

Seminar series

## Securities markets: trends, risks and policies

### Retail shareholder participation in the proxy process: monitoring, engagement, and voting

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2020, 25 November - 03:00 pm (CET)

#### Abstract:

We study retail shareholder voting using a detailed and nearly universal sample of anonymized retail shareholder voting records over the period 2015–2017. Contrary to public perception, we find that retail shareholders are an influential voting bloc, affecting as many proposal outcomes as the Big Three asset management firms despite lower voting participation and less uniform voting. Consistent with a monitoring role, retail voters are more likely to turn out for the securities in their portfolio that have underperformed, for ballots that include contested proposals, and for firms comprising the largest stakes in their portfolio. Retail shareholders with large stock portfolios and low opportunity costs are most likely to turn out. In regards to retail voting decisions, we find high sensitivity to recent poor performance, but far lower sensitivity to ISS recommendations than that of large mutual funds. Retail shareholders can be divided into two blocs. The first are highly influential large stakeholders, who turn out at high rates and strongly oppose shareholder proposals. The second are the more populous small stakeholders, who turn out at lower rates and show higher support for shareholder proposals. Retail shareholders are more influential at smaller firms, where they hold a larger proportionate share, their turnout is higher, and their support for management is lower. Our evidence provides support for the idea that retail shareholders can and do utilize their voting power as a means to monitor firms and communicate with incumbent boards and managements.

**Keywords:** Retail Voting, Shareholder Proposal, Proxy Advisory Firm, Corporate Governance

**JEL Classification:** G11, G18, G23, G34, G38

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