Electing Directors

By

Jie Cai[+], Jacqueline L. Garner[++], and Ralph A. Walkling[+++*]

Abstract

Our research provides an empirical analysis of the distribution and impact of votes in uncontested director elections. Using a large sample of director elections, we find that shareholder votes are significantly related to firm performance, governance, director performance, and voting mechanisms. Directors attending less than 75% of board meetings and those receiving negative ISS recommendations receive 14% and 19% fewer votes, respectively. Meanwhile, other variables have little economic impact on shareholder votes, and even directors and firms that are poorly performing typically receive more than 90% of the vote. However, fewer positive votes for directors lead to reductions in 'abnormal' CEO compensation levels and higher probability of CEO turnover. We also find that director votes affect a firm's likelihood of removing poison pills and classified boards. At the same time, director votes have little impact on the election outcome, firm performance, or director reputation. These results provide important benchmarks for the current debate about reform of the election process.

JEL Classifications: G34

Keywords: Board of directors, election of directors

First Version: June 2006
Current Version: September 2008

+ Assistant Professor of Finance, jaycai@drexel.edu, 215.895.1755. ++ Associate Professor of Finance, Jacqueline@drexel.edu, 215.895.1747. +++Stratakis Chair in Corporate Governance, Professor of Finance, RW@Drexel.edu, 215.895.4920. * Corresponding author. All authors can be reached at the LeBow College of Business, Drexel University, 3141 Chestnut Street, Philadelphia, PA. 19104-2875 The authors appreciate comments from David Becher, Jennifer Bethel, Kenneth Borokhovich, Naveen Daniel, Diane Del Guercio, Ming Dong, Daniel Dorn, Eliezer Fich, Stuart Gillan, Kathleen Kahle, Felix Meschke, Frederik Schlingemann, Anil Shivdasani, Randall Thomas, David Yermack, and seminar participants at Drexel University and the 2007 Western Finance Association meetings. We thank Brian Bushee for sharing his classification system for type of institutional ownership. We thank Cornerstone Research for providing us with data on litigation. We also appreciate research assistance from Ezgi Hallioglu, Billy Hsu, Esra Karahan, Anastasios Kritikos, Adi Mordel, David Pedersen, Anh Tran, and Dazhi Zheng.

Electing Directors

One of the most fundamental components of corporate governance is shareholder representation by the board of directors. Substantial research has focused on the role, size, composition, and impact of the board on firm performance, yet we know little about uncontested director elections. The subject is particularly important in today's environment. Dramatic governance changes have been instituted by Congress, by the stock exchanges, and by individual firms. Additional changes to the way directors are elected have been proposed and debated by shareholders, activist organizations, the New York Stock Exchange (NYSE), and the Securities and Exchange Commission (SEC).

Apart from directors, shareholders do not have representation in the companies they own. If shareholder impact on director elections is weak, so is the link between owners and managers. Anecdotal and academic evidence document egregious, although ostensible legal actions that significantly impact firm value [e.g., Jensen (1986)]. Recently, Moeller, Schlingemann, and Stulz (2005) document massive wealth losses from acquisitions. Yermack (2006) reports a negative link between CEO perquisite consumption and stock returns. Graham, Harvey, and Rajgopal (2005) indicate that CEOs routinely sacrifice long-term value in an effort to "hit" short term earnings targets. The board represents shareholders' direct internal control of such actions.

Previous research on director elections has focused on proxy contests. See, for example, Dodd and Warner (1983), Pound (1988), DeAngelo and DeAngelo (1989), and Mulherin and Poulsen (1998), among others. [1] However, as documented in Schwartz (1983), Bebchuk (2003), and Bebchuk (2007), the vast majority of director elections are uncontested. Bebchuk (2003)

[1] The importance of shareholder votes is also noted in other contexts: Balachandran, Joos, and Weber (2003) analyze the importance of voting rights in relation to equity based compensation plans. Firm performance subsequent to the adoption of these plans is worse for firms that did not obtain shareholder approval. Recently, the SEC began requiring shareholder approval of such plans.

asserts that "incumbents do not currently face any meaningful risks of being replaced via the ballot box…" Further, Bebchuk (2007) documents that during 1996 – 2005, there were only 118 contested elections, and in two-thirds of these cases, the rivals were unsuccessful. Consistent with these assertions, in 2,484 out of 2,488 shareholder elections in our sample, the number of directors to be elected equals the number of seats.

The majority of public firms in the United States have plurality voting rules; directors receiving the largest number of votes are elected. Plurality voting weakens the power of shareholders in uncontested elections. While shareholders can withhold votes, under a plurality system these votes lack legal significance; a director in an uncontested election can be elected with a single vote. The prospect of shareholders having an effective voice in electing or removing chosen representatives seems limited.[2]

Nevertheless, shareholders may express their dissatisfaction with the companies by withholding votes for the directors. Proxy advisors (Glass-Lewis and ISS, for example) suggest that withheld votes in uncontested elections are meaningful and can serve as a disciplining device. Even though the withholding of votes is symbolic, Grundfest (2003) notes that symbolic votes can have consequences through negative publicity and embarrassment. Del Guercio, Seery, and Woidtke (2008) analyze vote-no campaigns in director elections and find that these campaigns are associated with increased CEO turnover and improved operating performance. Arena and Ferris (2007) find that director appointments (in private offerings) without the

[2] On November 28, 2007, The Securities and Exchange Commission (SEC) voted to allow firms the right to exclude any shareholder proposals related to the election of directors, including the nomination of a director. The ruling effectively repealed a 2006 decision rendered by the U.S. State Court of Appeals for the 2nd Circuit. That 2006 decision, rendered in American Federation of State, County and Municipal Employees versus A.I.G., allowed shareholders the ability to submit proposals regarding director elections which could then be voted on by all shareholders (see Morgenson, New York Times, October 14, 2007, Morgenson, New York Times, December 2, 2007, and Dash, New York Times, November 29, 2007).

symbolic shareholder vote are associated with managerial entrenchment and poor firm performance.

The objective of this paper is to examine uncontested director elections on a large sample of firms in the post-Sarbanes-Oxley-Act (SOX) era. We test several hypotheses relating performance at both the firm and director level to the votes directors receive. We also examine the efficacy of the election process. That is, we examine whether votes matter to subsequent performance, compensation, or governance. This article along with Fischer, Gramlich, Miller, and White (2008) are the first academic studies documenting the distribution of director votes in uncontested elections. We explicitly test whether the level of votes, and in particular, the ability to withhold votes, has an impact on the performance and governance of the firm.[3] Fischer, Gramlich, Miller, and White (2008) report that the probability of forced CEO turnovers and the associated market reaction are inversely related to votes for directors in uncontested elections.

To understand the link between shareholder votes and director elections, we start by documenting current practices. Beyond this, we examine the determinants and efficacy of shareholder votes. For example, are shareholder votes linked to firm specific and/or director specific characteristics? More importantly, do shareholder votes matter? Are there fundamental changes in the financial or operating performance of firms subsequent to director elections? Do firms alter governance characteristics in response to the level of votes that directors receive? Do firms change and are directors disciplined following lower shareholder votes? Do directors receiving low votes suffer a loss in reputational capital? Understanding the answers to these questions is essential for informed debate about reforms in the proxy process as well as any discussion regarding the process by which votes for directors are counted.

[3] We do not formally restrict our analysis to uncontested elections, but only a few contested cases appear in our sample.

We summarize our results as follows. While director and firm performance affect how shareholders vote, the resulting differences in the level of votes is trivial. In general, the differences in votes are statistically significant but economically minor. At both the firm and director level, votes exceeding 90% are the norm even for poorly performing firms and directors. There are two exceptions: directors attending less than 75% of board meetings or receiving a negative ISS recommendation receive 14% and 19% fewer votes, respectively.[4] However, even though the variation of director votes is small, we find that fewer votes for compensation committee directors significantly impact subsequent abnormal CEO compensation and that fewer votes for independent directors impact subsequent CEO turnover. Also, the removal of poison pills and classified boards is significantly linked to director votes. Nevertheless, lower levels of votes appear to have little impact on the election of directors themselves or any change in firm performance. Directors also do not appear to suffer reputational effects from low votes.

The issues we examine are timely. For example, since 2003, the SEC has considered various proposals related to shareholder access to the proxy. Late in 2007, the SEC voted to amend Rule 14a-8(i)(8), to specifically allow firms the ability to exclude (from the proxy) shareholder proposals regarding director elections. After the rule amendment, SEC Commissioner Christopher Cox made assurances that he would review shareholder access to the

[4] Several recent papers examine the influence of proxy advisors on shareholder votes. Alexander et al (2008) find that ISS recommendations have a significant impact on the voting outcome and abnormal stock returns. They conclude that these recommendations convey new information to the market. Choi, Fisch, and Kahan (2008a) examine the differences across four proxy advisory firms and conclude that proxy advisory firms, and ISS in particular, affect the vote, but do not have as much influence as has been reported in the public press and by other academic studies. Choi, Fisch, and Kahan (2008b) find that the four top proxy advisory firms consider substantially different factors in their decision to issue withhold recommendations. Verdam (2008) concludes that proxy advisory firms have a great deal of influence since institutional investors are pressured to play an active shareholder role and they tend to rely on services of proxy advisory firms such as ISS. He is concerned about the potential conflict of interest as ISS renders governance advice to its corporate clients (for a fee), while giving voting guidelines to institutional investors on those same corporations.

proxy again.[5] In addition, the Proxy working group of the NYSE recommended in June, 2006 to eliminate the broker vote. [6] [7] Our analysis indicates that the elimination of these broker votes (which typically side with management) is unlikely to affect the outcome of most uncontested director elections, but the resulting lower votes may significantly affect CEO compensation and corporate governance at some companies. Further, a significant link between performance and votes is found in the data. At least some shareholders vote as if performance matters. An optimistic view of the importance of reforms is that they would increase shareholder belief in the efficacy of the process and that this belief would cause additional meaningful changes in the economic impact of votes.

The remainder of this paper is organized as follows: In section I we examine the background on director elections and outline the hypotheses to be tested. Section II describes the source of our data. In section III, we test our hypotheses. Section IV concludes.

I. Background and Hypotheses

A. The process of director elections

Director elections are influenced by many factors including the structure of the board (classified versus non-classified), the nomination process, the existence of cumulative and confidential voting, the distribution of voting power (e.g., dual class shares), and the method of counting votes. First, in the case of classified (or staggered boards), only a portion (often a third) of the board is elected each year. Second, absent dissident slates, nominees are generally those

---

[5] "The SEC Denies Proxy Access," by L. Reed Walton, Publications, November 30, 2007, http://blog.riskmetrics.com/2007/11/the_sec_denies_proxy_accesssub.html, (accessed January 10, 2008).

[6] See Plitch (2006), for a discussion of the New York Stock Exchange proposal to end broker votes. Also see the SEC Staff Report, "Review of the Proxy Process: Regarding the Nomination and Election of Directors," July 15, 2003. Many scholars also have called for reforms in the way directors are elected. See, for example, Bebchuk (2003), Grundfest (2003), Joo (2003) and Pozen (2003).

[7] Broker votes should not be confused with "empty voting" (Hu and Black (2007)). Empty voting is the term attached to the situation whereby an investor votes with borrowed shares.

proposed by a board committee.[8] Third, Pozen (2003) reports that a small fraction of firms (9.2%) allow cumulative voting. Fourth, the existence of dual class shares (often held by management) can influence voting power. Fifth, some firms allow confidential voting; most do not. A sixth issue concerns whether directors will be elected by a plurality or majority of votes. Section 2.16 (1) of the Delaware General Corporation Law requires that in absence of alternate provisions in the charter or bylaws, directors shall be elected by a plurality of the votes.[9] Thus, if three directors are to be elected and only three are running, directors could be elected with a single vote.[10]

Votes for directors can be cast by shareholders or brokers. Broker votes are an interesting and controversial aspect of director elections. Under NYSE Rule 452, adopted in 1937, brokers can vote shares held in street-name on routine matters. By current standards, this includes the uncontested election of directors. The magnitude of this vote is sizable. One academic study and much anecdotal evidence suggest that broker votes matter. Bethel and Gillan (2002) analyze voting for proposals on the proxy and find that routine proposals (for which "street-shares" can be voted) receive 14% higher votes than non-routine proposals of the same type. We will return to the issue of broker votes at the end of the paper.

B. Related literature

The issues related to uncontested director elections are largely undocumented. However, considerable literature is related to cumulative voting, shareholder activism, and shareholder

[8] Under NYSE rules after SOX, the nomination committee, comprised entirely of outside directors, is charged with identifying qualified board candidates. It is possible that this committee is influenced by members of management. In theory, shareholders can influence this process through their nominations, but the effectiveness of this procedure is questioned frequently in the press by shareholder advocates. Shivdasani and Yermack (1999) document the dramatic influence of the CEO in this process. Reforms aimed at providing shareholder access to the proxy were proposed by the SEC, but in late 2007, the SEC further limited shareholder access to the proxy (see footnote 2). Even apart from the nomination of directors, the ability of shareholders to *remove* their own representatives is limited. For additional discussion of shareholder access to the proxy see Bebchuk (2003).

[9] Morrison and Cates (2005).

[10] See Cai, Garner, and Walkling (2007) for an analysis of majority versus plurality elections.

voting on stock option plans. While space constraints preclude a complete review of this work, the following research is illustrative of some of the general themes. Bhagat and Brickley (1984) find that the elimination of cumulative voting for 52 firms from the 1962-82 period reduces shareholder wealth. Hermalin and Weisbach (1988) report that the probability of adding independent directors increases following poor firm performance. In addition, board independence is negatively related to CEO tenure. Mulherin and Poulsen (1998) find that proxy contests for board seats create wealth. Most of the wealth is associated with firms subsequently acquired or cases where there is managerial turnover. Bebchuk and Hart (2001) argue that proxy contests combined with takeover bids dominate either strategy alone for changing management or obtaining control.

Karpoff, Malatesta, and Walkling (1996) find that shareholder sponsored proxy proposals target poorly performing firms. The proposals, however, appear to have little impact on announcement returns or firm performance.[11] Gillan and Starks (1998) note that until the mid-80's most proposals were used by individual shareholders, religious groups, or political groups. Since that time, shareholder proposals aimed at governance reforms have increased dramatically. Morgan and Poulsen (2001) report that compensation proposals receive less support when the plans have negative features such as high dilution levels. Thomas and Martin (2000) find that shareholders are more likely to approve stock option plans at poorly performing firms which they interpret as an attempt to align owners and managers. The results of Thomas and Cotter (2007) indicate that in the post-Enron era boards implement more actions following highly supported shareholder sponsored proposals, but show that the price reaction is still insignificant. With a few exceptions, the general conclusion of this literature is that shareholder activism has little

[11] There is extensive literature in this area. For useful surveys, see Gillan and Starks (1998) and Karpoff (2001). For an analysis of shareholder activism through "just vote no" campaigns, see Del Guercio, et al. (2008). None of this research directly examines director elections.

impact on a firm's stock price. This lack of impact could be because the proposals receive low votes, because they are precatory in nature, or because they would have little impact on the firm, even if implemented.

C. Hypotheses

In the remaining sections of this paper we examine two issues. First, we consider what determines director votes. Here, we test three hypotheses: *the poorly performing firm hypothesis, the governance hypothesis, and the poorly performing director hypothesis.* Finally, we examine if votes matter and test *the efficacy hypothesis.* That is, do low votes result in changes to directors, performance, compensation, or governance?

C.1. What determines director votes?

C.1.a. The poorly performing firm hypothesis

The poorly performing firm hypothesis asserts that directors of firms that underperform relative to stock market or industry operating performance benchmarks will receive significantly fewer votes for election. Poor performance has been established as a factor in CEO replacement. Farrell and Whidbee (2003) find an inverse relation between CEO turnover and analyst forecast errors. Their results suggest that a CEO is accountable for actual performance levels and that the board uses the expectations about earnings in their decision to replace a CEO. Huson, Malatesta, and Parrino (2004) find that accounting measures decline prior to CEO turnover. If directors are also held accountable for the performance of the firm, we expect that their votes will be lower following poor performance. These arguments lead to our first hypothesis:

H1: Directors of poorly performing firms will receive significantly fewer votes.

C.1.b. The governance hypothesis

Firms that are poorly governed may elicit low votes for their directors. While governance includes a broad array of principles, we will focus on shareholder rights, management entrenchment, board characteristics, stock ownership, and CEO compensation policies. The governance index of Gompers, Ishii, and Metrick (2003), the entrenchment index of Bebchuk, Cohen, and Ferrell (2005), and board independence are measures of the degree of management entrenchment of a firm. Since shareholders of dictator firms have less control over management, and management of these firms have more protection from corporate control changes, the director nominees could be less shareholder-friendly and receive fewer votes. These directors may also provide higher excess compensation to their CEOs. To the extent that investors value shareholder-friendly directors, the governance hypothesis asserts that directors in firms with weaker governance (higher GIM index, higher excess CEO compensation, fewer independent directors, etc.) will receive fewer votes.

H_2: Directors in firms with weaker governance will receive significantly fewer votes for election.

C.1.c The poorly performing director hypothesis

Apart from firm performance and governance, directors may receive significantly more withheld votes because of their own behavior. This would imply meaningful cross sectional dispersion within a firm based on the performance of the individual directors. Two individual indications of director performance are attendance at meetings of the director's own firm and sitting on boards of other firms facing shareholder litigation.

H_3: Poorly performing directors will receive significantly fewer votes for election.

The implicit alternative to the first three hypotheses can be described as the "apathy hypothesis," which suggests no relation between performance and votes because shareholders know that

voting is a futile exercise. Moreover, shareholders also have the alternative of selling their shares.[12]

C.2. Does the vote matter? The Efficacy hypotheses

The first three hypotheses examine how votes for directors are related to firm performance, director performance, and corporate governance. The presence (or absence) of a significant relation between these variables and director votes does not address the potential impact of the vote. Lower votes could have meaning in at least five situations. First and obviously, a director who receives lower votes might not be elected. However, under plurality voting in uncontested elections, a single vote will ensure election. Second, the director could be removed or voluntarily step aside following a low vote. Third, changes in performance may occur when a firm or director receives little shareholder support at the election. Fourth, the board could change various corporate governance mechanisms in response to low votes. This may include changes to the levels of executive compensation. Finally, directors could be disciplined through the external labor market. Specifically, Fama (1980) and others suggest that there is ex post settling up in the labor market. Thus, the number of additional board seats directors hold could change in response to their voting outcome in one particular election. The efficacy hypotheses address these issues:

> *H_{4a}: Firms with directors receiving fewer votes for election will experience a greater degree of performance and governance improvements than firms receiving a higher level of votes.*
>
> *H_{4b}: Directors receiving fewer votes are more likely to lose board positions in their own firms and in other firms.*

[12] An investor's ability to sell shares is obviously affected by costs and constraints, including transaction costs, the desire to be properly indexed, etc.

II. Data and Methodology

A. Sample selection

Our primary data on director elections are from the Institutional Shareholder Services' (ISS) Voting Analytics database.[13] This database provides the identity of companies and directors, the shareholder meeting date, and the number of "For" and "Withhold" votes, among other information. The Voting Analytics database begins director election coverage in 2003; most of the Russell 1000 companies and many Russell 2000 companies are included. ISS identifies 40,202 director elections at 7,605 shareholder meetings during 2003 to 2005.

We test our hypotheses using additional data from the Center in Research for Security Prices (CRSP), Compustat, Thomson Financial's Institutional Holdings (13F), ExecuComp, and Investor Responsibility Research Center's (IRRC) Governance and Director Databases. This reduces our sample to 3,138 shareholder meetings.[14] Because of the different nature of regulated businesses and their financial data, we exclude 650 financial and utility firms. In the remaining 2,488 shareholder meetings, we match the names of directors from the ISS Voting Analytics database to the IRRC Director database. Director names follow different formats in the ISS and IRRC databases. We use a complex procedure to match director names across the two datasets. The net result is a sample of 13,384 director elections at 2,488 different shareholder meetings.

B. Voting measures

Three basic categories of voting exist in director elections. Under plurality vote rules, shares can be voted for a director, withheld for a director, or not voted. Thus, shareholders do not

[13] ISS is now owned by RiskMetrics Group.

[14] Among the 7,605 shareholder meetings, we are able to match 7,199 cases with CRSP, 7,211 cases with Compustat, 6,919 cases with 13F institutional holdings, 3,873 cases with ExecuComp CEO compensation data, 4,609 cases with IRRC Governance data, and 3,739 cases with IRRC Director databases.

have the option of voting "against." Shares voted "For" are from two sources. First, shareholders could actively vote their shares. Second, unless they receive prior instruction, brokers can vote shares held in street name. Dixon and Thomas (1998) show that an average firm in 1997 has 70-80% of its shares held under brokers' names and that brokers always vote with management, i.e. cast "For" votes for directors.

Shares "withheld" from a director candidate involve cases where a shareholder explicitly returns a proxy card marked "withhold" for a particular director. Shares "not voted" are those held directly in a shareholder's name where the shareholder does not return the proxy card. Thus, shareholders have three options: vote "For," mark their ballot to "withhold votes," or fail to return their ballot.[15]

ISS defines the base of director votes as "For + withhold," which is also the measure most companies use to decide and report election results. Consequently, we measure the election outcome with the number of "For" votes divided by the sum of "For" and "Withhold" votes. In addition to director level voting, we also calculate the average and the range of "For" votes within each firm. Table I shows that at the average firm, directors collectively receive an average of just under 94% of the "For" votes. Similarly, an average director (across all firms) receives just over 94% of the "For" votes. As noted in Table I and Figure 1, the mean and median votes are quite high. Yet the range of votes is very large; some boards as well as some individual directors receive less than 40% of the votes. In addition, the within firm range is interesting. The average range within a firm is 7.4%. The maximum range is 57%. A large dispersion within a firm implies more dissatisfaction with a particular director. This dissatisfaction may be more problematic to shareholders when the firm has a classified board since several years will pass before the director is considered for re-election. When examining

[15] We remind the reader that the lower the director vote, the higher the level of "withhold" votes.

determinants of individual director elections we use the level of "excess" votes, defined as the votes a director receives minus the average votes for all directors simultaneously considered for election at that firm.

C. Performance Measures

We measure prior firm performance using both operation-based and market-based measures. Our operation performance measure is the industry adjusted prior year EBITDA normalized by total assets. Our market based performance measure is the stock return of the firm minus that of the market for the twelve month period prior to the annual meeting. The poorly performing firm hypothesis asserts that poor firm performance will be negatively related to director votes.

We test whether director votes are related to the governance structure of the firm using the governance index of Gompers, Iishi, and Metrick (2003), the entrenchment index of Bebchuk, Cohen, and Ferrell (2005), and the combination of a poison pill and a classified board described in Bebchuk and Cohen (2005). Higher levels of the governance index and the entrenchment index are indicative of firms that favor management, rather than shareholders; the combination of a classified board and poison pill make discipline from the corporate control market more difficult. The typical firm in our sample has a governance index of 9.44 and an entrenchment index of 1.66. Over 40% of the firms have both a poison pill and a classified board. We also gather data on board size, the percent of the board comprised of outsiders, and amounts of shares held by institutions and board members. The median board in our sample is comprised of nine members, holds approximately 8.5% of the shares, and is comprised of 70% outsiders. Almost three quarters of the representative firm's shares are held by institutional investors. This figure seems high relative to the literature. However, in sensitivity tests we

confirm an increased level of institutional holdings during 2003 - 2005.[16]

Increased levels of board holdings can be either an entrenchment or alignment device. Traditional agency theory suggests alignment of owners and managers as managerial (and board) holdings increase. However, Denis, Denis, and Sarin (1997) show that management has a significantly lower probability of external market discipline at quite low levels of managerial ownership. Thus, the relation of ownership to votes for directors is an empirical issue. The literature on board independence and its relation to firm value and managerial actions is extensive. A few examples include Weisbach (1988), Bhagat and Black (1999), Shivdasani and Yermack (1999), Hermalin and Weisbach (2003), and Huson, Malatesta and Parrino (2004).

Following Walkling and Long (1984) and Hartzell, Ofek, and Yermack (2004), we use abnormal CEO compensation as a measure of corporate governance. Similar to Hartzell, Ofek, and Yermack, we estimate the abnormal CEO compensation as the residual from a simple compensation regression of all ExecuComp firms during our sample period. We include log assets, prior year stock return, industry and year dummies as the independent variables.

Observable, individual measures of director performance are difficult to find. One exception is a director's record of attending meetings. In fact, some institutional investors report using director attendance as one of their criteria for voting on directors.[17] To the extent that truant directors are ineffective board members, the poorly performing director hypothesis predicts they will receive fewer votes. Also, Fich and Shivdasani (2007) suggest that directors of firms facing shareholder lawsuits lose reputation and outside board seats. Following their methodology, we measure the effectiveness of director monitoring by identifying directors

[16] For our sample firms, the average and median institutional holdings equal 56.7% and 58.3% over 1990-2002. However, the corresponding figures rise to 74.6% and 77% during 2003-2005, respectively.

[17] The 2008 Council of Institutional Investors Corporate Governance Policies suggests that directors who have attended fewer than 75% of meetings for two years should not be renominated.

serving on the board of other firms facing lawsuits.

We also expect that individual characteristics may lead investors to believe directors are more "management friendly" or more "shareholder friendly." These include whether or not they are independent, whether they are incumbents, their tenure with the firm, and the stock holdings of the directors. Also, following Yermack (2004), we include age as a control measure. To the extent that older, incumbent directors characterized by a long tenure are perceived as entrenched, the poorly performing director hypothesis will predict fewer votes. Correspondingly, an independent director should be more aligned with shareholders and receive higher votes.

III. Results

A. The Relation Between Performance, Governance, and Voting.

Our first multivariate regression results are shown in Table II. Firms with poor operating performance receive significantly fewer votes for directors, but the average coefficient suggests that votes are reduced by only 0.37% for one standard deviation decrease in the industry adjusted EBITDA to assets ratio. Market return measures are not associated with director votes. In unreported sensitivity tests, we also use two- or three-year excess returns and the regression intercept from Fama-French three- or four- factor models. The results are similar.[18]

Consistent with the governance hypothesis, we find that all three measures of entrenchment are significantly negatively associated with director votes. A one standard deviation increase in the governance index reduces votes by 0.43%; similarly, a one standard deviation increase in the entrenchment index reduces votes by 0.40%. While statistically significant, the level of change in votes is minor. Higher abnormal CEO compensation also leads to fewer votes, and the coefficients are statistically significant at the 5% level in all five

[18] Since only four contested director elections appear in our sample, we do not control for this variable in the reported regression analysis. In a sensitivity test, we include a dummy variable for director elections with opposition slates in the relevant regressions; our results are unchanged.

regressions. Using the average coefficient, we estimate that a one standard deviation increase in abnormal CEO compensation reduces director votes by 0.19%. We also find that firms facing shareholder lawsuits receive slightly more than 1% fewer votes for their directors, and three of the five coefficients for this variable are statistically significant at the 10% level or higher.

Director votes are also related to board characteristics. We find that larger boards, boards comprised of more outsiders, and those whose members hold greater levels of shares are associated with higher votes. However, the positive coefficient of board holdings is driven by directors voting for themselves. If we remove these pre-committed shares from the votes, the impact of board holdings become significantly negative, consistent with entrenchment. In sensitivity tests, we find CEO holdings and executive holdings play a similar role as board holdings.

The average ISS recommendation is a function of firm performance as well as governance characteristics that are already included in the regressions. Therefore, we estimate a regression model of the average ISS recommendation based on our performance and governance characteristics and use the residuals from this model as our ISS variable.[19] We find that the remaining unexplained portion of a negative ISS recommendation still reduces the average director votes of a firm by 20.7%. We note that Choi, Fisch, and Kahan (2008a), using a sample from 2005 and 2006, find that the overall "direct influence" of an ISS withhold recommendation on the vote is 14.4%. We also find that the election results are related to voting mechanisms. Directors at firms with unequal voting (dual class shares) receive higher votes, possibly from management. Directors at firms with confidential voting receive fewer votes, suggesting

[19] ISS provides a voting recommendation for each individual director nominee. We first calculate the average ISS recommendation that all director nominees receive at a shareholder meeting. Next, we estimate a regression of the average ISS recommendation on prior year industry-adjusted EBITDA, GIM index, percent of outside directors, board size, board holdings, confidential voting dummy, unequal voting dummy, majority voting dummy, and vote-no campaign dummy, along with industry and year dummies. This regression has a R^2 of 9%. We use the residual from this regression as an independent variable in Table II.

shareholders are more willing to vote against directors when their identities are protected. Majority voting may be a sign of good corporate governance, and shareholders reward the directors with higher votes. Consistent with Del Guercio, et al. (2008), we find firms targeted by "Vote No" campaign receive lower votes for their directors.

Although higher levels of institutional holdings reduce director votes, the concentration (Herfindahl index and block holder dummy) of institutional holdings is significantly positive in one regression and insignificant in the others.[20] In addition, when we classify the institutional holdings by institution types (Bushee (1998, 2001)), we find that dedicated institutions and quasi indexers are less likely to withhold director votes than the transient institutions. This result suggests that the long-term institutions and those that can not easily unwind their positions are unwilling to vote against the managers.

Shareholders might not be concerned about a firm's governance as long as performance is acceptable, but governance could impact voting in cases of poor performance. To test this, we create a poor performance dummy, which equals one if the industry adjusted EBITDA is negative and equals zero otherwise. We next combine the poor performance variables with our governance variables: the governance index, the entrenchment index, the classified board and poison pill dummy, the abnormal CEO compensation, the percent of outside directors, and board holdings. In results not shown, we find that the interaction term is insignificant in all but one case (board holdings). At the same time, most governance variables remain significant. We conclude that governance is significantly related to voting even if the firm has good performance. [21]

[20] The Herfinhahl index and the block holder dummy are positively correlated. In unreported sensitivity tests, we include the two variables separately in Models (1) and (5) and find similar results.

[21] In sensitivity tests, we also include leverage and a dummy variable for S&P 500 membership in the regressions; both variables are statistically insignificant, and the results of other variables are similar.

Taken together, the findings in Table II suggest that at the firm level, poor performance and greater levels of entrenchment result in slightly lower levels of average director votes, evidence consistent with our Poorly Performing Firm Hypothesis and Governance Hypothesis. At least some investors indicate their level of dissatisfaction through the vote, especially when their identities are protected. However, while we find a statistically significant relation between votes for directors and firm characteristics, we note that average votes of the poorly performing and poorly governed firms are higher than 90% across all categories of performance. We return to this issue in our analysis of the efficacy hypotheses.

B. The Poorly Performing Director Hypotheses

In order to test the poorly performing director hypothesis, we examine the impact of director characteristics on individual director votes. In Panel A of Table III, we present summary statistics on the variables of interest. Just over seventy percent of directors are classified as independent, over ninety percent are incumbent, and nearly ninety percent receive a positive ISS recommendation. The typical director is male, age 59, attends more that 75% of board meetings, and owns about 1% of the firm's common stock.

In Panel B, we compare the percentage of "For" votes across director characteristics. Consistent with firm level results, independent directors and those who receive ISS support amass significantly higher votes than their counterparts. Incumbents receive significantly fewer votes which is consistent with the perception that they are entrenched. The result that directors with higher stock ownership receive fewer votes is also evidence of entrenchment. This result becomes stronger if we remove the pre-committed shares.

It appears that voters rebuke poorly performing directors; directors who attend less than 75% of board meetings receive 14% fewer votes.[22] Nevertheless, the representative truant director still manages to garner over 80% of the votes. In addition, a negative ISS recommendation is associated with 19% fewer votes. Finally, female candidates receive slightly more votes than male candidates.

To control for firm level effects, we also examine director votes relative to the average vote within the firm. The variable, "Excess percent for" vote equals the percent "For" of a director less the company average. Tests repeated using this measure produce similar conclusions and are shown in Panel C. [23]

A multivariate analysis of director level characteristics and voting outcomes is presented in Table IV. To control the vote variation associated with firm performance and governance, the dependent variable of director vote is measured as the excess of the director vote over the company average as in Panel C of Table III. In Model (1) we examine director characteristics without various committee memberships and executive positions. In Models (2) and (3) we include these memberships and positions as independent variables. The ISS recommendation is a function of firm and director performance as well as governance characteristics that are already included in the regressions. Therefore, we use these variables to fit a logistic model to predict the likelihood of the ISS recommendation and use the residuals from this model as our ISS variable.[24]

---

[22] The truant directors have significantly lower stock holdings and are more likely to be outsiders. However, they are neither older nor closer to retirement age, which we assume to be 65.

[23] In tests not reported, we find that newly nominated directors are more likely to be independent, consistent with the directives of SOX legislation. Not surprising, incumbent directors own more of the firm than newly appointed board members. Relative to the incumbents, the new board members have fewer outside board seats, higher certification levels by ISS, are younger, more likely to be female, and receive higher votes, using either the level of votes or the excess over the company average.

[24] Using the raw value of ISS recommendation induces multi-collinearity. The independent variables in the logit model of ISS recommendation include: the prior year industry-adjusted EBITDA, the governance index, the percent

Some directors may serve on multiple boards in our sample, and their votes at different boards may be correlated. To address this issue, we investigate the number of directors who have two or more elections in the same year in our sample. Around 90% of directors (10,827 out of 12,033) have only one election on a given year in our sample. Further, for a director serving on multiple boards, most of the variables relating to a specific director's characteristics change at different companies. The only variables in Table IV that have common value at different boards are age, gender, and number of outside board seats. Nevertheless, we perform a sensitivity test excluding directors who appear multiple times in a given year in our sample, and our results are similar.

The regression results show that independence of a director and their "unexplained" certification by ISS increases the percent of "For" votes.[25] In fact, a positive ISS recommendation increases the within firm excess votes by about 8.5%. Incumbent directors and directors with longer tenure receive significantly lower votes, consistent with entrenchment. Contrary to the univariate results in Table III, we find that higher levels of stock ownership are associated with higher votes in all three models. Presumably, directors vote the shares they own for themselves. As for director performance, truancy is significantly and substantially penalized by shareholders. Attending less than 75% of the meetings reduces director votes by an average

---

of outside directors, board size, board holdings, confidential voting dummy, unequal voting dummy, majority voting dummy, "vote no" campaign dummy, dummy variables for independent, incumbent, and truant directors (i.e., independent director dummy, incumbent director dummy, a dummy variable for attending less than 75% of meetings), director stock ownership, incumbent director ownership, director tenure, director age, and industry and calendar year dummies. The majority of these variables are statistically significant, and the regression has a pseudo R^2 of 19%.

[25] We classify the "linked" and "employee" directors as insiders. These are directors who provide (or whose employer provides) professional services to the company or is a major customer. These classifications also include directors who were former employees, recipients of charitable funds, interlocks, and family members of a director or executive. In a sensitivity test, we separate the "linked" directors from the employee directors. We find the "linked" directors receive even fewer votes than the employee directors. When we separate the family member and interlocking directors from the insiders, we find the family member directors receive significantly fewer votes but not the interlocking directors. In another sensitivity test, we include a dummy variable that equals one if a director is also a CFO (of the firm or other firms). The coefficient of the CFO dummy is positive and statistically significant in two regressions, suggesting that shareholders value financial expertise.

of about 12%. Directors serving on the board of other companies that face shareholder lawsuits receive about 0.5% fewer votes than their peers, and the coefficients are statistically significant at the 10% level. We also document that busier directors, those who hold more outside board seats, receive less votes than their more focused colleagues in the same company. To the extent that being busy is associated with a poorly performing director, this finding is consistent with the work of Fich and Shivdasani (2006). They document a negative relation between firm performance and busy directors where busy is defined as holding three or more board seats.

In Models (2) and (3), we include various committee memberships and executive positions of the directors. The inclusion of these variables does not alter the main findings in Model (1). Model (2) shows that directors serving on compensation, governance, or audit committees receive lower votes while CEOs receive higher votes. Shareholders may register their dissatisfaction with directors on specific committees when there is a related problem associated with the firm. To examine this possibility, we include in Model (3) interaction terms between the director memberships in compensation, audit, and governance committees with the firm's abnormal CEO compensation, accounting restatement, and governance index, respectively. Since shareholders are more likely to register their dissatisfaction about firm performance with the overpaid CEO, we also include interaction terms between the CEO compensation indicators and operating or stock performance. Model (3) shows that directors serving on the compensation committee receive significantly lower votes when the CEO receives higher abnormal compensation. The CEOs with positive abnormal compensation receive significantly lower votes than other directors when the company's operating performance is better than industry peers. This result suggests that shareholders reward other directors more than the overpaid CEO for good operating performance. On the other hand, the underpaid CEOs receive similar votes as other directors regardless of firm performance. Finally, directors serving

on the audit committee or the governance committee are not penalized for accounting restatement or weak corporate governance.

We also find that the director characteristics can explain a significant part of the within-firm vote variation. The R^2 for Models (1) to (3) are above 35%. Thus, even though many shareholders simply vote along with the management, some shareholders vote according to the performance and governance of the firm and directors.

C. The Efficacy Hypothesis

Given the high level of votes received by the vast majority of directors, it is reasonable to question whether receiving fewer votes has any impact on the firm or the directors. To test the efficacy of votes, we examine whether the level of director votes impact the change in CEO compensation, CEO turnover, corporate governance, subsequent firm performance, director turnover, or director reputation. Since firm performance may affect change in CEO compensation, CEO turnover, and corporate governance, and because we show above that firm performance has an impact on the votes directors receive, we use a two-stage approach in testing the efficacy hypothesis. First, we estimate a regression of director votes with industry-adjusted prior-year EBITDA, excess stock return, and calendar year and industry dummies as independent variables. Next, we use the residual votes from this regression as the main explanatory variable to test whether votes affect the change of CEO compensation, CEO turnover, and corporate governance.

C.1. Change in CEO Compensation

The large pay packages many corporate executives receive have been a focus of corporate governance in recent years. Many shareholders are unhappy about high levels of CEO compensation and often criticize such pay practices. The results presented in the sections above

indicate that these shareholders express their dissatisfaction by withholding votes for directors, especially directors serving on the compensation committee.

Chhaochharia and Grinstein (2006) show that boards play a more active role in reducing CEO pay after the enactment of SOX. In this section, we examine whether directors who receive lower votes listen to the shareholders and reduce abnormal CEO compensation. We focus on a sub-sample of firms with positive abnormal CEO compensation and examine whether director votes affect the change of abnormal CEO compensation in the following year. [26]

Table V shows that director votes, in particular the votes for directors serving on the compensation committee, have a positive impact on the subsequent change in CEO compensation. Models (1) and (2) show that the average residual director votes have a positive, but insignificant effect on subsequent change in CEO compensation.

Since the compensation committee of a board determines CEO compensation, we next examine the votes compensation committee members receive. Model (3) shows that a 1% decrease in the average vote for compensation committee member reduces the unexplained CEO compensation by $143,000 in the next year, and the coefficient is statistically significant at the 5% level. We again find similar results after controlling for shareholder proposals and CEO turnover in Model (4). The votes of the compensation committee chair have an even larger effect on CEO compensation. Models (5) and (6) show that a 1% decrease in the compensation committee chair votes is associated with a reduction of unexplained CEO compensation by approximately $220,000 in the following year, and the coefficients in both regressions are

[26] It is not immediately clear how firms with underpaid CEOs should respond to low director votes. Better compensation practice in these cases could result in higher pay in order to be comparable with peer firms. On the other hand, more optimal compensation structures could be implemented in an effort to provide pay-for-performance incentives. Nevertheless, in a sensitivity test, we include firms with non-positive abnormal CEO compensation in the analysis. In addition to the independent variables reported in Table V, we also include a dummy variable for overpaid CEOs and its interaction with the director vote measures. The results (unreported) show that, for companies with underpaid CEOs, future abnormal compensation does not significantly decrease after low votes for directors. However, for companies with overpaid CEOs, we find similar results as in Table V.

statistically significant at the 1% level. In sharp contrast, Models (7) and (8) show that the votes of directors who do not serve on the compensation committee have no impact on the subsequent CEO compensation. These results suggest that only the shareholder votes for the compensation committee directors impact the directors' decision regarding CEO compensation. In a sensitivity test, we exclude the observations where the CEO turns over, and the results are unchanged.

Since CEO compensation is a skewed variable, we repeat the above tests using the log CEO compensation. We find similar results (unreported), and the coefficients of these regressions suggest that a 1% decrease of compensation committee director votes reduces unexplained CEO compensation change by an average of 1.5% in the following year.

C.2. CEO Turnover

We now examine if votes for directors actually affect CEO turnover. Since one of the duties of a board is to hire and monitor the CEO, the level of votes in a director election may be a reflection that shareholders are unhappy with the CEO. Fischer, Gramlich, Miller, and White (2008) find that the probability of forced turnovers is inversely related to votes for directors in uncontested elections. Using a logistic analysis, we estimate whether the probability of subsequent CEO turnover is related to director votes. We measure director vote by the average residual vote as described previously. Warner, Watts, and Wruck (1988), Denis and Denis (1995), and Yermack (2004), among others, find that the probability of CEO turnover increases following poor stock and operating performance. As shown earlier, firm performance also affects director votes. To control for the endogeneity of votes, we use a two stage approach including firm performance measures in our first stage regression explaining director votes and use the residual from this regression to explain CEO turnover. We also include other CEO characteristics that may be associated with CEO turnover such as CEO age, tenure with the firm, whether the

CEO is chairman, his (her) ownership, and the CEO's excess compensation level. Finally, we include firm characteristics such as measures of firm size, the size of board, the percent of outside directors of a board, a governance index, and the change in institutional ownership.

Our results are shown in Table VI. We examine the impact of the vote of independent directors, insider directors, and all directors. We find that when independent directors receive lower votes, CEO turnover is more likely. Based on model (1), we find that a one standard deviation decrease in independent director votes increases the odds of CEO turnover by 1.21 times. However, votes on the inside directors have no effect on CEO turnover. This result suggests that inside directors are less likely to listen to shareholder dissatisfaction and replace their boss. Similarly, we find in unreported tests that the CEO's own vote has no effect on probability of her replacement. When the votes of independent and insider directors are pooled together, we find a negative, but insignificant relation between director votes and probability of future CEO turnover. We also find, consistent with the literature, that CEOs above 65 are more likely to experience turnover. In addition, CEOs with positive abnormal compensation are less likely to exhibit turnover. On the one hand, high compensation may indicate ability, and better CEOs are less likely to leave. On the other hand, excessive compensation may indicate entrenchment which could also be related to low CEO turnover. Prior-year stock performance is negatively related to CEO turnover, although the coefficient is statistically significant in only one out of the three specifications. Parrino, Sias, and Starks (2003) report a significant decline in institutional ownership prior to CEO turnover. We find a negative, although statistically insignificant, relation between the change in institutional ownership and the probability of CEO turnover.

C.3. Change in Corporate Governance

We next examine whether voting outcomes result in changes in governance characteristics. Poison pills and classified boards are arguably the two most powerful takeover protections, particularly when used together (Bebchuk, Coates, and Subramanian, 2002). Moreover, shareholders are often critical of these characteristics for insulating entrenched managers from market discipline. Thus, we first examine whether fewer director votes are related to a higher probability of removing a poison pill or a classified board.

Further, the dispersion of director votes can also be related to the removal of classified boards. If shareholders show their dissatisfaction with some, but not all, directors of a firm, the firm may want to remove these poorly performing directors. However, with a classified board, these directors will not leave for several years. Declassifying the board may enable the firm to remove these directors sooner by not nominating them in the subsequent election.

In Panel A of Table VII, we include all firms with poison pills. Model (1) shows that the director votes are significantly negatively related to the removal of a poison pill. The lower the director votes, the more likely a firm will remove its poison pill before the next IRRC survey. However, after we control for shareholder proposals and other firm characteristics in Model (2), director votes become marginally insignificant, although the coefficient remains negative. Models (3) and (4) show the regressions with governance committee member votes. The coefficient for the governance committee member votes is negative and statistically significant at the 5% level in both the univariate and multivariate regressions. In contrast to classified boards, there is no obvious reason for why vote dispersion would affect the removal of poison pill. Sensitivity tests confirm that vote dispersion does not affect the removal of poison pill.

In Panel B of Table VII, we include all firms with classified boards. Interestingly, we find that average director votes do not significantly impact the declassification of boards

(unreported), but the dispersion of director votes does. Models (1) to (4) show that the range and standard deviation of the director votes at a firm have a significantly positive impact of removing classified boards in both the univariate and multivariate settings. Using the multivariate regression coefficients, we estimate that a one standard deviation increase in the two dispersion variables increases the odds of declassifying the board by 1.3 and 1.4 times, respectively. In Models (5) to (8), we use the range and standard deviation of governance committee member votes as the main explanatory variables and find similar results. In unreported tests, we find that the votes of the directors not serving on the governance committee have a weaker effect on the removal of poison pill or staggered board. This result suggests that the votes of governance committee members have a more significant effect on improvement of corporate governance.

C.4. Other Efficacy Tests

In results not reported, we find that director votes are not significantly linked to director turnover, director reputation, or firm performance. The absence of a link between director votes and turnover is not surprising since in our sample, most directors are elected under the plurality voting rule and receive over 90% of the votes. If more firms adopt the majority voting rule, however, and if more shareholders realize that they can affect an election outcome by withholding votes, we could find that director votes play a more prominent role in changing corporate governance and performance.

As discussed above, the "withhold' votes a director receives measure shareholder dissatisfaction with this director and her company. Shareholders could also voice their displeasure through other channels, e.g. submitting a shareholder proposal or privately contacting the directors. These actions can also lead to the reforms we document. We attempt to control for these effects. For example, we include dummy variables for shareholder proposals in Tables V

and VII. Obviously, we cannot know if shareholders privately contacted some firms. Thus, the possibility remains that the documented efficacy of votes may be caused by some unobserved omitted variable. Regardless, our evidence suggests that shareholder dissatisfaction, as recorded in withheld votes for directors is often associated with governance reforms.

D. Broker Votes

As discussed earlier, brokers can vote shares held in street name in uncontested elections unless a shareholder has given explicit voting instructions. Historically, these votes have sided with management [Bethel and Gillan (2002)]. This has become a controversial issue recently, and the NYSE has committed to eliminating broker votes effective for all director elections on or after January 1, 2008, subject to SEC approval.[27] However, as of the end of December, 2007, the Securities and Exchange Commission has yet to act on the NYSE proposal.[28] To explore this issue, we examine the impact of removing broker votes in calculating election outcomes.

We are able to estimate the broker votes for 917 out of the 2,488 meetings.[29] Our results appear in Table VIII. Consistent with Bethel and Gillan (2002), we find that broker votes are substantial, averaging 13.1% of outstanding shares.[30] Since broker votes enter both the numerator (number of "For" votes) and the denominator (the sum of "For" and "Withhold" votes), we estimate that in our sample excluding the broker votes reduces the percent "For" votes by an average of 2.5%. Although the average swing in votes of 2.5% may appear small, the

[27] See, for example, NYSE, June 5, 2006, Report and Recommendations of the Proxy Working Group to the New York Stock Exchange. According to the report, in December 2005, Charles Schwab stated that it will alter its practice regarding broker votes, now voting them in proportion to actual votes cast.

[28] The Looming Proxy Season, Pensions and Investments, December 10, 2007, http://www.pionline.com/apps/pbcs.dll/article?AID=/20071210/PRINTSUB/71207003/1020/EDITORIAL, (accessed January 8, 2008).

[29] Since a direct record of broker votes does not exist in the public domain, we must estimate them. Brokers can only vote on the routine proposals but not on non-routine proposals. Consequently we estimate broker votes as the average difference of votes cast between director elections (routine proposals) and the non-routine proposals.

[30] While Dixon and Thomas (1998) find that 70% to 80% of shares are held in street name, on average, just under 13% of the shares are without vote instruction (consistent with Bethel and Gillan, 2002). If a firm's shareholder voting pattern is different from this average, the impact of broker votes could be more substantial.

impact can be substantial.[31] Further, it is important to remember that a change of 2.5% in votes could still change outcomes at a particular election. We find in 34 out of 917 elections, the impact of the broker votes affects the voting outcome by more than 10%.

IV. Conclusions

The right of shareholders to elect representatives to the board is one of the most fundamental aspects of corporate governance. Nevertheless, we are unaware of any published academic research documenting the distribution, determinants, and consequences of shareholder votes in uncontested elections of directors. The objective of this research is to provide such an analysis. Using a large sample of director elections from 2003 to 2005 period, we test hypotheses relating firm and director level performance to votes in uncontested director elections. We also examine the link between director elections and measures of corporate governance. Finally, we test whether voting materially affects board memberships, governance, executive compensation, performance changes or reputation.

We document that directors on average receive a very high level of votes. Our results also provide some support to the firm performance, director performance and governance hypotheses. The level of votes for directors is significantly, positively linked to the operating performance but not to the excess stock return of a firm. Directors in firms with weaker governance receive significantly fewer votes. Two factors matter both economically and statistically. Directors attending less than 75% of board meetings or receiving a negative recommendation from Institutional Shareholder Services receive 14% and 19% fewer votes, respectively. The economic impact of other variables on votes is limited.

[31] Using the regression coefficients from Tables V and VII, we estimate that this change in reported votes may reduce unexplained CEO compensation by up to $600,000, increase the odds of CEO turnover by 1.07 times, and increase the odds of removing poison pill by 1.08 times.

Taken together, the results of our first three hypotheses suggest that at least some shareholders care about performance and governance and that their opinions are reflected in the way they vote. Nevertheless, our tests of the efficacy hypotheses produce mixed results. In our analysis, shareholder votes have little impact on board elections and are unrelated to other board memberships of a director or to subsequent changes in firm performance. However, we find that lower levels of director votes lead to reductions in 'abnormal' compensation and higher levels of CEO turnover. Results linking votes for directors to CEO compensation changes are stronger when we use votes for the members and chairs of the compensation committee. We also find some evidence that director votes affect the subsequent removal of a poison pill and a classified board.

The election of directors is an important, timely topic, currently receiving attention from the NYSE and the SEC. It could be argued that the results of all four hypotheses are evidence of the need for additional changes in the way directors are elected. For example, under a plurality system of election, a director in an uncontested election can be elected with a single vote. But policymakers should be aware that in all but a handful of firms, directors garner well over 50% of the votes. Requiring majority voting would not alter director elections for the vast majority of firms. Our analysis of broker votes suggests that while eliminating these votes is unlikely to have major impact on the outcome of most director elections, it may help to reduce excess CEO compensation and improve corporate governance.

The overwhelming evidence points to the fact that if a director is slated, she is elected. Perhaps reform in the election nomination process is warranted. The Securities and Exchange Commission has suggested allowing shareholders the ability to add candidates to the director ballot. Whether this will actually increase the number of contested elections is unclear. Also unclear is any impact on firm valuation from such changes. Many arguments are made both for

and against greater shareholder access to the proxy. The possibility remains that if shareholders become aware of a link between their votes and actual outcomes, the significant relation between performance and votes documented here could translate to more economically meaningful changes. The results documented here provide an important benchmark for informed debate.

References

Alexander, C. R., Chen, M., Spatt, C., and Seppi, D., 2008. The role of advisory services in proxy Voting. Unpublished working paper.

Arena, M. P. and Ferris, S. P., 2007. When managers bypass shareholder approval of board appointments: Evidence from the private security market. Journal of Corporate Finance 13, 485-510.

Balachandran, S., Joos, P., Weber, J., 2003. Do voting rights matter?: Evidence from the adoption of equity-based compensation plans. MIT Sloan Working Paper No. 4442-03. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=461300.

Bebchuk, L., 2003. The case for shareholder access to the ballot. Business Lawyer 59, 43-66.

Bebchuk, L., 2007. The myth of the shareholder franchise. Virginia Law Review 93, 675-732.

Bebchuk, L. A., Coates, J. C., Subramanian, G., 2002. The powerful anti-takeover force of staggered boards: Theory, evidence, and policy. Stanford Law Review 54, 887-951.

Bebchuk, L., Cohen, A., 2005. The costs of entrenched boards. Journal of Financial Economics 78, 409-433.

Bebchuk, L., Cohen, A., Ferrell, A., 2005. What matters in corporate governance? Harvard Law School John M. Olin Center Discussion Paper No. 491. Available at SSRN: http://papers.ssrn.com/abstract_id=593423.

Bebchuk, L., Hart , O.D., 2001. Takeover Bids vs. Proxy Fights in Contests for Corporate Control. Harvard Law and Economics Discussion Paper No. 336; and ECGI - Finance Working Paper No. 04/2002. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=290584

Bethel, J., Babson College, 2004. http://www.sec.gov/rules/proposed/s71903/s71903-994.pdf.

Bethel, J., Gillan, S., 2002. The impact of the institutional and regulatory environment on shareholder voting. Financial Management 31, 29–54.

Bhagat, S., Brickley, J., 1984. Cumulative voting: The value of minority shareholder voting rights. Journal of Law and Economics 27, 339–365.

Bhagat, S., Black, B., 1999. The uncertain relationship between board composition and firm performance. Business Lawyer 54, 921-963.

Bushee, B., 1998, The influence of institutional investors on myopic R&D investment behavior. Accounting Review 73, 305-333.

Bushee, B., 2001, Do institutional investors prefer near- term earnings over long-run value?. Contemporary Accounting Research 18, 207-246.

Cai, J., Garner, J., Walkling, R., 2007. Democracy of disruption: Majority versus plurality voting. Working paper, Center for Corporate Governance, Drexel University.

Chhaochharia V., Grinstein Y., 2006. CEO compensation and board structure. Available at SSRN: http://ssrn.com/abstract=901642. Cornell University Working paper.

Choi, S., Fisch, Jill, Kahan, M., 2008, Director elections and the influence of proxy advisors. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1127282. New York University Law and Economics Working paper.

Choi, S., Fisch, Jill, Kahan, M., 2008, Director elections and the role of proxy advisors. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1225963. University of Pennsylvania Institute for Law and Economics Working paper.

Dash, E., 2007. S.E.C. bars investors' directors. New York Times, November 29, 2007, BUC.5.

DeAngelo H., and L. DeAngelo, 1989, Proxy contests and the governance of publicly held corporations, Journal of Financial Economics 23, 29 – 59.

Del Guercio, D., Seery, L., Woidtke, T., 2008. Do boards pay attention when institutional investors 'just vote no'?: CEO and director turnover associated with shareholder activism. Journal of Financial Economics, *forthcoming*.

Denis, D. J., and Denis, D. K., 1995. Performance changes following top management dismissals. The Journal of Finance 50(4), 1029-1057.

Denis, D., Denis, D., Sarin, A., 1997. Ownership structure and top executive turnover. Journal of Financial Economics 45, 193-221.

Dixon, C. and Thomas, R., 1998. Aranow and Einhorn on Proxy Contests for Corporate Control, 3rd edition, New York, NY, Aspen Law and Business.

Dodd, P., and Warner J., 1983. On corporate governance: A study of proxy contests. Journal of Financial Economics 11, 401–438.

Fama, E., 1980. Agency problems and the theory of the firm. Journal of Political Economy 88, 288-307.

Fama, E., French, K., 1997. Industry costs of equity. Journal of Financial Economics 43, 153-193.

Farrell, K., Whidbee, D., 2003. Impact of firm performance expectations on CEO turnover and replacement decisions. Journal of Accounting Economics 36, 165–196.

Fich, E., Shivdasani, A., 2006, Are busy boards effective monitors? The Journal of Finance 61, 689– 724.

Fich, E., Shivdasani, A., 2007, Financial fraud, director reputation, and shareholder wealth. Journal of Financial Economics 86, 306-336.

Fischer, P., Gramlich, J. Miller, B., and White H. 2008, Uncontested Director Election Results and Board Performance. Available at SSRN: http://ssrn.com/abstract=928843

Gillan, S., Starks, L., 1998. A survey of shareholder activism: Motivation and empirical evidence. Contemporary Finance Digest 2, 10-34.

Gompers, P., Ishii, J., Metrick, A., 2003. Corporate governance and equity prices. Quarterly Journal of Economics 118, 107–155.

Graham, J., Harvey, C., and Rajgopal, S., 2005, The economic implications of corporate financial reporting, Journal of Accounting and Economics 40, 3-73.

Grundfest, J., 2003. Advice and consent: An alternative mechanism for shareholder participation in the nomination and election of corporate directors. Stanford Law and Economics Olin Working Paper No. 274. Available at SSRN: http://ssrn.com/abstract=481021.

Hartzell, J., E. Ofek, and D. Yermack, 2004, What's in it for me? CEOs whose firms are acquired, The Review of Financial Studies 17, 37-61.

Hermalin, B., Weisbach, M., 1988. The determinants of board composition. Rand Journal of Economics 19, 589–606.

Hermalin, B., Weisbach, M., 2003. Boards of directors as an endogenously determined institution: A survey of the economic literature. Economic Policy Review 9, 7–26.

Hu, H., and Black, B., (2007), Hedge funds, insiders, and the decoupling of economic and voting ownership: Empty voting and hidden (morphable) ownership. Journal of Corporate Finance 13, 343–367.

Huson, M., Malatesta P., and Parrino, R., 2004. Managerial succession and firm performance. Journal of Financial Economics 74, 237-275.

Jensen, M., 1986. Agency costs of free cash flow, corporate finance, and takeovers. American Economic Review 76, 323-329

Joo, T., 2003. A trip through the maze of 'Corporate Democracy': Shareholder voice and management composition. St. John's Law Review, 77, 735-767.

Karpoff, J., 2001. The impact of shareholder activism on target companies: A survey of empirical findings. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=885365.

Karpoff, J., Malatesta P., and Walkling R., 1996. Corporate governance and shareholder initiatives: Empirical evidence. Journal of Financial Economics 42, 365–395.

L. Reed Walton, Publications, The SEC denies proxy access, November 30, 2007, http://blog.riskmetrics.com/2007/11/the_sec_denies_proxy_accesssub.html, (accessed January 10, 2008).

Moeller, S., Schlingemann, F., Stulz, R., 2005. Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave. The Journal of Finance 60, 757-782.

Morgan, A., Poulsen A., 2001. Linking pay to performance – Compensation proposals in the S&P 500. Journal of Financial Economics 62, 489-523.

Morgenson, G., 2007. The owners who can't hire or fire. New York Times, October 14, BU3.1

Morgenson, G., 2007. S.E.C. sends investors to the children's table. New York Times, December 2, BU3.1.

Morrison, D., Cates, E., 2005. Majority versus plurality: Voting in the election of directors. Corporate Update, Fulbright & Jaworski L.L.PAvailable at: http://www.fulbright.com/index.cfm?fuseaction=publications.detail&pub_id=2018&site_id=494&detail=yes#_edn2.

Mulherin, H., Poulsen A., 1998. Proxy contests and corporate change: Implications for shareholder wealth, Journal of Financial Economics 47, 279-313.

Parrino, R., Sias R. W., and Starks, L. T., 2003. Voting with their feet: Institutional ownership changes around forced CEO turnover. Journal of Financial Economics 68, 3-46.

Plitch, P., 2006. Moving the Market –Tracking the Numbers/ Street Sleuth: NYSE studies ending 'broker votes': Possible rule change aims to give individual investors more say in board elections, Wall Street Journal, June 9, C3.

Pound, J., 1988. Proxy contests and the efficiency of shareholder oversight. Journal of Financial Economics 20, 237-265.

Pozen, R., 2003. Institutional perspective on shareholder nominations of corporate directors. Harvard Law and Economics Discussion Paper No. 429. Available at SSRN: http://ssrn.com/abstract=437160.

Proxy Working Group, 2006. Report and recommendations of the Proxy Working Group to The New York Stock Exchange, June 5.

Securities and Exchange Commission, 2003. Staff Report: Review of the Proxy Process: Regarding the Nomination and Election of Directors, July 15.

Shivdasani, A., Yermack, D., 1999. CEO involvement in the selection of new board members: An empirical analysis, Journal of Finance 54, 1829-1853.

Schwartz, D., 1983. Shareholder democracy: A reality or chimera?, California Management Review 25, 53-67.

The Looming Proxy Season, Pensions and Investments, December 10, 2007, http://www.pionline.com/apps/pbcs.dll/article?AID=/20071210/PRINTSUB/71207003/1020/EDITORIAL, (accessed January 8, 2008).

Thomas, R., Cotter, J., 2007.. Shareholder proposals in the new millennium: Shareholder support, board response, and market reaction. Journal of Corporate Finance 13, 368-391.

Thomas, R., Martin, K., 2000. The determinants of shareholder voting on stock option plans, Wake Forest Law Review 35, 31-82.

Verdam, A., 2006. An exploration of the role of proxy advisors in proxy voting. VU University of Amsterdam working paper.

Walkling, R., and Long, M.S., 1984. Agency theory, managerial welfare and takeover bid resistance. The Rand (Bell) Journal of Economics 15, 54-68.

Warner, J. B., Watts, R. L., and Wruck, K. H., 1988. Stock prices and top management changes. Journal of Financial Economics 20, 461-492.

Weisbach, M.S., 1988, Outside directors and CEO turnover. Journal of Financial Economics 20, 431-460.

Yermack, D., 2004. Remuneration, retention, and reputation: Incentives for outside directors. The Journal of Finance 59, 2281–2308.

Yermack, D., 2006. Flights of fancy: Corporate jets, CEO perquisites, and inferior shareholder returns. Journal of Financial Economics 80, 211-242.

Table I
Summary Statistics

The table presents summary statistics for percentage votes, performance and governance variables using a sample of director elections from 2003 to 2005. Details of the sample are discussed in Section II.A. The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes. We report statistics averaged at the firm (shareholder meeting) and director levels. The range of "For" votes equals the difference between the highest and lowest director "For" votes within a firm's shareholder meeting. The vote range is not available for five shareholder meetings because the firm reports only the average director votes. EBITDA to assets equals the earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997). The Governance index equals the sum of 24 anti-takeover provisions following Gompers, Ishii, and Metrick (2003). The Entrenchment index is the sum of six anti-takeover provisions following Bebchuk, Cohen, and Ferrell (2005). The staggered board and poison pill dummy equals one if a company has both, and zero otherwise. Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The Herfindahl index is the sum of squared individual institutional holdings divided by total institutional holdings. The institutional block holder dummy equals one if the firm has at least one institutional shareholder with more than 5% stock ownership, and zero otherwise. Holdings by Quasi-Indexer, Dedicated institutions, and Transient institutions follow the classification system by Bushee (1998, 2001). Board size equals the number of directors on a board. Board holdings equal the aggregate percent of outstanding shares of a company held by the board of directors. Percent of outside directors equals the number of outside directors divided by the total number of directors. We estimate the abnormal CEO compensation as the residual from a compensation regression of all ExecuComp firms during our sample period. We include log assets, prior year stock return, industry and year dummies as the independent variables. Confidential voting dummy equals one if firm policy prevents management from knowing how shareholders vote their proxy cards. Cumulative voting dummy equals one if the firm has a voting system whereby shareholders can cumulate votes for a single candidate. The unequal voting dummy equals one if the firm has two or more classes of shares with unequal voting power, and zero otherwise. The majority voting dummy equals one if the firm's directors are elected only if they receive more than 50% of the votes. The average ISS recommendation equals the fraction of directors who receive a positive ISS recommendation at a shareholder meeting. The litigation dummy equals one if a firm has a shareholder litigation in the year prior to the shareholder meeting, and zero otherwise. Following Fich and Shivdasani (2007), we exclude litigations related to insider trading. The vote-no dummy equals one if at least one director at a firm receives a vote-no campaign in year prior to the shareholder meeting, and zero otherwise.

	N	Mean	Median	Max	Min	Standard Deviation
Vote measures						
Average percent "For" votes (firm)	2,488	93.93	96.00	100.00	37.00	6.41
Range of "For" votes within a firm	2,483[†]	7.40	3.00	57.00	0.00	9.75
Percent "For" votes (director)	13,384	94.27	97.00	100.00	30.00	7.68
Performance Measures						
Industry adjusted EBITDA to Assets (%)	2,488	0.90	0.00	95.38	-88.21	10.09
One-year excess return (%)	2,488	7.64	2.41	395.02	-80.26	39.79
Governance measures						
Governance index	2,488	9.44	9.00	18.00	2.00	2.53
Entrenchment index	2,488	1.66	2.00	5.00	0.00	1.06
% staggered[*] poison pill	2,488	43.40				
% institutional holdings	2,488	74.60	77.03	99.85	11.29	14.78
Herfindahl index of institutional holdings	2,488	0.05	0.04	0.26	0.02	0.02
Institutional block holder Dummy	2,488	0.90	1.00	1.00	0.00	0.30
Holdings by Quasi-Indexer (%)	2,488	44.89	43.97	84.58	8.29	13.09
Holdings by Dedicated Institutions (%)	2,488	5.95	3.00	51.40	0.00	7.39
Holdings by Transient Institutions (%)	2,488	19.18	18.13	60.90	0.09	11.25
Board size	2,488	9.14	9.00	17.00	1.00	2.19
% board holdings	2,488	8.52	3.63	97.47	0.00	12.33
% outside directors	2,488	69.85	71.43	100.00	0.00	14.87
Abnormal CEO Compensation ($ million)	2,488	-0.42	-1.20	83.37	-15.50	5.61
Confidential voting dummy	2,488	0.13				
Cumulative voting dummy	2,488	0.10				
Unequal voting dummy	2,488	0.01				
Majority voting dummy	2,488	0.06				
Average ISS recommendation	2,488	0.89	1.00	1.00	0.00	0.23
Litigation Dummy	2,488	0.02				
Vote No Dummy	2,488	0.01				

[†] The number of observation for vote range is 2,483 because five companies only report the average votes.

Table II
Firm-level Determinants of Director Election Results

The dependent variable in all OLS regressions is the average percent "For" votes of all directors being elected in a company. All definitions are as in Table I. The average ISS recommendation is a function of firm performance as well as governance characteristics that are already included in the regressions. Therefore, we estimate a regression model of the average ISS recommendation based on our performance and governance characteristics (see footnote 19 for detail) and use the residuals from this model as our ISS variable. Industry dummies and year dummies are included in all regressions. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Independent variables	Dependent variable = Average Percent "For" votes				
and statistics	(1)	(2)	(3)	(4)	(5)
Intercept	90.92	89.50	87.76	89.24	91.11
	(84.45)***	(92.04)***	(105.22)***	(101.28)***	(84.18)***
Log (Assets)	-0.01	-0.09	-0.05	-0.05	-0.03
	(-0.07)	(-1.11)	(-0.61)	(-0.60)	(-0.32)
Performance					
Prior-year Industry-Adjusted EBITDA	4.28	3.63	3.44	3.52	
	(5.11)***	(4.45)***	(4.23)***	(4.33)***	
Prior-year Excess Returns					-0.15
					(-0.70)
Governance					
Governance Index	-0.17			-0.17	-0.18
	(-4.79)***			(-4.80)***	(-4.93)***
Entrenchment Index		-0.38			
		(-4.70)***			
Staggered Board and Poison Pill			-0.63		
			(-3.61)***		
Abnormal CEO Compensation ($million)	-0.03	-0.04	-0.04	-0.03	-0.03
	(-2.38)**	(-2.41)**	(-2.46)**	(-2.19)**	(-2.32)**
Board Size	0.18	0.20	0.19	0.21	0.19
	(3.73)***	(4.01)***	(3.92)***	(4.19)***	(3.77)***
Board Holdings	3.95	5.30	5.75	5.24	4.24
	(4.82)***	(6.82)***	(7.54)***	(6.78)***	(5.14)***
Percent of Outside Directors	8.59	8.32	8.27	8.35	8.56
	(13.67)***	(13.26)***	(13.17)***	(13.33)***	(13.54)***
Residual of average ISS recommendation	20.77	20.71	20.73	20.77	20.76
	(57.46)***	(57.09)***	(57.01)***	(57.30)***	(57.12)***
Litigation in prior year	-1.21	-1.10	-1.03	-1.04	-1.29
	(-1.88)*	(-1.69)*	(-1.59)	(-1.61)	(-1.98)**
Voting Mechanism					
Unequal Voting Dummy	2.26	2.13	2.21	2.26	2.30
	(2.88)***	(2.72)***	(2.81)***	(2.87)***	(2.92)***
Confidential Voting Dummy	-0.94	-0.75	-0.74	-0.86	-0.97
	(-3.44)***	(-2.77)***	(-2.70)***	(-3.15)***	(-3.52)***
Majority Voting Dummy	1.30	1.34	1.43	1.32	1.28
	(3.50)***	(3.62)***	(3.86)***	(3.55)***	(3.43)***
"Vote-No" Campaign Dummy	-7.19	-7.14	-7.03	-7.01	-7.26
	(-9.06)***	(-8.96)***	(-8.81)***	(-8.80)***	(-9.10)***
Institutional Holdings	-3.33				-2.93
	(-4.72)***				(-4.16)***
Herfindahl Index of Inst'l holdings (%)	0.08				0.03
	(1.97)**				(0.81)

Block Holder Dummy	0.11				0.07
	(0.36)				(0.23)
Holdings by Quasi-Indexer		-1.95			
		(-2.46)**			
Holdings by Dedicated Institutions			-2.23		
			(-1.71)*		
Holdings by Transient Institutions				-2.79	
				(-3.01)***	
Calendar year Dummy	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.617	0.613	0.611	0.614	0.613
N	2,488	2,488	2,488	2,488	2,488

Table III
Director Characteristics and Election Results

The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes. The excess percent "For" votes equals a director's percent "For" votes minus the company average percent "For" votes. The independence dummy equals one if a director is classified as "Independent" by IRRC, and zero if classified as "Employee" or "Linked." The incumbent director dummy equals one if a director is on the board in the previous year, and zero otherwise. The ISS recommendation dummy equals one if ISS recommends to vote "For" for a director, and zero if ISS recommends "Withhold." The high stock ownership dummy equals one if a director's stock ownership is above the median director stock ownership of the overall sample, and zero otherwise, where stock ownership equals the number of shares held by the director divided by the number of shares outstanding. "Have outside board seats" is a dummy variable set equal to one if a director sits on any additional boards.

Panel A: Summary statistics	N	Mean	Median	Min	Max	Standard Deviation
Percent "For" votes	13,384	94.27	97	30	100	7.68
Independence Dummy	13,384	0.71	1			
Incumbent Director Dummy	13,382	0.93	1			
ISS recommendation Dummy	13,380	0.89	1			
Director Stock Ownership (%)	13,384	0.96	0.05	0	59.68	3.68
Age	13,384	59.41	60	28	94	8.57
Attend less 75% meetings	12,463	0.01	0			
Gender (Female = 1)	13,384	0.11	0			
Number of outside Board seats	13,384	0.90	0	0	9	1.20

Panel B: Mean Percent "For" votes

Director Characteristics	Characteristic variable = 0		Characteristic variable = 1		Difference in Mean	T-stat
	N	% vote	N	% vote		
Independence	3,933	92.80	9,451	94.88	-2.08	-12.70***
Incumbent Director	919	96.59	12,463	94.10	2.49	14.90***
ISS recommendation	1,415	77.56	11,965	96.24	-18.68	-60.01***
High stock ownership	6,692	94.83	6,692	93.71	1.12	8.48***
Age is over 65	9,613	94.49	3,771	93.70	0.79	5.22***
Attend less 75% meetings	12,335	94.24	128	80.21	14.03	10.90***
Gender (Female = 1)	11,893	94.19	1,491	94.94	-0.75	-3.86***
Have outside board seats	6,944	94.14	6,440	94.41	-0.27	-1.98**

Panel C: Mean Excess Percent "For" votes

Director Characteristics	Characteristic variable = 0		Characteristic variable = 1		Difference in Mean	T-stat
	N	% vote	N	% vote		
Independence	3,933	-0.99	9,451	0.41	-1.40	-13.06***
Incumbent Director	919	2.11	12,463	-0.16	2.27	15.47***
ISS recommendation	1,415	-7.88	11,965	0.93	-8.80	-37.65***
High stock ownership	6,692	0.30	6,692	-0.30	0.60	7.15***
Age is over 65	9,613	0.19	3,771	-0.50	0.69	7.06***
Attend less 75% meetings	12,335	-0.04	128	-11.42	11.38	11.32***
Gender (Female = 1)	11,893	-0.04	1,491	0.26	-0.30	-2.39**
Have outside board seats	6,944	0.07	6,440	-0.08	0.15	1.69*

Table IV
Director-level Determinants of Director Election Results

Variable definitions are as in Table I and Table III. The dependent variable in all OLS regressions is the excess percent "For" votes as described in Panel C of Table III. Since the ISS recommendation dummy is also a function of other director and firm characteristics included in the regression, we estimate a logistic regression explaining the recommendation using the variables in the table (see footnote 24 for detail) and then use the residual in the regressions reported here. Since this table focuses on director level votes, the vote no dummy here equals one if a director receives a "vote no" campaign in year prior to the shareholder meeting, and zero otherwise. The litigation variable equals one if a director serves on the board of another firm that faces a shareholder litigation in the year prior to the shareholder meeting. The high CEO compensation dummy equals one the director is the CEO and his abnormal compensation is positive, and zero otherwise. The accounting restatement dummy in prior year equals one if the firm had a restatement as defined by the GAO Restatement Database. The low CEO compensation dummy equals one if the director is the CEO and his abnormal compensation is negative, and zero otherwise. Other independent variables are as described in previous tables. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Independent variables and statistics	Dependent variable = Excess % "For" votes		
	(1)	(2)	(3)
Intercept	0.96	-0.05	-0.05
	(3.90)***	(-0.18)	(-0.21)
Independence dummy	1.53	3.21	3.21
	(18.47)***	(29.47)***	(29.48)***
Incumbent Director	-1.53	-0.77	-0.76
	(-10.78)***	(-5.31)***	(-5.27)***
Attend less than 75% of meetings	-11.63	-11.61	-11.63
	(-33.17)***	(-33.78)***	(-33.85)***
Residual of ISS recommendation	8.74	8.44	8.43
	(73.68)***	(72.15)***	(72.05)***
Stock ownership (%)	0.05	0.02	0.02
	(4.61)***	(2.33)**	(2.26)**
Director tenure	-0.03	-0.03	-0.03
	(-6.33)***	(-5.10)***	(-5.14)***
Gender (Female = 1)	-0.17	-0.15	-0.14
	(-1.56)	(-1.33)	(-1.26)
Number of Outside Board Seats held	-0.17	-0.16	-0.16
	(-5.78)***	(-5.65)***	(-5.55)***
Age is above 65	-0.52	-0.32	-0.32
	(-6.12)***	(-3.79)***	(-3.77)***
Vote-No Campaign Dummy	-1.27	-1.13	-1.08
	(-2.69)***	(-2.43)**	(-2.34)**
Dummy for sitting on the board of a firm with a litigation in prior year	-0.49	-0.49	-0.48
	(-1.79)*	(-1.84)*	(-1.79)*
Compensation committee Chair		-1.26	-1.29
		(-9.88)***	(-10.08)***

Compensation committee Chair* Excess CEO compensation			-0.05 (-2.79)***
Non-Chair member of compensation committee		-1.08 (-12.88)***	-1.09 (-13.02)***
Non-Chair member of compensation committee* Excess CEO compensation			-0.03 (-2.37)**
Audit committee Chair		-1.18 (-9.43)***	-1.21 (-9.46)***
Audit committee chair* Accounting restatement in prior year			0.31 (0.64)
Non-Chair member of audit committee		-0.88 (-10.55)***	-0.91 (-10.68)***
Non-Chair member of audit committee* Accounting restatement in prior year			0.36 (1.42)
Corporate governance committee member		-0.74 (-9.60)***	-0.52 (-2.34)**
Corporate governance committee member* GIM index			-0.02 (-1.06)
CEO dummy		1.38 (10.39)***	1.38 (10.23)***
High CEO compensation dummy* Prior-year industry-adjusted EBITDA			-3.78 (-2.31)**
Low CEO compensation dummy* Prior-year industry-adjusted EBITDA			-0.82 (-0.70)
High CEO compensation dummy * Prior-year excess return			0.39 (0.91)
Low CEO compensation dummy * Prior-year excess return			0.06 (0.21)
Non-CEO Chairman		0.16 (0.84)	0.15 (0.79)
Calendar Year Dummy	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes
Adjusted R^2	0.355	0.381	0.383
N	13,378	13,378	13,378

Table V
Do Director Election Votes affect CEO Compensation?

In the following OLS regressions, we include all firms whose current year abnormal CEO compensation is positive. We then examine whether the director votes affect the change of abnormal CEO Compensation prior to the next shareholder meeting. The abnormal CEO compensation is the residual from a compensation regression using all ExecuComp companies during our sample period as the benchmark. The dependent variable of the compensation regression is total CEO compensation including option grants, and the independent variables include three-year stock return, log market value of equity, Fama-French 48 industry classification, and year dummies. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. The CEO turnover dummy equals one if the current and the next CEO compensation belong to two different persons and zero if they belong to the same person. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Independent variables	Dependent Variable = Change in Excess Total CEO Compensation ($ million)							
and statistics	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-2.54 (-5.68)***	-2.24 (-4.57)***	-2.32 (-4.83)***	-2.06 (-3.92)***	-2.40 (-4.66)***	-2.00 (-3.51)***	-2.49 (-5.43)***	-2.14 (-4.24)***
Average residual votes of all directors	0.093 (1.24)	0.089 (1.19)						
Average residual votes of comp committee directors			0.143 (2.22)**	0.143 (2.21)**				
Compensation committee Chair residual vote					0.222 (3.20)***	0.214 (3.08)***		
Average residual votes of non-comp committee directors							-0.023 (-0.31)	-0.028 (-0.38)
Dummy of a shareholder proposal on CEO compensation		-2.68 (-1.78)*		-2.49 (-1.62)		-2.28 (-1.57)		-2.76 (-1.81)*
CEO turnover dummy		-0.37 (-0.24)		0.07 (0.04)		-1.01 (-0.52)		-0.82 (-0.51)
Adjusted R^2	0.001	0.004	0.010	0.012	0.043	0.046	-0.002	0.002
N	447	447	389	389	209	209	430	430

Table VI
Does the level of director votes affect CEO turnover?

The dependent variable is the CEO turnover dummy, which equals one if the CEO departs prior to the next meeting and zero otherwise. The main independent variables are residual votes for directors. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable. For companies with staggered board there may be no independent (or insider) directors up for election at some shareholder meetings. Thus, the number of available observations differs in different specifications. CEO is Chairman dummy equals one if the CEO also serves as Chairman of the Board, and zero otherwise. CEO is Not Chairman dummy equals one if the CEO does not serve as Chairman of the Board, and zero otherwise. CEO Ownership is the percent of outstanding shares owned by the CEO. CEO Tenure is the number of years that the CEO has served in the position. We compute abnormal CEO compensation as the residual from a compensation regression using all ExecuComp companies during our sample period as the benchmark. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level.

	Dependent variable = CEO turnover dummy		
Independent variables and statistics	(1)	(2)	(3)
Intercept	-2.68	-3.60	-2.65
	(-3.50)***	(-4.17)***	(-3.52)***
Residual votes for independent directors	-0.031		
	(-2.42)**		
Residual votes for insider directors		-0.007	
		(-0.55)	
Residual votes for all directors			-0.020
			(-1.50)
Percent of Outside Directors	0.69	1.27	0.73
	(0.95)	(1.54)	(1.01)
CEO stock holdings	1.36	1.65	1.06
	(0.71)	(0.78)	(0.56)
CEO tenure	-0.02	-0.03	-0.02
	(-1.45)	(-1.53)	(-1.51)
CEO is the Chairman dummy	0.39	0.31	0.39
	(1.69)*	(1.23)	(1.72)*
CEO age > 65 dummy	1.26	1.40	1.18
	(4.24)***	(4.33)***	(4.02)***
CEO's prior-year excess compensation ($million)	-0.05	-0.06	-0.05
	(-1.90)*	(-1.90)*	(-1.88)*
Industry adjusted EBITDA/ Assets	-0.93	-1.06	-1.02
	(-0.93)	(-0.94)	(-1.02)
Prior year excess return	-0.32	-0.55	-0.33
	(-1.18)	(-1.72)*	(-1.22)
G-index	0.01	0.02	0.01
	(0.28)	(0.53)	(0.18)
Change in institutional Holdings during the prior year	-1.17	-0.73	-1.28
	(-1.08)	(-0.63)	(-1.19)
Log Assets	-0.05	0.01	-0.05
	(-0.73)	(0.11)	(-0.74)
N – No CEO turnover	1,171	956	1,198
N – CEO turnover	125	100	126
Pseudo- R^2	0.056	0.063	0.048

Table VII
Do Director Election Votes affect Corporate Governance?

The sample includes all firms with Poison Pill or Classified Board in the current year IRRC governance report. Using logistic regressions, we examine whether the subsequent director election votes affect a firm's decision to keep or remove the Poison Pill or Classified Board before the next IRRC report. The dependent variable in Panel A equals one if the poison pill is removed, and zero otherwise. The dependent variable in Panel B equals one if the classified board is removed and zero otherwise. If there is more than one director election between two IRRC reports, we take the average value of vote variables of the elections. Industry and calendar year dummies are included in the regressions but not reported. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Panel A: Dependent Variable = Removal of Poison Pill				
	(1)	(2)	(3)	(4)
Intercept	-7.02	-5.85	-6.83	-5.83
	(-0.22)	(-0.46)	(-0.20)	(-0.42)
Average residual votes of all directors at a shareholder meeting	-0.041	-0.031		
	(-2.39)**	(-1.62)		
Average residual votes for governance committee members			-0.041	-0.037
			(-2.57)**	(-2.01)**
Dummy of a shareholder proposal on the poison pill		2.20		2.73
		(5.00)***		(5.57)***
Prior year stock return		-0.81		-0.83
		(-1.44)		(-1.33)
Percent of outside directors		1.24		0.84
		(0.87)		(0.54)
Board Holdings		-13.53		-11.79
		(-2.50)**		(-2.01)**
Pseudo-R^2	0.165	0.292	0.173	0.324
N (Dependent variable = 1)	60	60	53	53
N	1,103	1,103	900	900

Panel B: Dependent Variable = Removal of Classified Board								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-7.90 (-0.29)	-10.16 (-0.36)	-7.69 (-0.30)	-9.97 (-0.35)	-7.15 (-0.30)	-9.37 (-0.41)	-7.14 (-0.30)	-9.25 (-0.40)
Range of all director residual votes	0.037 (2.32)**	0.045 (2.68)***						
Standard Deviation of all directors residual votes			0.042 (1.46)	0.057 (1.88)*				
Range of governance committee member residual votes					0.047 (2.19)**	0.049 (2.19)**		
Standard Deviation of governance committee member residual votes							0.055 (1.78)*	0.056 (1.76)*
Dummy of a shareholder proposal on the governance issue		1.24 (2.36)***		1.25 (2.39)**		1.23 (2.28)**		1.27 (2.36)**
Prior year stock return		-0.62 (-1.03)		-0.59 (-0.99)		-0.68 (-1.07)		-0.67 (-1.05)
Percent of outside directors		3.06 (2.07)**		2.92 (1.99)**		2.88 (1.86)*		2.73 (1.77)*
Board Holdings		-0.08 (-0.04)		-0.16 (-0.07)		1.15 (0.47)		1.18 (0.48)
Pseudo-R^2	0.199	0.237	0.191	0.228	0.187	0.222	0.182	0.217
N (Dependent variable = 1)	46	46	46	46	42	42	42	42
N	1054	1054	1054	1054	811	811	811	811

Table VIII
Broker Votes

For a sub-sample of 917 shareholder meetings, we are able to estimate the number of broker votes and their impact on director elections. Many shares are registered under a broker's name (street name) instead of the beneficial owner's name. If the beneficial shareholder does not return a proxy card, the brokers can vote these shares in routine proposals. Under current rules, this includes uncontested director elections. Bethel and Gillan (2002) document that brokers always vote for the management. Since brokers cannot vote on non-routine proposals we estimate the broker votes as the difference between the total votes cast in routine proposals minus total votes cast in non-routine proposals. We then recalculate the percent "For" votes excluding broker votes from both the numerator and the denominator. The impact of broker votes equals the percent "For" votes including broker votes minus the percent "For" votes excluding broker votes. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	N	Mean	Min	Q1	Median	Q3	Max
Broker votes divided by Outstanding shares	917	0.131	0.010	0.087	0.117	0.155	0.501
Percent "For" votes Including broker votes	917	0.929	0.413	0.917	0.953	0.973	0.999
Percent "For" votes Excluding broker votes	917	0.904	0.333	0.887	0.938	0.964	0.999
Impact of Broker votes	917	0.025***	0.000	0.006	0.012***	0.029	0.652

Note: In 34 cases, the impact of broker votes is greater than 10%.

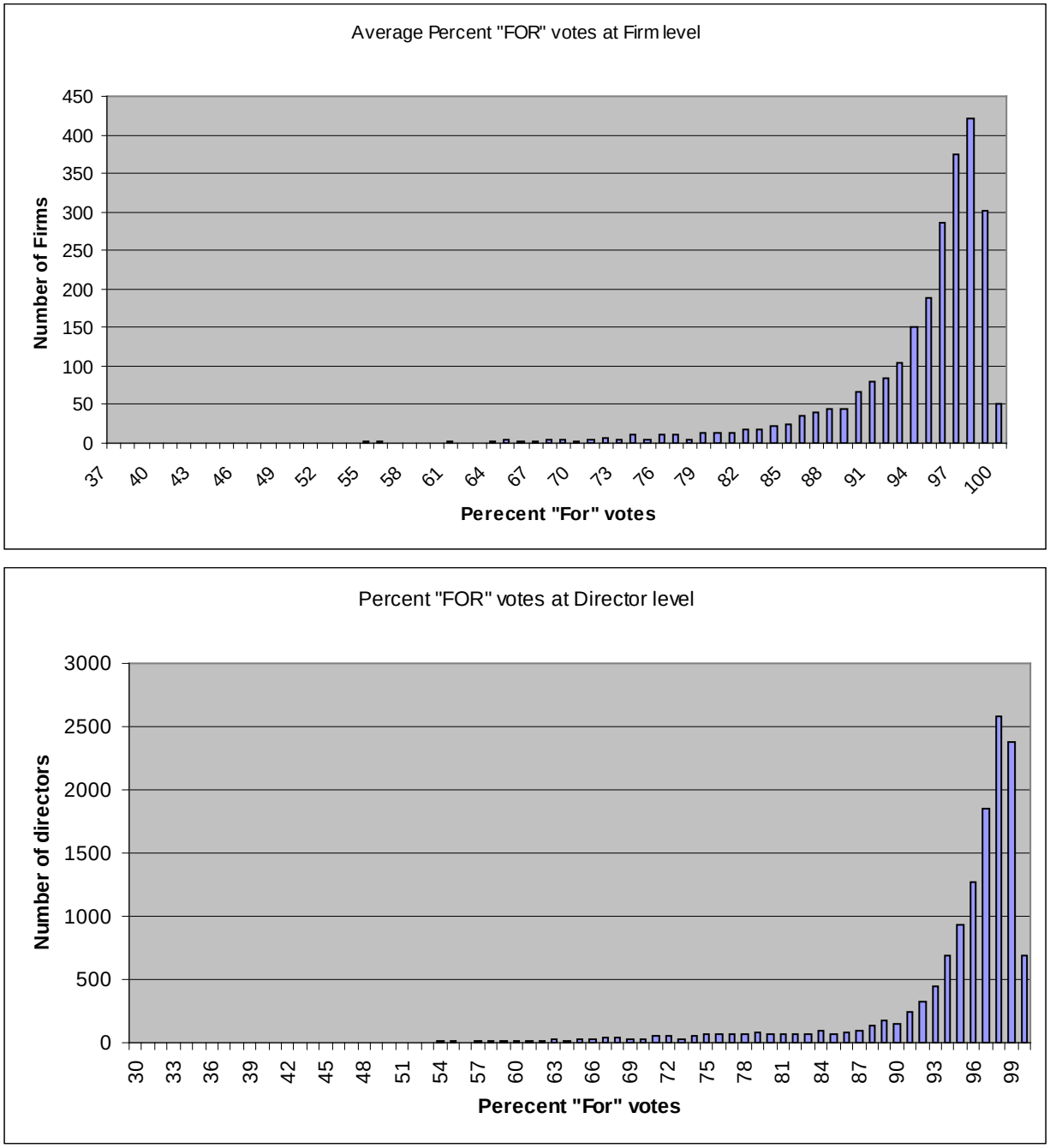

Figure 1. Distribution of percent "For" votes at firm level and director level. The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes.