times Post_t \times \%MBD_{it}^{(4\%,5\%)} \right) + \beta_2 (Treat_i \times Post_t) + \beta_3 \left(Treat_i \times \%MBD_{it}^{(a,b)} \right) + \beta_4 \left(Post_t \times \%MBD_{it}^{(a,b)} \right) + Controls + Firm FE + Industry-Year FE + \varepsilon_{p,i,t}$$

- $Treat_i$: Treat Indicator = 1 if firm is listed in **Shenzhen**; = 0 if listed in Shanghai
- $Post_t$: Post-policy Indicator = 1 for **2015-2018**; = 0 for 2011-2014
- $\%MBD_{it}^{(4\%,5\%)}$: % directors appointed by shareholders with ownership within (4%, 5%) levels

Minority blockholder power at SHMs influences board agendas

VARIABLES	RPT Indicator (1)
%MBD (5%, 6%] × Treat × Post	-3.785 (11.575)
%MBD (4%, 5%] × Treat × Post	-15.911*** (5.858)
Observations	833,586
R-squared	0.066
Mean Dep Var	6.705
Controls	Y
Firm FE & Industry × Year FE	Y

- Policy shock strengthens <5% minority shareholder voice at SHMs
- If dissatisfied at the board stage, minority blockholders can threaten SHM dissent
- This threat feeds back to the board agenda-setting stage ⇒

Minority blockholder directors can more effectively curb tunneling proposals

Minority blockholder power at SHMs influences board agendas

VARIABLES	Dependent Var= RPT Indicator	
	(1) a=4%, b=5%, c=6%	(2) a=3.5%, b=5%, c=6.5%
%MBD (b, c] × Treat × Post	-3.785 (11.575)	1.046 (10.566)
%MBD (a, b] × Treat × Post	-15.911*** (5.858)	-14.425** (5.608)
Observations	833,586	833,586
R-squared	0.066	0.066
Mean Dep Var	6.705	6.705
Controls	Y	Y
Firm FE & Industry × Year FE	Y	Y

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Two channels

The policy shock can affect board agendas through two channels:

(1) Direct shareholder-meeting threat

- Tunneling proposals that reach the SHM agenda become more costly for insiders since MBDs and other minority shareholders can publicly dissent at SHMs

(2) Broader bargaining channel

- Even when a proposal does not require SHM approval, MBDs can exert influence by opposing *other* important proposals at the SHM

Distinguishing the channels: Proposals that require vs. not require SHM approval

Tunneling proposals that do and do not need SHM approval

VARIABLES	RPT SHV		RPT NoSHV	
	a=3.5%, b=5%, c=6.5% (1)	a=4%, b=5%, c=6% (2)	a=3.5%, b=5%, c=6.5% (3)	a=4%, b=5%, c=6% (4)
%MBD (b, c] × Treat × Post	6.924 (9.397)	2.540 (10.071)	-6.296 (3.902)	-7.522* (4.329)
%MBD (a, b] × Treat × Post	-10.014** (5.042)	-11.752** (5.240)	-5.898*** (2.017)	-5.731*** (2.144)
N	817,526	817,526	793,747	793,747
R-squared	0.062	0.062	0.025	0.025
Mean Dep Var	4.873	4.873	2.023	2.023
SD Dep Var	21.531	21.531	14.080	14.080
Firm FE & Industry × Year FE	Y	Y	Y	Y

- **Proposals need SHM approval:** (1) Broader bargaining + (2) Direct SHM threat
- **Proposals do not need SHM approval:** (1) Broader bargaining

What happens at SHMs after MBD board dissent?

RPT needs SHM approval

- Shareholder attendance rises
- Proposal is more likely to be dropped/revised
- Support for the focal RPT proposal falls
- Support for **other** proposals in that SHM falls

Direct SHM threat is credible

Board-only RPT

- Support for **other** proposals at future SHMs falls

Cross-proposal threat is credible

- Other proposals:
 - all projects (RPT or non-RPT)
 - annual report
 - board performance reports

Conclusions

- Studying board or shareholder votes alone miss the **boardroom-shareholder meeting interaction** and its influence on **board agenda-setting**
 - **Stronger minority shareholder voice at SHMs improves board agendas**
 - MBDs connect board decision-making to shareholder meeting power, feeding shareholder pressure back to board agenda-setting
- ⇒ **Board representation may not reflect MBD effective power** when decisions span multiple stages: SHM voting threats amplify MBD influence beyond their board seat share

Key takeaway: Governance operates through the full decision chain
– from board agenda-setting, to board voting, to shareholder voting