

## **Disclosure and Shareholder Voting: Evidence from India\***

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# **Disclosure and Shareholder Voting: Evidence from India**

## **Abstract**

In India, the Companies Act of 2013 required material related party transactions (RPTs) be subject to shareholder voting and approval. The regulators intention was to reduce wealth expropriating RPTs and protect the minority shareholders' interest. Prior to voting, companies usually disclose information about proposed RPTs. We examine whether the readability and tone of the RPT disclosure affect shareholder voting on such transactions. We find that while readability is not related to voting outcomes, the tone of the disclosure is positively related to both the percentage of investors voting on the resolution and the percentage of institutional investors voting in favour of the resolution. However, the tone of disclosure is not related to future profitability and the market reactions to the passed resolutions in the short window around voting are negatively related to the tone of the disclosure. The evidence suggests that firms could use the tone of RPT disclosure to influence investors' voting decisions, but the market can unravel and react negatively to the tone management.

*JEL Classification:* G34, G38, M40

*Key words:* Disclosure, shareholder voting, related party transactions; corporate governance, India

## 1. Introduction

Shareholder participation plays an important role in corporate governance, and recent studies show that granting shareholder voting power deters value-destroying corporate actions, such as equity issuance (Chen, Ke and Yang 2013), mergers and acquisitions (Becht, Polo and Rossi 2016) and related party transactions (Li 2018). Around the world, laws and regulations have made shareholder voting mandatory and binding for some important corporate decisions (Iliev et al. 2015). However, it is unclear how investors make voting decisions and what information can help them make an informed decision to support or veto a proposal. In an extreme case where no information on a proposal is provided, it is unlikely that shareholders will be able to vote to maximize firm value. Therefore, Djankov et al. (2008) suggest that mandatory shareholder approval combined with disclosure transparency can have a first-order effect in curbing agency problems and expropriating corporate decisions. In this study, we use a unique setting in India to investigate whether information disclosure on proposed related party transactions (RPTs) affects shareholders' voting, and whether retail investors and institutional investors use the information differently to make voting decisions.

Regulators around the world have long been concerned that corporate insiders can use RPTs to tunnel firms' resources and expropriate outside investors.<sup>1</sup> Particularly in markets where ownership is concentrated and investor protection is weak, RPTs are more likely to be misused for wealth expropriation and thus present a challenge to regulators. One approach taken by regulators in India is to make all material RPTs subject to shareholder approval before they can be executed. Specifically, in 2013, India adopted the new Companies Act that requires material related party transactions (RPTs) to be approved by disinterested shareholders. Accordingly, the Securities and exchange Board of India (SEBI) made a rule in the revised

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<sup>1</sup> Expropriating RPTs can take many forms, such as purchasing goods and service from related parties at prices significantly higher than those in fair transactions, granting corporate loans to controlling shareholders or executives that carry no interest or penalty for non-payment, using corporate assets as a collateral to guarantee insiders' loans from banks or other parties, leasing corporate assets to related parties at minimal cost, etc.

listing agreement specifying that if a firm's total amount of RPTs with an individual party in a financial year is expected to exceed 10% of the firm's most recent total revenue, then the RPTs with the party will be classified as "material RPTs" and subject to voting by shareholders, and only "disinterested" shareholders who are not connected to the related party can vote. The rule aims to deter expropriating RPTs while retaining legitimate and value increasing RPTs. Li (2018) shows that the mandatory shareholder voting led to a significant decrease in the volume of RPTs and 7.78% of RPT proposals failed to pass in 2014 and 2015. Before the voting, companies usually disclose the information about the RPTs to shareholders, through postal ballot notices or public announcements. We hand collect the postal ballot notices and announcements to examine whether the qualitative disclosure of RPTs is related to investors' voting decisions.

*Ex ante*, it is unclear whether the disclosure will affect investors' voting decisions. One scenario is that because the mandatory voting deters expropriating RPTs (Li 2018), insiders will only put the legitimate RPTs to vote, and disclosure is only a sideshow to meet regulatory requirement. In this case, RPT resolutions will pass regardless of the quality of disclosure. The result in Li (2018) that 7.78% RPT resolutions are vetoed suggests that there is a variation in voting outcomes and disclosure may play a role. Another scenario is that, because shareholders may perceive opaque disclosure as a signal of problematic RPTs, more transparent disclosure will be related to more shareholders voting in favour of the RPT resolutions, as transparency indicates quality of RPTs. The third scenario is that, firms could intentionally use optimistic language to manage investors' expectations about the RPTs, leading to a positive association between the tone of the disclosure and investors' support for the RPTs. However, if investors can properly understand and undo the tone management, the tone of the disclosure may not relate to investors' voting decisions. Furthermore, if the tone of disclosure reflects insiders' positive information about increases in future profits and cash flows resulting from value

increasing RPTs, a more positive tone of disclosure will be associated with more investor support for the RPTs. Finally, the above discussion relies on the assumption that shareholders will carefully read the information disclosure on RPTs and make voting decision accordingly. Prior studies show that institutional investors and retail investors differ significantly in their ability to acquire and process information. Therefore, the effect of disclosure on shareholders' voting decisions may also differ between institutional and retail investors.

Using textual information from disclosure on RPTs in the period from 2014 to 2018, we construct two measures of information disclosure on RPTs. One is the fog index, capturing the readability of the disclosure. The other is the tone of the disclosure, calculated as the difference between the numbers of optimistic words and pessimistic words, scaled by the total number of words in the disclosure. Over the sample period, we find that the average tone of the RPT disclosure is stable, but the average fog index increases, suggesting that readability of the disclosure is worsening. On average, 44.28% of eligible shareholders cast votes on a RPT resolution,<sup>2</sup> and the participation rate is much higher for institutions (69.56%) than retail investors (21.04%) of retail investors. The evidence suggests that RPT resolutions are of significant interest to shareholders and draw significant attention from shareholders. 99% of RPT resolutions are passed, and on average, 91.43% of participating institutions vote in favour of the resolutions while 96.68% participating retail investors vote to support the resolutions.

We begin with an analysis of the association between information disclosure of RPTs and investors' participation in the voting on the RPT resolutions. The results from multivariate regressions show that the fog index is not related to the percentage of eligible investors, both institutional and retail, who cast their votes on the RPT resolution. However, we find some weak evidence that the tone of the disclosure is positively related to the participation rate by

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<sup>2</sup> These percentages are calculated based on the number of shares, rather than the number of investors. Relevant percentages are defined in the same way in the rest of the paper.

investors. The evidence seems to suggest that a more positive tone could elicit more shareholder interest in voting.

Examining the voting decisions, we find that the fog index is not related to the percentage of voting shareholders who vote in favour of the RPT resolutions, suggesting that the readability of RPT disclosure does not seem to affect investors' voting decisions. In contrast, we find a positive and statistically significant association between the tone of RPT disclosure and the percentage of shares voted in favour of the RPT resolutions. This positive association is driven by votes casted by institutional investors. For retail investors, the tone of disclosure is not related to their shares casted to support the resolutions. The evidence suggests that tone of disclosure has some impact on the voting decision of institutional investors and that a more positive tone is related to more support from institutional investors on the RPT resolutions. However, we don't find that the tone of the disclosure is related to the probability that the RPT resolution is passed, likely because only 1% of RPT resolutions are vetoed and thus there is little variation in voting outcomes.

We proceed to investigate whether the positive association between the tone of the disclosure and institutional investors' support of the resolution is driven by the tone management or the positive information of the managers. To differentiate these two potential explanations, we first examine whether the tone of disclosure is related to future profitability of the firms. If the positive tone reflects managers' positive information, we expect the tone to be positively related to future profitability. Alternatively, since the tone is about the proposed RPTs, RPTs with a more positive tone could reflect managers' optimistic forecasts on the positive effect of the RPTs on future performance, suggesting that future profitability could be positively related to the interaction term between RPTs and the tone. Using ROA in year  $t+1$  to measure future profitability, we find neither the tone itself nor the interaction term between

the tone and RPTs are positively related to future profitability. The evidence suggests that the tone of disclosure does not seem to have any information content about future profitability.

Then we examine the market reactions to the voting outcomes of RPTs resolutions. Because vetoed RPT resolutions could be fundamentally different from passed ones, we focus on passed resolutions in the test. To provide clean evidence, we only examine the dates with only one resolution being voted. Using cumulative market-adjusted returns to measure market reactions, we find that the tone of RPT disclosure is negatively related to market reactions and this association is statistically significant at 1% level. This result is obtained after we control for the amount of RPT and a number of firm characteristics. The evidence suggests that investors do not perceive a positive tone to be a positive signal about future performance. Instead, investors seem to react more negatively to a positive tone of the RPT disclosure, implying they are able to unravel the tone management.

Our study contributes to the literature in two ways. First, we contribute to the literature on shareholder voting by examining the role of disclosure. While prior studies find that granting shareholder voting power deters value-destroying corporate actions and improves firm value (e.g., Chen, Ke and Yang 2013; Becht, Polo and Rossi 2016; Li 2018), we are the first one to examine the effect of information disclosure on shareholders' voting decisions. As Djankov et al., (2008) suggest, mandatory shareholder approval must work together with disclosure transparency to be effective in constraining expropriation by controlling shareholders and corporate insiders. Our results show that information disclosure does have some effect on shareholders' voting decisions and particularly the tone of disclosure seems to be related to more shareholders participating in the voting and voting in favour of the resolution. This result is important for regulators and shareholders, as our analysis suggests that the tone of the disclosure could be managed by corporate insiders to obtain the voting outcomes that they desire.

Second, we contribute to the literature on the effect of the regulation on RPTs. While many RPTs are legitimate transactions that facilitate firms' operations, corporate insiders can structure RPTs to tunnel firms' assets. This is particularly a concern in emerging markets such as India where investor protection is relatively weak and controlling shareholders and promoters have the control of the firm. Around the world, regulators take different approaches to curb expropriating RPTs while retaining legitimate ones. For example, in the US, SEC required firms to disclose the approval process of RPTs in annual report since 2006, which reduced RPT volume and firms' cost of capital (Hope and Lu 2019). In China, it took joint enforcement actions by eight ministries to constrain rampant RPTs in the forms of loans to executives (Jiang et al. 2010). In India, the 2013 Securities Act and the rule issued by SEBI empower shareholders to vote on RPTs, which deter expropriating RPTs (Li 2018). Our results show that the regulation also has some unintended effects, such as decrease in the readability of disclosure over time and tone management to influence voting outcomes. These results provide some warning to regulators and investors when examining firms' RPT disclosure before voting takes place.

The remainder of the paper proceeds as follows. Section 2 discusses institutional background and related studies. We describe the sample and data in Section 3, and report the empirical results in Section 4. Section 5 concludes.

## **2. Institutional Background and Related Studies**

### *2.1 Institutional background*

RPTs usually refers transactions between a firm and a party, either an individual or an equity, that has connections with the directors or managers of the firm. While many RPTs are legitimate and help facilitate firms' operations by reducing transaction costs, it has long been a concern to outside investors and regulators around that world that RPTs can be misused by



corporate insiders and controlling shareholders to expropriate firms' resources. Particularly in emerging markets including China and India, due to the concentrated ownership, lax law enforcement, and weak investor protection, there is a high risk that RPTs are structured by insiders to tunnel firms' assets. In India, before 2013, RPTs were subject to regulations including Clause 49 of the Listing Agreement issued by SEBI and accounting standard AS-18. Clause 49 required firms to submit RPTs to audit committees for review and approval. AS-18 required firms to disclose in the footnote of financial statements information about RPTs such as the nature of relationship and the amount of transactions with each related party. However, these regulation did not seem to effective constrain abusive RPTs in India. Srinivasan (2013) finds that RPTs were widespread and firms with high RPTs reported lower performance over the period from 2009 to 2011, suggesting expropriating RPTs undermine firm performance at the cost of outside investors. The problems of RPTs in India are highlighted in the Satyam scandal in 2008 when the large shareholder of Satyam Computers, Ramalinga Raju, intended to transfer USD 1.6 billion from Satyam Computers to two firms that under his control. Later investigation found that Satyam also engaged in accounting fraud and over-stated its cash balance by over USD 1 billion.

In 2013, India adopted the new Companies Act which requires RPTs that are not an arm's length basis to be approved by the board of directors.<sup>3</sup> And if the amount of RPTs exceed a prescribed amount, then shareholders' approval is required. SEBI followed with the new Listing Obligations and Disclosure Requirements, which provide more detailed guidance on RPTs. Specifically, Section 23 states that all RPTs require prior approval of audit committees, and all material RPTs required approval of shareholders through resolution and the related parties shall abstain from voting on such resolutions. It also states that "A transaction with a

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<sup>3</sup> The Companies Act 2013 was a major reform of the regulation and set rules on many other issues such as mandatory auditor rotation, female directors, managerial compensation, and expenditure on corporate social responsibility activities.

related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.”<sup>4</sup>

Li (2018) finds that after 2013 there is a significant decrease in material RPTs and the association between RPTs and future profitability becomes stronger, suggesting that the mandatory voting may deter expropriating RPTs and retain value increasing RPTs. The decreases in material RPTs are also related to an increase in foreign institutional ownership, suggesting that the voting rule help reduce foreign investors’ concern of being expropriated by corporate insiders.

## *2.2 Related studies*

Our study related to three streams of literature in accounting and finance. The first stream of research examines the effect of corporate disclosure on investors’ decision making. Particularly relevant are those studies on textual analysis of corporate disclosure, as surveyed by Li (2010) and Loughram and McDonald (2016). These studies show that readability and tone of disclosure could affect investors’ reactions to corporate disclosure. For example, Miller (2010) finds that retail investors trade significantly less around 10K filing dates when firms annual reports are less readable, suggesting less readable annual reports are harder to process, especially for small investors. In an experimental setting, Rennekamp (2012) finds that more readable disclosures are associated with stronger reactions for both good and bad news among participants. Firms may intentionally make the annual reports unreadable to hide adverse information (Kim et al. 2019), or have to use complex language to explain poor performance (Bloomfield 2008; Li 2008). Recently, Ganguly et al. (2019) show that decreases in litigation risk are followed by improvement in readability of annual reports, suggesting that firms may use complex disclosure to decrease litigation risk.

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<sup>4</sup> Appendix A reproduce the Section 23 of the Listing Obligations and Disclosure Requirements Regulations, as well as the definition of related parties in the Companies Act 2013.

Tone is another textual characteristic of disclosure. Li (2010) show that the tone of forward looking statements in the Management Discussion and Analysis section of 10-K and 10-Q filings is positively associated with future earnings, suggesting that the tone may reflect managers' positive information about future performance. However, Huang et al. (2014) argue that firms may manage the tone of disclosure to influence investors' expectations. Examining earnings press releases, the authors find that abnormal positive tone of the releases predicts negative future earnings and cash flows, implying that managers use tone management to mislead investors. Furthermore, Rogers et al. (2011) find a positive association between disclosure tone and shareholder litigation, suggesting optimistic language increases litigation risk.

The second stream of relevant literature examines shareholder voting around the world and generally finds that mandatory shareholder voting improves the quality of corporate decisions and firm value. For example, Chen et al. (2013) find that a regulation in China that grants minority shareholders' greater power to veto a proposal results in significant improvements in proposals put forward by controlling shareholders. Becht et al. (2016) show that in UK after a regulation mandates large mergers and acquisitions to be subject to shareholder approval, the quality of acquisition significant improves. In India, Li (2018) shows that after the Companies Act 2013 requires material RPTs to be approved by disinterested shareholders, the RPTs decrease and the association of RPTs and future profitability improves.

The third stream of literature examines RPTs, which could be used legitimately to reduce transaction costs and facilitate corporate operations, or be abused by corporate insiders to expropriate outside investors. While misuse of RPT for expropriating purpose seems more prevalent in countries with weak investor protection such as China and India (Bertrand et al 2002; Jiang et al 2010), expropriate RPTs also exists in developed markets. For example, Kohlbeck and Mayhew (2017) find that US firms with more RPTs are more likely to restate

their financial statements in the future, suggesting earnings management to camouflage expropriating RPTs. Hope and Lu (2019) show that after a SEC regulation in 2006 that requires US firms to disclose governance policies on RPTs, there is a significant decrease in RPTs, implying the governance disclosure deters expropriating RPTs. Kohlbeck and Mayhew (2010) find that US firms with RPTs have significantly lower market valuations, consistent with expropriating RPTs decreasing firm value.

Regulators around the world take different approaches to curb expropriating RPTs. In the US, except the mandatory disclosure on governance policies on RPTs, regulators seem to leave the issue to the board of directors to decide and hope the board, under the press of shareholders, will make the right decisions on RPTs. In China, the governments launched joint actions to curb expropriating RPTs, and issue regulation that RPTs (and many other important corporate decisions) must be approved by shareholders. In India, the Companies 2013 and subsequent SEBI Listing Obligations and Disclosure Requirements mandate material RPTs to be subject of shareholder approval and only disinterested shareholders can vote. While shareholder voting seems to be an effective way to curb expropriating RPTs, there are several concerns. One concern is that it is unclear that shareholders will actively vote on the RPT resolutions, given the well-documented investor apathy in voting and corporate governance in general. Another concern is that shareholders may not have sufficient information and expertise to differentiate legitimate and expropriating RPTs, leading to uninformed voting decisions. This concern is particularly relevant since corporate insiders may manage the disclosure of RPT information to mislead shareholders.

### **3. Sample and Data**

Our tests require information on RPT resolutions. We hand-collect resolution related information from IIAS Adrian. IIAS is an advisory firm which examines corporate resolutions

and provides voting recommendations to institutional investors. Their product, Adrian, provides detailed information on all shareholder resolutions including postal ballot notice, voting recommendation, and voting outcome. We hand-collect postal ballot notices and voting outcome from Adrian. The voting outcome details include information on total number of shares held, number of votes polled, number of votes in favour, number of votes against, separately for institutional shareholders and non-institutional (retail) shareholders. We analyse the content of disclosures on RPTs that are subject to shareholder voting. When there are multiple resolutions to be passed in a single meeting, companies make separate disclosure for each resolution. We thus treat each resolution as a separate observation. Using Python program, we follow the literature (e.g. Li 2008) to calculate gunning-fog index, which measures the readability of the disclosure. We use the financial dictionary from Loughran and McDonald (2011) to identify optimistic and pessimistic words in the disclosure. We define the tone of disclosure as the number of optimistic words minus the number of pessimistic words, scaled by the total number of words in the disclosure.<sup>5</sup>

Finally, we collect accounting and stock return data from Prowessdx. We merge IIAS data and Prowessdx data using company names. Our final sample has 663 unique resolutions from 491 unique meetings for 278 unique firms during 2014 to 2018. We lose some observations in regression analyses due to missing values for some control variables.

Table 1 reports the descriptive statistics of the variables. The first two rows show that on average, 44.28% of eligible retail and institutional investors cast votes on RPT resolutions, and 94.84% of votes are in favour of the resolution. Comparing retail investors and institutional investors, we find that 69.43% of eligible institutions vote and 91.43% votes support the

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<sup>5</sup> The tone measures calculated simply using word counts could have measurement error. Loughran and McDonald (2011) propose a term weighting scheme that assigns a weight to each word depending upon the frequency of that word in the same document and the commonality of that word in the entire corpus. They argue that this scheme can reduce the noise in the measurement of tone and recommend it for creating word counts. In a robustness test, we calculate tone of disclosures using the term weighting scheme from Loughran and McDonald (2011) and find similar results as those reported in the tables.

resolution, while only 21.04% of eligible retail investors vote and 96.68% retail votes are in favour of the resolution. The results are consistent with those from the US where institutions are more active in voting than retail investors and majority of shareholders' votes are in favour of resolutions (e.g., Cai et al. 2009; Fischer et al. 2009).

[Insert Table 1 about here]

The fog index has a mean of 26.59 and a median of 21.49, suggesting the RPT disclosure is less readable than a typical 10K filings in the US that has a gunning fox index value of about 20, as reported by Ganguly et al. (2019). The average tone of RPT disclosures is negative, suggesting that there are more negative words than positive words in the disclosures. A median RPT disclosure has 349 words and 12 sentences.

For 18% of RPT resolutions, ballot paper was posted to shareholders. 37% of RPT resolutions are special resolutions voted outside of annual general meetings. 99% of RPT resolutions are approved by shareholders, although only 81% of RPT resolutions receive a favourable recommendation from IIAS. The mean (median) value of proposed RPT is 185.88 (66) million Indian rupee, accounting for 65% (7%) of total assets. A median firm in the sample has a ROA of 5%, a market-to-book ratio of 3.38, 5 independent directors, and 12 directors in total in the board.

In Table 2, we report the statistics of key variable for each year. There are 32 RPT resolutions from 25 firms in 2014, much less than other years in the sample. One possible reason is 2014 is the first year in which the Companies Act 2013 was implemented and there was confusion on the details of the new voting requirements, leading to firms taking a wait-and-see approach until 2015 when SEBI issued more detailed guidance on RPTs. The total participation by eligible shareholders in voting have been consistently above 40% and over 90% of votes are in favour of resolution each year. However, over time, the percentage of resolutions receiving favorable IIAS recommendation is decreasing from 94% in 2014 to 74% in 2018.

Similarly, the percentage of institutions voting in favour of resolutions decreases from 96.54% in 2014 to 87.45% in 2018. The evidence suggests that both IAS and institutional investors have been increasingly scrutinizing material RPT resolutions. Furthermore, the fog index increases over time, suggesting that RPT disclosures become less readable. The tone of the disclosures remains relative stable in the sample period.

[Insert Table 2 about here]

## **4. Empirical Results**

### *4.1 Disclosure and shareholder voting*

Our first analysis examines whether the textual characteristics of RPT disclosure are related to shareholders' participation in the voting. It is well documented that minority shareholders, particularly retail investors, do not actively participate in corporate governance and voting. For example, a report issued by Broadridge Financial Solutions Inc. and PwC's Center for Board Governance shows that less than 30% of retail shareholders vote while about 90% institutional investors vote in proxy voting in the US.<sup>6</sup> Cai and He (2019) show that only 4.1% of minority shareholders in China cast votes on important corporate resolutions. There are many reasons for the lack of shareholder participation in voting, including the financial and time cost of voting, the slim chance to veto a proposal, options to free ride, and voting by feet, etc.

*Ex ante*, it is unclear whether RPT disclosure affects shareholders' participation in voting. On one hand, opaque RPT disclosure could signal problematic RPTs, eliciting more shareholders participation to veto the resolution. On the other hand, the disclosure could have no effect on shareholders' participation, as retail investors do not actively participate anyway.

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<sup>6</sup> The summary of the report is available here: <https://www.broadridge.com/press-release/2013/broadridge-and-pwc-announce-new-data-on-2013-proxy-voting-trends>.

We thus empirically examine this question by regressing the participation rate of shareholders on the textual measures of RPT disclosure, after controlling for a number of firm characteristics. Because the participate rates, defined as the number of shares owned by voting shareholders divided by the number of shares owned by shareholders who are eligible to vote, range from 0 to 1, we use the Tobit model to estimate the regressions and report the results in Table 3.

The results in Columns (1) to (3) show that the fog index is not related to shareholders' participation rates, suggesting that readability of RPT disclosure does not seem to affect shareholders' participation in voting. Column (1) shows that the tone of RPT disclosure is positively related to the participation rate of all eligible shareholders, and the estimated coefficient is statistically significant at 10% level. This result suggests that a more positive tone of disclosure could elicit more shareholders' participation. However, the association between the tone and shareholders' participation becomes statistically insignificant in Columns (2) and (3) when we separately examine the participation rates of retail investors and institutional investors.

[Insert Table 3 about here]

For the control variables, we find that shareholders' participation rates are negatively related to the ownership by promoters (controlling shareholders). Shareholders participate more actively in voting when firms are larger and more profitable, and when the ballot paper is posted to shareholders. These results are consistent with findings in prior studies. The size of proposed RPTs does not seem to affect shareholders' participation. The participation rate is lower for firms with more independent directors, suggesting that shareholders likely trust the independent board not to put expropriating RPTs to voting. Shareholders' participation rates are also lower when IAS recommends shareholders to support the RPT resolutions, implying that external verification by IAS may reduce shareholders' incentive to vote and voice against expropriating RPTs.



In Table 4, we examine whether RPT disclosures affect shareholders' voting decisions. The dependent variables in Tobit regressions are the percentage of investors in favour of the resolution, calculated as the number of shares owned by shareholders who vote in favour of the resolution divided by the number of shares owned by shareholders who cast votes. We also include a number of firm characteristics and year fixed effects in the regressions.

The results show that the fog index does not relate to the voting decisions of shareholders, suggesting that the readability of RPT disclosures does not have an impact.<sup>7</sup> However, the tone of the disclosure is positively related to shareholders' support of the resolutions, as Column (1) shows. The result in Columns (2) and (3) show that the positive association between the tone of disclosure and shareholders' support is driven by institutional investors. The estimated coefficient in Column (3) suggests that one standard deviation increase in the tone of disclosure is related to 4.1 percentage points increase in institutional investors' support for the resolution.

[Insert Table 4 about here]

Regarding control variables, we find institutional shareholder support is higher when IAS recommends shareholders to approve the RPTs. While institutional shareholders' support is lower for larger firms, retail investors show more support for larger firms. The evidence suggests that institutional investors and retail investors may have different information or different ways to make voting decisions. Interestingly, firms with more independent directors have a lower support from institutional investors on their RPT resolutions.

In Table 5, we examine whether the textual characteristics of RPT disclosure are related to the probability of the resolution being passed in shareholder voting. One difficulty in this test is that only about 1% of resolutions are vetoed by shareholders, leaving little variation in the

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<sup>7</sup> The insignificant coefficients of the Fog index in Tables 3 and 4 could be driven by the measurement error. In a robustness test, we use alternative measures of readability, including Smog Index and Flesch Reading Score, to redo the tests. However, the coefficients remain insignificant for both alternative measures.

voting outcomes. Possibly for this reason, the results in Table 5 show that both the fog index nor the tone of disclosure is positively related to the resolution being passed. However, both coefficients are not statistically significant.

[Insert Table 5 about here]

For control variables, we find that shareholders are more likely to approve resolutions with a larger RPT and a positive recommendation from IIAS. The probability of the RPT resolution to be passed is higher for firms with promoters holding a larger ownership but lower for firms with a more independent board.

#### *4.2 Disclosure, future profitability and market reactions*

We have found evidence that the tone of RPT disclosure is positively related to shareholders' support for the RPT resolution. This result could suggest that a more positive tone signals that managers are more optimistic about the future benefits brought by the proposed RPTs. However, it could also be driven by managers' tone management to use positive tone to influence shareholders' voting decisions. To provide further evidence to differentiate these two conflicting explanations, we conduct two additional tests. In the first test, we examine the association between the tone of RPT disclosures and future profitability of the firm. The rationale is that, if a positive tone reflects managers' positive private information, then we would expect the positive tone predicts higher future profitability. Alternatively, since the tone is about the proposed RPTs, a positive tone could suggest that managers expect the proposed RPTs will significantly improve firms' performance in the future, leading to a stronger association between RPTs and future profitability for RPT disclosures with a more positive tone. In contrast, if the positive tone is due to tone management, we would expect the tone is not related to future profitability, either directly or indirectly through the association between RPTs and future profitability.

To test these predictions, we regress return-on-assets in year  $t+1$  ( $ROA_{t+1}$ ) on the two measures of textual characteristics of RPT disclosures. We also include the interaction term between the amount of RPTs and the textual measures in the regression to examine the indirect effect of disclosure. Control variables include ROA in year  $t$ , the amount of RPT, total assets and the market-to-book ratio. We include year and industry fixed effects in the regressions.

Table 6 reports the results from the OLS regressions. Columns (1) and (2) show that neither the fog index nor the interaction term between the fog index and RPT have statistically significant coefficients, suggesting the readability of RPT disclosures is not related to future profitability. Columns (3) and (4) examine the tone of the RPT disclosures and show that both the tone and the interaction term between the tone and RPT have negative, rather than positive, coefficients, although the coefficients are not statistically significant. In Column (6), we put both the fog index and the tone and their interaction terms in one regression, and results remain unchanged. Taken together, the results in Table 6 do not support the view that a more positive tone of RPT disclosure reflects managers' positive information about the proposed RPTs. Instead, the results show that the tone is not related to future profitability, which is consistent with the view that a positive tone of RPT disclosures could result from managers managing the tone to influence shareholders' voting decisions.

[Insert Table 6 about here]

The second test examines market reactions to the passage of RPT resolutions in the short windows around the voting date. Firms are required to publicly disclose the voting outcomes within 48 hours after voting is completed. Accordingly, we choose an event window of  $[-3, 3]$  that set the voting date as day  $-2$ . We calculate cumulative market-adjusted stock returns in these two event windows, using the returns of Sensex index in Bombay Stock Exchange as a proxy for market returns. Many RPT resolutions are voted on the same day together with other resolutions, which makes it impossible to attribute the stock returns to the

voting outcome of a specific resolution. To provide clean evidence, we exclude RPT resolutions that are voted together with other resolutions on the same day and make sure nothing but one RPT resolution is voted on the day 0. Because vetoed resolutions are rare and could be fundamentally different from passed RPTs, we focus on passed RPT resolutions in this test.

Table 7 reports the results from OLS regressions. We use the decile ranking of *TONE* (Huang et al. 2014), *R\_TONE*, and *FOG* as the main independent variables. We find some weak evidence that the fog index is negatively related to market reactions, suggesting that investors on average react more negatively to less readable RPT disclosures. The tone of RPT disclosures has negative and statistically significant coefficients, suggesting that investors react more negatively to RPT disclosures with a more positive tone. To the extent that stock prices are efficient, the evidence does not support that a positive tone of RPT disclosure contains positive information. Instead, a positive tone is perceived to be negative by investors. We interpret the evidence as suggesting that the positive tone of RPT disclosure likely results from managers' tone management but investors are able to unravel and react negatively to the tone management.

[Insert Table 7 about here]

## **5. Conclusions**

Shareholder voting is an important mechanism for shareholder engagement in corporate governance and regulators around the world have required shareholder voting on some important corporate decisions (Iliev et al. 2015). However, it is unclear how shareholders make the informed voting decisions. In this study, we examine whether information disclosure affects investors' voting decisions. Using data from India and focusing on RPT resolutions, we find that readability of the disclosure does not seem to affect shareholders' voting decisions, but the

tone of the disclosure is positively related to shareholders' participation in voting and institutional investors' support for the resolutions. Further analysis shows that tone of disclosures is not related to future profitability and the market reacts negatively to approved resolutions with a positive tone. The evidence suggests that the positive tone of RPT disclosure could result from managers' tone management but investors can unravel such disclosure management and subsequently react negatively to the tone management.

Our study contributes to the literature by documenting that the tone of disclosure affects shareholders' voting decisions. Our results that managers can manipulate the tone of disclosures to influence shareholder voting have important implications to regulators and shareholders around the world. Regulators need to monitor the information disclosure of RPTs to prevent firms opportunistically use the disclosure to mislead shareholders.

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## **Appendix A. Regulation on Related Party Transactions**

### **A1. SEBI Listing Obligations and Disclosure Requirements Regulations 2015**

#### **Related party transactions.**

**23. (1)** The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions:

Explanation.- A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

- (2) All related party transactions shall require prior approval of the audit committee.
- (3) Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely-
- (a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;
  - (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;
  - (c) the omnibus approval shall specify:
    - (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
    - (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and
    - (iii) such other conditions as the audit committee may deem fit:Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.
  - (d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
  - (e) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year:
- (4) All material related party transactions shall require approval of the shareholders through resolution and the related parties shall abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not.
- (5) The provisions of sub-regulations (2), (3) and (4) shall not be applicable in the following cases:
- (a) transactions entered into between two government companies;
  - (b) transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- Explanation.-For the purpose of clause (a), "government company(ies)" means Government company as defined in sub-section (45) of section 2 of the Companies Act, 2013.
- (6) The provisions of this regulation shall be applicable to all prospective transactions.



- (7) For the purpose of this regulation, all entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.
- (8) All existing material related party contracts or arrangements entered into prior to the date of notification of these regulations and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to notification of these regulations.

## **A2. Definition of a ‘related party’ in Companies Act 2013**

- (76) —related party<sup>l</sup>, with reference to a company, means—
- (i) a director or his relative;
  - (ii) a key managerial personnel or his relative;
  - (iii) a firm, in which a director, manager or his relative is a partner;
  - (iv) a private company in which a director or manager is a member or director;
  - (v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent. of its paid-up share capital;
  - (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
  - (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

- (viii) any company which is—
  - (A) a holding, subsidiary or an associate company of such company; or
  - (B) a subsidiary of a holding company to which it is also a subsidiary;
- (ix) such other person as may be prescribed;

## Appendix B. Variable Definitions

Variable Name	Description
<b>Voting variables</b>	
<i>TOTAL PARTICIPATION</i>	The number of shares owned by shareholders who participated in voting, divided by the total number of shares owned by eligible institutional and retail investors
<i>% INVESTORS IN FAVOUR</i>	The number of shares owned by shareholders who voted in favour of a resolution, divided by the number of shares owned by shareholders who participated in voting
<i>PARTICIPATION BY INSTITUTIONAL INVESTORS</i>	The number of shares owned by institutional investors who participated in voting, divided by the total number of shares owned by eligible institutional investors
<i>% INSTITUTIONAL INVESTORS IN FAVOUR</i>	The number of shares owned by institutional investors who voted in favour of a resolution, divided by the number of shares owned by institutional investors who participated in voting
<i>PARTICIPATION BY RETAIL INVESTORS</i>	The number of shares owned by retail investors who participated in voting, divided by the total number of shares owned by retail investors
<i>% RETAIL INVESTORS IN FAVOUR</i>	The number of shares owned by retail investors who voted in favour of a resolution, divided by the number of shares owned by retail investors who participated in voting
<b>Textual characteristics of resolution related disclosure:</b>	
<i>FOG</i>	Gunning fog index of the complexity of resolution related textual disclosure
<i>TOTAL SENTENCES</i>	Total number of sentences in resolution related textual disclosure
<i>TOTAL WORDS</i>	Total number of words in resolution related textual disclosure
<i>TONE</i>	Difference in the frequency of optimistic and pessimistic words scaled by the total number of words in resolution related textual disclosure. We use the financial dictionary of optimistic words and pessimistic words from Loughran and McDonald (2011)
<i>R_TONE</i>	Decile ranking of <i>TONE</i>
<b>Other variables:</b>	
<i>POSTAL BALLOT</i>	A dummy variable which is equal to 1 for Postal Ballot resolutions and 0 for AGM related resolutions
<i>SPECIAL RESOLUTION</i>	A dummy variable which is equal to 1 for special resolutions and 0 otherwise
<i>RESOLUTION_PASSED</i>	A dummy variable which is equal to 1 if a resolution was successfully passed and 0 otherwise
<i>IIAS RECOMMENDATION</i>	A dummy variable which is equal to 1 if the IIAS recommendation for a resolution was in favour and 0 otherwise
<i>RPT TRANSACTION VALUE</i>	The monetary value of RPT transaction
<i>RPT</i>	The monetary value of RPT transaction scaled by total assets
<b>Firm characteristics:</b>	
<i>LOG (ASSETS)</i>	logarithmic transformation of total assets
<i>ROA</i>	Net income scaled by total assets
<i>MB</i>	Ratio of stock price per share and book value per share
<i>SIZE</i>	logarithmic transformation of market capitalization
<i>INDEPENDENT DIRECTORS COUNT</i>	Count of independent directors in the Board of Directors
<i>DIRECTORS COUNT</i>	Total count of directors
<i>PROMOTERS HOLDING</i>	Percentage of shares held by promoters
<i>% INDEPENDENT DIRECTORS</i>	Percentage of independent directors in the Board of Directors

*ANNUAL RETURNS*

Annual returns of a stock calculated by compounding monthly abnormal returns. BSE Sensex 30 was used as a proxy for market

*STD DEV RETURNS*

Standard deviation of monthly abnormal returns for the past 12 months. BSE Sensex 30 was used as a proxy for market

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**Table 1 Descriptive Statistics**

This table reports the descriptive statistics of the variables. The unit of observation is a resolution on related party transactions which requires approval by disinterested shareholders. The initial sample includes 663 resolutions from 2014 to 2018.

<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>S.D.</b>	<b>Min</b>	<b>Q1</b>	<b>Median</b>	<b>Q3</b>	<b>Max</b>
<b>Total participation:</b>								
<i>TOTAL PARTICIPATION</i>	609	44.28	20.58	2.08	29.50	44.90	59.90	100.00
<i>% INVESTORS IN FAVOUR</i>	598	94.84	12.89	1.70	97.50	99.97	100.00	100.00
<b>Institutional investors:</b>								
<i>SHARES HELD (in millions)</i>	618	127.57	341.69	0.00	3.36	16.73	66.41	3,746.02
<i>SHARES POLLED (in millions)</i>	609	93.38	279.64	0.02	2.49	12.17	41.62	3,429.13
<i>SHARES IN FAVOUR (in millions)</i>	599	89.26	268.01	0.02	2.46	10.83	40.57	3,245.48
<i>%PARTICIPATION</i>	609	69.56	22.83	0.41	57.29	75.55	85.70	100.00
<i>% IN FAVOUR</i>	609	91.43	20.31	0.00	95.56	100.00	100.00	100.00
<b>Retail investors:</b>								
<i>SHARES HELD (in millions)</i>	621	85.74	228.58	0.00	6.42	20.86	59.12	2,521.24
<i>SHARES POLLED (in millions)</i>	621	19.28	81.73	0.00	0.15	2.61	10.68	1,134.74
<i>SHARES IN FAVOUR (in millions)</i>	620	19.17	81.67	0.00	0.14	2.49	10.64	1,131.14
<i>%PARTICIPATION</i>	619	21.04	24.12	0.01	1.59	12.27	33.21	100.00
<i>% IN FAVOUR</i>	621	96.68	12.10	0.00	99.11	99.96	100.00	100.00
<b>Textual characteristics of resolution related disclosure:</b>								
<i>FOG</i>	556	26.59	22.39	0.00	18.80	21.49	25.00	192.07
<i>TOTAL SENTENCES</i>	556	14.27	10.36	0.00	7.00	12.50	19.00	94.00
<i>TOTAL WORDS</i>	556	389.85	220.47	0.00	241.50	349.50	487.50	1,702.00
<i>TONE</i>	555	-0.21	0.58	-2.79	-0.47	-0.12	0.00	1.32
<b>Other variables:</b>								
<i>POSTAL BALLOT</i>	663	0.18	0.39	0.00	0.00	0.00	0.00	1.00
<i>SPECIAL RESOLUTION</i>	661	0.37	0.48	0.00	0.00	0.00	1.00	1.00
<i>RESOLUTION_PASSED</i>	663	0.99	0.10	0.00	1.00	1.00	1.00	1.00
<i>IIAS RECOMMENDATION</i>	660	0.81	0.39	0.00	1.00	1.00	1.00	1.00
<i>RPT TRANSACTION VALUE (in millions Rupees)</i>	569	185.88	618.62	0.20	5.00	12.60	66.00	5,393.00
<i>RPT/TOTAL ASSETS</i>	529	0.65	2.13	0.00	0.02	0.07	0.29	14.94
<b>Firm characteristics:</b>								
<i>LOG (ASSETS)</i>	615	10.19	1.65	6.13	9.21	10.01	10.85	16.18
<i>ROA</i>	615	0.05	0.09	-0.40	0.02	0.05	0.10	0.39
<i>MB</i>	581	4.56	4.54	0.34	1.88	3.58	5.82	32.67
<i>SIZE</i>	586	10.60	1.53	5.22	9.71	10.61	11.43	15.52
<i>INDEPENDENT DIRECTORS COUNT</i>	649	4.97	1.98	0.00	4.00	5.00	6.00	13.00
<i>DIRECTORS COUNT</i>	649	12.83	7.89	4.00	10.00	12.00	15.00	117.00

<i>PROMOTERS HOLDING</i>	628	57.11	14.98	0.00	49.98	60.42	68.58	88.58
<i>% INDEPENDENT DIRECTORS</i>	649	0.40	0.12	0.00	0.33	0.40	0.47	0.75
<i>ANNUAL RETURNS</i>	617	1.07	0.38	0.30	0.84	1.03	1.29	2.18
<i>STD DEV RETURNS</i>	615	0.09	0.03	0.03	0.07	0.09	0.11	0.21

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**Table 2 Statistics of Key Variables by Year**

This table presents the summary statistics of key variables for each year in the sample period from 2014 to 2018.

<b>YEAR</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<i>NUMBER OF RESOLUTIONS</i>	32	169	144	152	166
<i>NUMBER OF FIRMS</i>	25	115	103	105	118
<i>% RESOLUTIONS VETOED</i>	0.00%	1.18%	0.00%	1.32%	1.81%
<i>TOTAL PARTICIPATION (%)</i>	41.26	41.05	45.83	46.3	44.57
<i>% INVESTORS IN FAVOUR</i>	96.93	94.29	97.04	95.05	93.03
<i>PARTICIPATION BY INSTITUTIONS (%)</i>	63.05	64.85	74.65	71.62	68.78
<i>% INSTITUTIONS IN FAVOUR</i>	96.54	92.31	93.86	91.90	87.45
<i>PARTICIPATION BY RETAIL INVESTORS (%)</i>	21.68	16.46	23.60	22.46	21.82
<i>% RETAIL INVESTORS IN FAVOUR</i>	95.78	96.42	99.03	96.84	94.95
<i>IIAS RECOMMENDATION</i>	0.94	0.85	0.85	0.80	0.74
<i>FOG</i>	20.94	23.59	23.83	28.75	30.71
<i>TOTAL SENTENCES</i>	17.10	14.55	15.13	13.51	13.57
<i>TOTAL WORDS</i>	412.50	376.71	404.49	382.88	394.48
<i>TONE</i>	-0.23	-0.11	-0.23	-0.25	-0.24

**Table 3 Disclosure and Investors' Participation in Voting**

This table reports the results from Tobit regressions of investors' participation in voting on measures of information disclosure of proposed RPTs. The unit of observation is a RPT resolution which requires approval by disinterested shareholders. Dependent variables are the percentage of eligible shareholders who cast vote on the RPT resolution. Variables are defined in Appendix B. \*\*\*, \*\* and \* indicate the estimated coefficients are statistically significant at 1%, 5% and 10% level, respectively, based on two-tailed tests.

Variables	<i>TOTAL PARTICIPATION</i> (1)	<i>PARTICIPATION BY RETAIL INVESTORS</i> (2)	<i>PARTICIPATION BY INSTITUTIONAL INVESTORS</i> (3)
<i>FOG</i>	-0.036 [-0.539]	-0.086 [-1.031]	0.037 [0.511]
<i>TONE</i>	3.393* [1.837]	-2.089 [-0.916]	1.394 [0.687]
<i>RPT</i>	0.149 [0.300]	-0.324 [-0.524]	0.297 [0.539]
<i>PROMOTERS HOLDING</i>	-0.138* [-1.830]	-0.204** [-2.183]	-0.142* [-1.713]
<i>SPECIAL RESOLUTION</i>	1.960 [0.644]	1.356 [0.373]	-3.125 [-0.936]
<i>POSTAL BALLOT</i>	6.841** [1.990]	-1.799 [-0.421]	4.303 [1.139]
<i>IIAS RECOMMENDATION</i>	-4.249 [-1.382]	-0.552 [-0.144]	-10.419*** [-3.087]
<i>ROA</i>	58.343*** [3.021]	11.579 [0.484]	40.886* [1.928]
<i>LOG (ASSETS)</i>	4.533*** [5.532]	0.296 [0.295]	-1.028 [-1.142]
<i>MB</i>	0.196 [0.745]	-0.719** [-2.206]	0.204 [0.705]
<i>ANNUAL RETURNS</i>	-1.965 [-0.604]	-4.139 [-1.044]	-4.581 [-1.282]
<i>STD DEV RETURNS</i>	-49.630 [-1.344]	37.480 [0.822]	-13.302 [-0.328]
<i>% INDEPENDENT DIRECTORS</i>	-21.312** [-2.233]	-3.639 [-0.309]	-43.826*** [-4.172]
Year FE	YES	YES	YES
Observations	346	354	346

**Table 4 Disclosure and Investor Support of Resolutions**

This table reports the results from Tobit regressions of investors' voting on measures of information disclosure of proposed RPTs. The unit of observation is a RPT resolution which requires approval by disinterested shareholders. Dependent variables are the percentage of shareholders who vote in favour of the RPT resolution. Variables are defined in Appendix B. \*\*\*, \*\* and \* indicate the estimated coefficients are statistically significant at 1%, 5% and 10% level, respectively, based on two-tailed tests.

	<i>% INVESTORS IN FAVOUR</i> (1)	<i>% RETAIL INVESTORS IN FAVOUR</i> (2)	<i>% INSTITUTIONAL INVESTORS IN FAVOUR</i> (3)
<i>FOG</i>	0.065 [1.639]	-0.036 [-0.900]	0.123 [1.223]
<i>TONE</i>	2.406* [1.966]	-0.238 [-0.189]	7.063** [2.104]
<i>RPT</i>	0.186 [0.558]	-0.082 [-0.242]	0.564 [0.512]
<i>PROMOTERS HOLDING</i>	-0.024 [-0.477]	-0.029 [-0.556]	-0.107 [-0.789]
<i>IIAS RECOMMENDATION</i>	11.403*** [5.586]	-0.786 [-0.361]	32.823*** [6.232]
<i>SPECIAL RESOLUTION</i>	-1.611 [-0.802]	2.654 [1.298]	-1.551 [-0.270]
<i>ROA</i>	13.467 [1.038]	14.799 [1.111]	8.543 [0.233]
<i>LOG (ASSETS)</i>	-1.282** [-2.364]	1.009* [1.837]	-5.674*** [-3.651]
<i>MB</i>	0.023 [0.130]	0.152 [0.842]	-0.473 [-1.005]
<i>ANNUAL RETURNS</i>	-0.060 [-0.028]	1.822 [0.821]	4.174 [0.692]
<i>STD DEV RETURNS</i>	35.183 [1.426]	23.629 [0.923]	92.187 [1.263]
<i>% INDEPENDENT DIRECTORS</i>	-14.264** [-2.261]	8.999 [1.368]	-60.074*** [-3.453]
Year FE	YES	YES	YES
Observations	345	355	346



**Table 5 Disclosure and Voting Outcomes**

This table reports the results from logistic regressions of voting outcomes on measures of information disclosure of proposed RPTs. The unit of observation is a RPT resolution which requires approval by disinterested shareholders. Variables are defined in Appendix B. \*\*\*, \*\* and \* indicate the estimated coefficients are statistically significant at 1%, 5% and 10% level, respectively, based on two-tailed tests.

	Probability of Resolution Being Passed		
	(1)	(2)	(3)
<i>FOG</i>	0.043 [1.502]		0.038 [1.491]
<i>TONE</i>		0.311 [1.188]	0.276 [1.131]
<i>RPT</i>	2.885** [2.098]	2.380* [1.694]	2.776** [2.059]
<i>PROMOTERS HOLDING</i>	0.041*** [4.090]	0.034*** [3.475]	0.040*** [4.215]
<i>IIAS RECOMMENDATION</i>	1.125** [2.242]	1.146** [2.039]	1.152** [2.116]
<i>SPECIAL RESOLUTION</i>	0.223 [0.425]	0.028 [0.054]	0.153 [0.287]
<i>ROA</i>	-0.039 [-0.012]	0.581 [0.166]	-0.395 [-0.116]
<i>LOG (ASSETS)</i>	0.201 [1.237]	0.234 [1.623]	0.179 [1.123]
<i>MB</i>	-0.042 [-0.880]	-0.033 [-0.656]	-0.040 [-0.798]
<i>ANNUAL RETURNS</i>	0.405 [1.072]	0.242 [0.520]	0.331 [0.845]
<i>STD DEV RETURNS</i>	-0.478 [-0.095]	1.495 [0.313]	-0.412 [-0.079]
<i>% INDEPENDENT DIRECTORS</i>	-3.448** [-1.967]	-2.970* [-1.684]	-3.196* [-1.733]
Observations	376	375	375

**Table 6 Disclosure and Future Profitability**

This table reports the results from OLS regressions of future profitability on measures of information disclosure of proposed RPTs. The unit of observation is a RPT resolution which requires approval by disinterested shareholders. Dependent variables are ROA in year t+1. Variables are defined in Appendix B. \*\*\*, \*\* and \* indicate the estimated coefficients are statistically significant at 1%, 5% and 10% level, respectively, based on two-tailed tests.

	(1)	(2)	(3)	(4)	(5)	(6)
	ROA(t+1)					
<i>FOG</i>	0.000 [0.547]	-0.000 [-0.091]			-0.000 [-0.618]	-0.000 [-1.251]
<i>FOG * RPT</i>		0.000 [1.300]				0.000 [1.626]
<i>TONE</i>			-0.002 [-0.387]	-0.001 [-0.270]	-0.002 [-0.439]	-0.001 [-0.227]
<i>TONE * RPT</i>				-0.001 [-0.461]		-0.001 [-0.773]
<i>RPT</i>	-0.002 [-1.280]	-0.006 [-1.490]	-0.001 [-1.236]	-0.001 [-1.268]	-0.001 [-1.218]	-0.007* [-1.753]
<i>ROA</i>	0.818*** [11.628]	0.822*** [11.641]	0.816*** [11.875]	0.816*** [11.866]	0.816*** [11.827]	0.821*** [11.925]
<i>LOG (ASSETS)</i>	-0.003* [-1.836]	-0.003* [-1.760]	-0.003 [-1.652]	-0.003 [-1.654]	-0.003 [-1.570]	-0.003 [-1.477]
<i>MB</i>	0.001** [2.201]	0.001** [2.287]	0.001** [2.207]	0.001** [2.218]	0.001** [2.199]	0.001** [2.332]
Industry FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Observations	298	298	297	297	297	297
R-squared	0.876	0.877	0.883	0.883	0.883	0.884

**Table 7 Market Reaction to Voting Outcomes**

This table reports the results from OLS regressions of market reactions to voting outcomes. The unit of observation is a RPT resolution which requires approval by disinterested shareholders. The sample include RPT resolutions that are not accompanied by other resolutions to be voted on the voting date. Dependent variables are the cumulative market-adjusted stock returns in the windows around the voting date. Variables are defined in Appendix B. \*\*\*, \*\* and \* indicate the estimated coefficients are statistically significant at 1%, 5% and 10% level, respectively, based on two-tailed tests.

	(1)	(2)	(3)
	<i>CAR[-3, +3]</i>		
<i>FOG</i>	-0.000*		-0.000
	[-2.285]		[-1.873]
<i>R_TONE</i>		-0.030**	-0.033***
		[-3.910]	[-5.246]
<i>RPT/TOTAL ASSETS</i>	0.002	0.003	0.003
	[1.322]	[1.486]	[1.588]
<i>% INDEPENDENT DIRECTORS</i>	-0.053	-0.061	-0.054
	[-0.667]	[-0.778]	[-0.680]
<i>PROMOTERS HOLDING</i>	0.000	0.000	0.000
	[0.573]	[0.780]	[0.831]
<i>SIZE</i>	-0.000	-0.002	-0.001
	[-0.035]	[-0.376]	[-0.153]
<i>PRICE-TO-BOOK</i>	0.004***	0.004***	0.004***
	[5.313]	[5.311]	[5.138]
<i>ANNUAL RETURNS</i>	0.023	0.022	0.021
	[1.147]	[1.154]	[1.129]
<i>STD DEV RETURNS</i>	-0.557***	-0.585***	-0.580***
	[-7.160]	[-8.542]	[-8.456]
<i>IIAS RECOMMENDATION</i>	0.009	0.008	0.009
	[0.481]	[0.413]	[0.454]
Industry FE	YES	YES	YES
Year FE	YES	YES	YES
Observations	214	213	213
R-squared	0.259	0.269	0.273