

Grant Proposal: The International Determinants of Shareholder Disagreement

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1 Abstract

The effect of disagreement between managers and shareholders is an issue that has been consistently studied in the corporate finance literature. However, much less is known about the effects of disagreement between different shareholders. Shareholder disagreement can have an important impact on a firm's policies, since it will potentially determine whether firms merge, how they compensate the firm's executives, and whether they choose to make large acquisitions. In other words, understanding the effects of disagreement is fundamental to determine how corporations make capital-investment and financial decisions. At the same time, there is little macroeconomic research on the interplay between shareholder disagreement and investment.

In this paper, we uncover a novel relationship between the progressivity of dividend taxes and shareholder disagreement and our aim is to study the effects of this type of disagreement on the firm's capital-investment decisions. In particular, using US shareholder voting data from the Institutional Shareholder Services, we first establish compelling evidence of a link between a decrease over time in the US dividend tax progressivity and an accompanying decrease in shareholder disagreement. However, we would like to go a step forward by establishing whether that relationship also holds in other countries as well as by studying the impact of such a change in the level of disagreement.

If awarded, the grant money will allow us to purchase the international ISS shareholder voting dataset. This will be particularly useful, since we currently work only with data from the US in which the dividend tax schedule has been essentially flat for two decades due to the 2003 Bush tax reforms. Given this, there is limited variation in the US data to study the relationship in question. In contrast, the international dataset will allow us to create a panel with much greater variation in dividend tax progressivity over time that in order to validate our original findings.

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