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Abstract

Manager incentives are viewed as being better aligned with those of shareholders when they have an ownership stake in the firms they manage. However, manager ownership can exacerbate agency problems by better enabling managers to pass shareholder resolutions. We outline a model of strategic shareholder voting that allows outside shareholders to mitigate the influence of insiders. Consistent with our model, we find empirical support for strategic voting by outside shareholders and that strategic voting is more apparent when management-sponsored proposals are controversial or complex, when votes are close, or when other agency risks are greater.

JEL classification: D72, G34

Keywords: shareholder voting, strategic voting, insider ownership, management proposals

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