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Equity issuances and agency costs: The telling story of shareholder approval around the world*

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Abstract

Mandatory shareholder approval of equity issuances varies across and within countries. When shareholders approve issuances, average announcement returns are positive. When managers issue stock without shareholder approval, returns are negative and 4% lower. The closer the vote is to the issuance or the greater is the required plurality, the higher are the returns for public offers, rights offers, and private placements. When shareholder approval is required, rights offers predominate. When managers may issue stock without shareholder approval, public offers predominate. These findings suggest that agency problems affect equity issuances and challenge existing adverse selection, market timing, and signaling explanations.

JEL classification: G32, G14, G15

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