

# Voting Rationales\*

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## Abstract

We examine why institutional investors vote the way they vote on director elections, using a novel dataset on voting rationales provided by institutional investors. We find that the most important reasons for opposing directors are board independence, board diversity, tenure, firm governance, and busyness; institutional investors are also increasingly voting against directors to hold them accountable for failure to address environmental and social issues. We find that institutional investors' concerns are well-grounded: companies with low board gender diversity receive more rationales on board diversity, similar for companies with long director tenure and busy directors. This is consistent with institutional investors devoting significant effort toward governance research. Finally, companies with high dissent voting related to board diversity, tenure, and busyness improve their board composition in the following year. Our results suggest that directors are willing to address concerns that result in high shareholder dissent, and voting rationales can be an effective tool to communicate the source of dissent.

**Keywords:** institutional investors, voting, voting rationales, corporate governance

**JEL:** JEL: G11, G23, G30

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*“Ultimately, corporate accountability is only possible when the funds that manage American investors’ savings diligently exercise their authority to vote, clearly disclose their votes to investors, and operate in a system that efficiently provides accurate information about vote execution.”*

*A.H. Lee, Acting Chair of the SEC, March 17, 2021.*

## 1. Introduction

Voting is a critical aspect of corporate governance, allowing shareholders to voice their views and influence the direction of the company (e.g., Hirschman, 1970; Shleifer and Vishny, 1986; McCahery, Sautner, and Starks, 2016). With institutional investors holding more than 70% of publicly traded companies outstanding shares in the US, the effectiveness of the governance system critically relies on institutional investors diligently exercising the voting authority on behalf of their clients.<sup>1</sup> Although existing literature offers valuable insights into the determinants of institutional investors’ voting decisions, the underlying reasons for each vote remain elusive. Researchers typically rely on indirect inferences based on observable information to uncover these determinants, such as voting patterns and the characteristics of companies, sponsors, proposals, or institutional investors (e.g., Iliev and Lowry, 2015; Bolton, Li, Ravina, and Rosenthal, 2020). However, because votes do not come with an explicit explanation (i.e., voting rationale), it is challenging to grasp the specific considerations that underlie each vote. Studying a novel dataset containing 611,389 institutional investors’ voting rationales, we examine why institutional investors vote the way they vote on director elections and the impact on firm’s actions.

We focus on director elections, one of the most important decisions by shareholders, since shareholders typically do not have direct representation in companies, except through the board. Thus, voting on director elections is a crucial way to hold them accountable. While most director elections are uncontested, dissent voting has severe consequences for directors (Cai, Garner, and Walkling, 2009; Ertimur, Ferri, and Oesch, 2018; Aggarwal, Dahiya, and Prabhala, 2019).

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<sup>1</sup>A.H. Lee, Acting Chair of the SEC, March 17, 2021. “Every Vote Counts: The Importance of Fund Voting and Disclosure.” Available [here](#).

Such dissent can indicate dissatisfaction with the director candidate, the board of directors, or broader issues within the company, such as poor performance or inadequate governance practices. In this context, the rationales behind the voting decisions of institutional investors can offer valuable insights for directors to comprehend the concerns that institutional investors may have, and take necessary measures to address them.

Voting rationales are vote-specific, voluntarily disclosed, and have the potential to reveal valuable information beyond what is contained in votes alone. Examples include “*A vote AGAINST incumbent Nominating Committee member William (Bill) Larsson is warranted for lack of diversity on the board*” or “*Adopted or renewed poison pill w/o shareholder approval in past year.*” Our analyses reveal several important findings and we highlight several of them here. First, we systematically classify the main reasons why institutional investors vote against directors and quantify the relative importance of each reason. For example, we find that director independence and board diversity are the main reasons for voting against directors. Second, we find that rationales reflect institutional investors’ independent assessment, not just the rationales of proxy advisors. Third, we show that institutional investors’ rationales are well-grounded on the aggregate. Specifically, companies with low board gender diversity receive more rationales on board diversity, similar for companies with long director tenure and busy directors. Together, these results indicate that many institutional investors exert governance efforts when they vote. Fourth, we find that companies with high dissent voting related to board diversity, tenure, and busyness improve their board diversity, reduce average tenure and busyness, respectively, in the following year. This finding supports the view that companies address concerns investors state in their voting rationales and voting rationales might be an effective tool for institutional investors seeking to influence corporate policies.

As the first paper to analyze institutional investors’ voting rationales, we begin by providing an overview of the data not only on director elections, but also on other management and shareholder proposals. While voluntary, disclosing voting rationales is encouraged by the United Nations (UN) Principles for Responsible Investment (PRI) “*so that the company, fellow investors and other stakeholders are clear on why a decision is being taken*” (PRI, 2021, p.12); indeed, we find that it has become increasingly popular in recent years. The proportion

of institutional investors disclosing at least one rationale in any type of proposal during the proxy season increased during our sample period from 6.2% in 2014 to 12.9% in 2021, and the proportion of votes with a rationale went from 1.4% in 2014 to 5.4% in 2021. We observe a similar trend in all types of proposals. However, shareholder proposals have more rationales (8.4%) than management proposals (3.2%), on average. Further, votes are more likely to have a rationale when they go against (or abstain) management recommendations (15.3% in director election proposals, 19.4% in other management proposals) than when votes are in favor (1.9% in director elections, 2% in other management proposals). On shareholder proposals, which management typically opposes, institutional investors provide a rationale in 12.3% of votes when they vote in favor and 3.5% when they vote against. This again suggests that institutional investors provide a rationale when opposing management. In our sample, 71% of proposals on director elections and 89% of meetings have at least one rationale. Although the proportion of votes with rationales is still small, our data covers a broad range of meetings, providing insight into institutional investors' concerns when casting their shares.

One of the main goals of this paper is to understand what makes each investor vote for or against a given proposal by examining the contents of the voting rationales. As different proposals have different rationales, it is essential to separate them by proposal type.<sup>2</sup> We focus on director election proposals, given their importance for corporate governance. To better understand the reasons behind the votes on director elections, we use Bidirectional Encoder Representations from Transformers (BERT), a natural language processing (NLP) technique developed by Google in 2019, to categorize institutional investors' rationales into different topics. Using a supervised machine learning approach, we first manually read and analyze a random sample of voting rationales to identify 15 non-mutually exclusive topics that encapsulate the main reasons behind their votes. In identifying these topics, we draw upon factors emphasized in theoretical and empirical literature as significant determinants of votes in director elections (e.g., independence, tenure). Each rationale typically mentions one or two topics. The BERT model shows strong performance, achieving an overall accuracy of 98%, precision of 96%, recall

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<sup>2</sup>For example, an argument like “*Current practice is sufficient*” is often used to oppose shareholder proposals, but not for management proposals. In contrast, “*Less than 75% attendance*” is a consideration for director election proposals, but not other proposals.

of 97%, and F1-score of 96%. We are thus confident that we can effectively identify the main motivation behind institutional investor’s votes.

We first consider rationales for votes against directors. Our analysis reveals that independence is the most important reason mentioned by institutional investors, accounting for 21% of rationales.<sup>3</sup> This is consistent with prior literature documenting the importance of independence (e.g., Gillan and Starks, 2000; Del Guercio, Seery, and Woidtke, 2008). Notably, board diversity is the second most common reason for opposing directors, constituting 18% of rationales and mentioned in 72% of meetings. This concern is frequently mentioned even before the Big Three institutional investors (i.e., BlackRock, Vanguard, and State Street) launched campaigns to promote gender diversity in 2017 (Gormley, Gupta, Matsa, Mortal, and Yang, 2022). Director tenure and busyness also appear among the main reasons for opposing directors. We also find that a small fraction of institutional investors hold director nominees responsible for concerns over ESG/CSR (Aggarwal, Dahiya, and Yilmaz, 2023), especially after the 2019 proxy season. Interestingly, we rarely observe rationales related to the boards’ advising roles, despite the importance of directors’ skill sets and experiences (e.g., Adams, Akyol, and Verwijmeren, 2018). While prior literature provides indirect evidence on the determinants of support for directors (e.g., Cai et al., 2009; Choi, Fisch, and Kahan, 2013), this is the first paper providing direct evidence and documenting the relative importance of the governance concerns of institutional investors when casting their shares.

A natural question is what makes institutional investors support director candidates. We find that institutional investors are much less likely to provide rationales when they support director nominees, and even when they do, the rationales usually lack significant information (e.g., “*A vote FOR director nominee Thomas A. Edwards is warranted*”). Therefore, our subsequent analyses focus on rationales for votes against director nominees.

We find that rationales are unlikely to merely reflect the rationales of proxy advisors. Although we cannot directly observe ISS or Glass Lewis rationales,<sup>4</sup> we can infer them from robo-

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<sup>3</sup>Independence includes a particular candidate’s lack of independence, a low fraction of independent directors on the board, and a lack of independent directors in key committees, among others.

<sup>4</sup>We contacted ISS to obtain their rationales when issuing a voting recommendation. As of September 2022,

voters, which we define as institutional investors that vote with ISS or Glass Lewis at least 99% of the time during a proxy season. Approximately 19% of investors are ISS robo-voters, while 8% are Glass Lewis robo-voters, and they account for 16.7% of rationales. Robo-voters exhibit high similarity of rationales to one another, with average cosine similarity of 0.96 and 0.99 for ISS and Glass Lewis robo-voters, respectively.<sup>5</sup> Their rationales are essentially identical, which suggests that they may not have been developed independently, but rather reflect the rationale of their respective proxy advisors. Notably, ISS or Glass Lewis robo-voters do not provide rationales regarding director tenure, which is the fourth most common rationale for voting against directors among all institutional investors. Overall, we show that voting rationales do not solely reflect the rationales of proxy advisors, despite concerns over the significant influence of proxy advisors in shareholder voting (Iliev and Lowry, 2015; Malenko and Shen, 2016).

Next, we document substantial heterogeneity in voting rationales across institutional investors. We find that board diversity has become an important factor for the Big Three since 2017, coinciding with their campaigns to promote gender diversity on corporate boards (Gormley et al., 2022). Although independence remains the most common rationale for all investors, it is less frequently mentioned by the Big Three. Notably, some European investors have held directors accountable for ESG/CSR-related issues since 2015, while this rationale only became prominent among US investors in 2020. It has become a significant factor for the Big Three in 2021, potentially indicating a new way for them to pressure companies to change environmental and social policies. Concerns over director tenure are frequently raised by European institutional investors and pension funds, but it is not commonly mentioned among the Big Three or robo-voters. Busyness is more often mentioned by US investors relative to European or ISS robo-voters. Interestingly, we find no distinct pattern in the voting rationales of pension funds relative to other institutional investors despite concerns about potential conflicts of interest (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002).

While different institutional investors might provide different rationales for the same direc-

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ISS is unwilling to make their data available to academics.

<sup>5</sup>The similarity of rationales across all institutional investors is much lower, with an average cosine similarity of 0.43, and the rationales cover a broader range of topics.

tor, our findings indicate that in the aggregate, they provide an accurate picture of a company's governance weaknesses. In particular, we find that companies receiving a higher proportion of rationales related to board diversity have less gender-diverse boards, with the proportion of rationales indicating the relative importance of each issue. We also observe the same pattern for companies with long director tenure and busy directors.<sup>6</sup> Importantly, these results indicate that institutional investors cast informed votes, despite recent concerns about their lack of incentives to exert sufficient governance (Bebchuk and Hirst, 2019; Iliev, Kalodimos, and Lowry, 2021). While *rationale-washing*,<sup>7</sup> conflicts of interest, or motivation to pursue a private interest may influence institutional investors' incentives to truthfully disclose their voting rationales (e.g., Del Guercio and Hawkins, 1999; Cvijanović, Dasgupta, and Zachariadis, 2016), we find a strong correlation between board characteristics and rationales, suggesting the dominance of truthful rationales over misleading ones.

Finally, we examine whether companies address institutional investors' concerns stated in voting rationales. We find that companies with high dissent voting related to board diversity increase the percentage of female directors in the following year. Likewise, companies with high dissent voting related to director tenure and busyness reduce the average director tenure and busyness, respectively. Importantly, dissent alone cannot explain changes in these variables, but only when rationales refer to these issues. These results suggest that directors are willing to address concerns that result in high shareholder dissent, as it can have serious consequences (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019), and voting rationales are effective tools to communicate the source of this dissent. We further show that our results are not driven by companies inferring the source of dissent from their board characteristics. In particular, we test whether companies with high dissent voting and a low fraction of females on the board also improve gender balance in the following year (and similar for long-tenure and busy directors). The results are statistically insignificant in this case, suggesting that companies might not be able to address these concerns unless institutional investors provide the reasoning behind

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<sup>6</sup>We focus on these three rationales given that they are among the most commonly mentioned rationales, and we can directly connect them to firm outcomes.

<sup>7</sup>We define *rationale-washing* as the practice of misrepresenting voting rationales to project a particular narrative or image.

their vote. This provides further support for the effectiveness of voting rationales in enhancing corporate governance in portfolio companies.

Our paper contributes to the literature on the governance role of institutional investors (Hirschman, 1970; Shleifer and Vishny, 1986; McCahery et al., 2016; Iliev et al., 2021; Lewellen and Lewellen, 2022). We provide the most comprehensive and direct evidence on the main reasons institutional investors vote against directors, and uncover the relative importance that investors place on different issues. In addition, we show that companies address the governance concerns stated in institutional investors' voting rationales. This result adds to the literature on the effectiveness of low-cost activist strategies, such as "just vote no" campaigns (Del Guercio et al., 2008), voting policies disclosure (Couvert, 2020), expectation documents (Aguilera, Bermejo, Capapé, and Cuñat, 2021), or shareholder proposals (Gantchev and Giannetti, 2021).

Our paper also adds to the literature on the limits to effective governance by institutional investors. Prior literature documents mutual funds' overreliance on proxy advisors (Iliev and Lowry, 2015), limited resources devoted to stewardship (Bebchuk and Hirst, 2019; Iliev et al., 2021), mutual funds' business ties with portfolio companies (Cvijanović et al., 2016) and the incentive structure of institutional investors (Woitke, 2002; Heath, Macciocchi, Michaely, and Ringgenberg, 2022) might hinder effective governance of portfolio companies. Our results indicate that many institutional investors make informed decisions when casting their shares, and that attention to voting decisions is probably more widespread than previously documented (Iliev et al., 2021).

Finally, our paper contributes to the recent policy debate on the importance of fund voting and accountability around the voting process. Our results indicate that companies listen to institutional investors' concerns, suggesting that disclosing voting rationales is an effective low-cost strategy to communicate with companies and promote good governance practices. Further, recent evidence suggests that the current disclosure framework does not prevent funds from voting in a way that is not aligned with fund shareholders' interests (Cvijanović et al., 2016; Michaely, Ordonez-Calafi, and Rubio, 2023). The UN PRI recommends their signatories to publicly disclose voting rationales, particularly for high-profile or controversial votes (PRI,



2021). Our results suggest that institutional investors can effectively use voting rationales to communicate with companies, bringing transparency to the decision-making process.

## 2. Data and Descriptive Evidence

### 2.1. Data

We collect data on votes, proxy advisors' and management recommendations, voting rationales, and meeting and proposal characteristics from Insightia (formerly Proxy Insight) for annual meetings at US publicly traded companies between July 2013 and June 2021.<sup>8</sup> Insightia collects information on votes and voting rationales from publicly available sources, including NP-X files and mutual fund web pages. While this information is provided at the fund level, we aggregate the information at the voting manager level because fund votes cast by the same voting manager have little variation.<sup>9</sup> Therefore, we aggregate votes at the voting manager level (institutional investor, hereafter) and drop any individual fund-level information, similar to Bubb and Catan (2022).<sup>10</sup>

Our sample includes 1,378 institutional investors from around the world that vote in at least 20 annual meetings in US publicly traded companies in a proxy season. Our study provides a comprehensive analysis of institutional investors worldwide, covering a broad range of investor types often overlooked in many other studies that focus solely on US investors or mutual fund

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<sup>8</sup>We exclude special meetings and proxy contests because the type of proposal up for a vote in these meetings differs substantially from those voted during annual meetings (e.g., mergers and acquisitions). They are relatively uncommon (they only represent 6.3% of the meetings in our sample), and not all firms have at least one in our sample period.

<sup>9</sup>In our sample, only 0.25% of fund-proposal observations have at least one fund voting differently from the rest of the funds from the same voting manager. For instance, in Insightia, BlackRock funds have three different voting managers: BlackRock, BlackRock Sustainability Funds, and BlackRock (sub-advised). Because BlackRock Sustainability votes on behalf of environmental and social funds that typically vote differently (Michaely et al., 2023), the votes at the voting manager level are more homogeneous than votes at the family level. In many cases, the voting manager and the family are exactly the same (e.g., Vanguard).

<sup>10</sup>In some cases, for the same institutional investor, we have the voting rationale for some funds only. We assume that, as long as all funds that belong to the same institutional investor vote in unison, the rationale for the vote is the same for all funds.

managers. In our sample, about 75% of institutional investors are located in the US (Table 1 Panel A), but we also have some large institutional investors outside the US, including 102 from Canada, 99 from the UK, and 147 from all other countries. Institutional investors in our study comprise 954 fund managers, 148 pension funds, and 276 other institutional investors (e.g., investment firms, banks, labor unions), with fund managers representing 59% of the votes, followed by pension funds at 21% and other institutional investors at 20%.<sup>11</sup> Information on institutional investor country and investor type comes from Insightia.

We obtain information on institutional ownership from Thomson Reuters, companies' financial information from Compustat, and board characteristics from the ISS Governance database and BoardEx (see Appendix A for definitions and summary statistics). Insightia reports voting data for 6,273 US firms during our sample period. The number of firms drop to 4,319 after merging with Compustat and Thomson Reuters.

After intersecting the Insightia data with other databases, we obtain a final sample of over 25 million votes cast on 191,076 distinct proposals, which we categorize into director election proposals, other management proposals, and shareholder proposals. Although our primary focus is on the 136,147 director election proposals, we also report descriptive statistics for the 51,395 other management proposals and 3,534 shareholder proposals (Table 1). Our findings indicate that director election proposals comprise most votes in publicly traded US firms, accounting for 73%. Director election proposals and other management proposals receive greater support than shareholder proposals, with average levels of 98.5% and 94.5% in our sample, respectively. In contrast, the average level of support for shareholder proposals is significantly lower, at 32.1%.

We show the largest institutional investors in the 2021 proxy season, proxied by the number of meetings in which institutional investors cast their shares (Table 2). Regarding US mutual fund families (Panel A), Dimensional Fund Advisors and Vanguard voted in more than 19,000 meetings and over 170,000 different proposals. BlackRock and State Street voted in more than 16,000 meetings and more than 150,000 proposals. These figures are similar for the two

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<sup>11</sup>Other Investors' category includes 173 institutional investors with missing information on investor type, who casted 13% percent of the total votes.

largest pension funds in our sample (Panel B), CalPERS and TIAA-CREF. In Panel C, we show the largest non-US institutional investors, with Legal & General Investment Management (from the UK) and Norges Bank Investment Management (from Norway) among the largest investors. They voted in more than 100,000 unique proposals in more than 11,000 meetings in 2021.

The extent of diversification by these institutional investors suggests that they cannot engage individually with each firm they hold in their portfolio, as this could be prohibitively costly (Bebchuk and Hirst, 2019).<sup>12</sup> Voting rationales can become a low-cost strategy to communicate the reasons behind their votes to their portfolio firms. Consistently, AllianzGI indicates that “*As we cannot reach out to all investee companies individually to communicate our voting decisions in an efficient way, we believe that website publication of these decisions and rationales for votes against/abstentions the day following the shareholder meeting is our next best option.*” (see Appendix B for further detail). In contrast to other low-cost strategies, such as voting policies (Couvert, 2020) and expectation documents (Aguilera et al., 2021), which provide general guidelines over governance issues, voting rationales offer specific explanations for individual companies and proposals that discuss their unique governance issues.

## 2.2. Descriptive Evidence on Voting Rationales

While the disclosure of voting rationales is voluntary, it is encouraged by the UN PRI, and it has been gaining momentum in recent years. Figure 1 shows the fraction of votes with a rationale from the 2014 to 2021 proxy season. The proportion of votes with rationales is increasing over time, from 1.4% of votes in 2014 to 5.4% in 2021. Some of the largest institutional investors, such as Norges Bank and Vanguard, only started to disclose their rationales in the 2020 proxy season, while others (e.g., BlackRock) are increasing the proportion of votes for which they disclose rationales in recent years.

In Figure 2, we present the proportion of votes with rationales as a function of the institu-

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<sup>12</sup>Bebchuk and Hirst (2019) show that the Big Three investors have on average 26 investment stewardship personnel to cover 12,221 firms in their portfolio.

tional investor country. Our sample comprises rationales for votes cast in US firms by US and non-US institutional investors. The decision to disclose by institutional investors from different countries may vary in many ways, potentially influenced by distinct regulatory environments, governance practices, and cultural norms (Cziraki, Renneboog, and Szilagyi, 2010; Dasgupta, Fos, and Sautner, 2021). Figure 2 and Panel A of Table 1 reveal that European investors disclose voting rationales more frequently than their US and Australian counterparts. Figure 3 plots the distribution of institutional investors based on the mean proportion of votes with rationales in the full sample, and some examples of which institutional investors fall in each range. Most institutional investors do not disclose the rationale for their vote (82%), including Fidelity (US), CalSTRS, and Franklin Templeton. On the other extreme of the distribution, NEI Investments and Calvert provide voting rationales for most votes. Some of the largest mutual fund families (BlackRock, Vanguard, and State Street (SSgA)) disclose rationales for about 5 to 10% of the votes.

Considering that disclosing rationales can be costly for investors, the UN PRI recommends that signatories prioritize disclosure under the following circumstances: (i) when the investor is voting against management or abstains from voting, (ii) when the vote might be perceived to contradict the investor’s principles, and (iii) when they vote against a shareholder proposal (especially if submitted by a PRI signatory) (PRI, 2021). On average, we find that shareholder proposals feature voting rationales more frequently (8.4%) than director election proposals (3.2%) and other management proposals (4.1%) (Table 1). However, a different pattern emerges when we break down the pattern by voting choices (i.e., for, against, abstain). For director election proposals, institutional investors are more likely to disclose voting rationales when voting against (19.1%) or abstaining (12.4%) than when voting in support (1.9%). The pattern is similar for other management proposals. In contrast, for shareholder proposals, a vote is more likely to have a rationale if it is in favor (12.3%) than against or abstain (around 4%). Given that most shareholder proposals encounter opposition from management, our results suggest that institutional investors tend to disclose voting rationales more frequently when they vote against management’s recommendations.<sup>13</sup>

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<sup>13</sup>We find that the main determinant of the decision to disclose is whether the institutional investor votes for

Furthermore, we find that disclosure is more likely an institution’s established policy, rather than decisions made for each vote. First, disclosure is persistent among institutional investors. We find that institutional investors who provide at least one voting rationale in a given proxy season tend to disclose their rationales in the following season 82% of the time. Conversely, those who do not provide any voting rationales in a given proxy season continue not providing rationales in the following season 97% of the time. Second, for institutional investors that disclose rationales at least once, the decision to disclose a rationale within a proxy season can be largely explained by the interaction between the proposal sponsor (i.e., management or shareholder) and the voting choice; in unreported analysis, this interaction can explain approximately 58% of the variation in the decision to disclose a rationale, as indicated by the R-squared. Approximately 10 to 15% choose to exclusively disclose when they vote against management.<sup>14</sup>

We partition our sample of institutional investors to investigate potential variations in disclosure incentives (Table 1 Panel A). We first examine the disclosure practices of robo-voters, defined as investors who vote in line with ISS or Glass Lewis at least 99% of the time during a proxy season (Iliev and Lowry, 2015; Matsusaka and Shu, 2022). Since robo-voters tend to exert minimal effort in voting, they might have limited incentives to engage and be less inclined to provide detailed explanations for their voting decisions. Our findings indicate that robo-voters are less likely to provide rationales than non-robo-voters. Specifically, ISS robo-voters and Glass Lewis robo-voters disclose rationales for only 2.3% and 0.8% of their votes on director elections, respectively, in contrast to 3.8% for non-robo-voters, with similar patterns for other management proposals and shareholder proposals. This evidence supports the notion that robo-voters lack engagement incentives and tend to minimize voting efforts.

Next, we investigate whether fund managers and pension funds exhibit differences in their

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or against management, controlling for firm and institutional investor characteristics, proxy season and industry fixed effects. This holds when we use meeting fixed effects or meeting times institutional investor fixed effects. On the contrary, firm characteristics have little explanatory power on the decision to disclose. We present these results in Section A of the Internet Appendix.

<sup>14</sup>An instance of this approach is Norges Bank, which states that *“In April 2020, the fund pushed transparency on voting to a new level. We began publishing a rationale every time we voted against the board’s recommendation. The published rationale is part of our continuous disclosure of all voting decisions, one business day after the shareholder meeting.”*

disclosure practices, as the literature suggests that they may have different motivations for engagement (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002), which could be linked to different disclosure practices. Our analysis shows that pension funds are more likely than other types of institutional investors to provide rationales for their votes. For instance, 4.8% of pension funds' votes on director elections include rationales, compared to 3.1% for fund managers and 1.9% for other investors, with similar patterns for other types of proposals (Table 1 Panel A). We find that PRI signatories are more likely to disclose a rationale in all types of proposals, consistent with their stewardship principles. Furthermore, while the Big Three are not more likely than other types of investors to provide rationales in general, they provide rationales for a significantly higher proportion of shareholder proposals (35.6% of votes for the Big Three and 8.1% for other institutional investors).

Overall, our analysis demonstrates heterogeneity in the disclosure of voting rationales among different institutional investors, proposal types, and vote choices. Unlike most studies that focus almost exclusively on fund managers, we have a comprehensive sample including a variety of institutional investors. While this section provides an overview of which votes have voting rationales, in the following sections we focus on the content of those rationales.

### **3. Classification of Rationales on Director Elections**

We now turn our attention to what is stated in institutional investors' voting rationales. Our goal is to understand what makes each investor vote for or against a given proposal by examining the content of the voting rationales. Different types of proposals typically have different types of rationales, depending on the topic up for a vote. For instance, "*Company already has policies in place to address these issues.*" and "*Overly prescriptive*" often appear as reasons for opposing shareholder proposals, but would not be used for management proposals. Similarly, concerns over director tenure (e.g., "*The average board tenure exceeds 10 years.*") or director busyness (e.g., "*This director is overboarded.*") are typical of director elections; however, they would not appear as reasons for supporting or opposing other management or

shareholder proposals. Hence, voting rationales have to be separated by proposal types. As voting on director elections is the most important mechanism through which shareholders can hold directors accountable—and high shareholder opposition is associated with severe consequences for executive compensation (Cai et al., 2009), board structure (Ertimur et al., 2018), and directors (Aggarwal et al., 2019)—we focus on the subsample of director election proposals at annual shareholder meetings. Moreover, this is the most common type of proposal, accounting for 73% of votes in our sample. Importantly, director elections take place in every company on an annual basis, allowing us to provide insights for all companies.

Our objective is to categorize voting rationales by grouping those with similar reasoning. We use the term ‘categorize’ to describe this process, as it succinctly conveys our aim to organize the data. For director elections, our sample contains 611,389 votes with rationales across all voting options (i.e., for, against, and abstain/withhold). We observe that some rationales appear multiple times in our sample (e.g., “*A vote FOR the director nominees is warranted.*”), often used by different institutional investors for different candidates. To avoid duplicating efforts, we categorize 55,391 unique rationales on director elections in our sample. Given the large number of unique rationales, it would be challenging to manually categorize all of the rationales, so we employ some NLP techniques. We use a supervised classification model that classifies examples based on predefined categories because we are interested in studying how frequently institutional investors mention factors that have been previously identified in the literature as major determinants of votes on director elections (e.g., attendance or busyness). A supervised model is optimal for this task because it allows researchers to define the categories and train the model on correctly labeled data, thereby leading to more precise categorization. In contrast, unsupervised models, such as Latent Dirichlet Allocation (LDA), can group observations for reasons that are not straightforward to researchers. Therefore, we prefer using a supervised classification model over an unsupervised one.

To implement the supervised classification model, we randomly select 2% of the distinct rationales (i.e., 1,132 unique rationales) and categorize each rationale as follows. First, two authors independently read over the random sample of rationales and agree on 15 categories, as presented in Table 3: independence, board diversity, tenure, governance, busyness, compen-

sation, CEO duality, board structure, responsiveness, attendance, ESG/CSR, no reason, no significant concerns, and miscellaneous. Table 3 explains and offers examples for each category. In creating these 15 categories, we focus on identifying factors that theoretical and empirical literature has found as important determinants of votes in director elections while taking into account the frequency of each category and the content of the rationales. For example, while some rationales mention factors such as gender representation or racial diversity (e.g., “*The percentage of female directors on the board is too low.*”; “*There is no racial diversity on the board.*”), in many cases, the rationales simply refer to the importance of overall board diversity without providing more specific details (e.g., “*The nominee is not diverse and the board is less than 30% diverse.*”). As a result, we consolidate board diversity into a single category rather than separating it into multiple categories. Also, while the literature has identified proxy advisors’ recommendations as a determining factor in voting outcomes (e.g., Iliev and Lowry, 2015), we do not create a separate category for rationales like “*per Glass Lewis recommendation*” since we observe fewer than 10 instances of this type of rationale among 1,132 unique rationales. Instead, we assign such rationales to the miscellaneous category.<sup>15</sup> For similar reasons, we do not create a separate category for director skills, experiences, or expertise.<sup>16</sup>

After creating the 15 categories, the two authors independently assigned labels to each of the 1,132 rationales in the random sample; in the case of a disagreement, they had a discussion to agree on the appropriate label. A label, in this context, refers to a descriptive category assigned to a rationale that captures the key reason behind a vote in director elections, such as board diversity or CEO duality. Consider the following rationale: “*Vote against because nominee serves as the nominating committee chair and board is only 11% women.*” In this case, the reason behind the vote is board diversity, so we accordingly assign the ‘board diversity’ label

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<sup>15</sup>We acknowledge that some institutional investors may blindly follow proxy advisors’ recommendations without explicitly stating that the reason behind their voting decision is the advice from proxy advisors. To shed light on the influence of proxy advisors on institutional investors’ voting rationales, we examine robo-voters’ voting rationales in Section 4.2.

<sup>16</sup>Although theory recognizes directors’ dual roles as advisors and monitors (Adams and Ferreira, 2007), and empirical research shows the importance of directors’ skill sets (e.g., Adams et al., 2018) and experiences (e.g., Cohen, Hoitash, Krishnamoorthy, and Wright, 2014), this is not a rationale frequently used by institutional investors. Consistently, Ertimur et al. (2018) find that this motivation does not appear in ISS rationales for voting against directors, which might suggest that there is no sufficient attention paid to director’s skill set and experience during the election process.



to this rationale. *“A vote against is warranted because: -The nominee serves as the company’s CEO/Chair. -To signal to the board that stronger independent oversight and board management of climate risks at the company are necessary.”* In this case, the reasons behind the vote are CEO duality and ESG/CSR concerns. As this example demonstrates, some rationales might mention multiple reasons behind the vote, so we allow multiple labels per rationale.

We next explain how we categorize the entire rationales on director elections in our sample of 1,132 rationales with labels. We use BERT, a deep learning-based language model, to assign each rationale into 15 non-mutually exclusive categories. BERT is a state-of-the-art NLP method for training a multipurpose language model on a large text corpus, released as an open-sourced project by Google in 2019. It is an autoencoder language model that is trained by reconstructing the original data from corrupted (or masked) input. Importantly, BERT learns the full context of a word by examining words that come before and after it. We find that BERT is the ideal model for our domain-specific classification task, because it allows researchers to train a supervised classification model on top of BERT.<sup>17</sup> As voting rationales predominantly discuss finance and business topics, we use the FinBERT model by Prosus, a financial domain-specific pre-trained language model. A typical classification task predicts a single category, but in our case, we allow each rationale to fall under more than one category.

We separate the labeled data into three distinct subsets: train, validation, and test. The training set is used for the model to learn the classification pattern, and the validation set fine-tuned the hyperparameters, such as the number of epochs or the batch size of the training loop.<sup>18</sup> We select 0.64, 0.16, and 0.2 as the proportions of the train, validation, and test sets, respectively, which we argue is a reasonable choice in many machine learning applications.<sup>19</sup>

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<sup>17</sup>We considered other widely-accepted neural architecture models, including older models like Long Short-Term Memory (Hochreiter and Schmidhuber, 1997), as well as state-of-the-art giant models like XLNet (Yang, Dai, Yang, Carbonell, Salakhutdinov, and Le, 2019) and GPT-3 (Brown, Mann, Ryder, Subbiah, Kaplan, Dhariwal, Neelakantan, Shyam, Sastry, Askell, et al., 2020). After taking into account computational costs, performance, and trainability, we conclude that BERT is the ideal model for our purpose.

<sup>18</sup>We select the following hyperparameters: batch size=2, epoch=30, learning rate= 2e-05.

<sup>19</sup>There is no general rule on how to choose the number of observations in the three sets due to its dependence on many factors, such as the number of observations, the structure of the model, and the dimension of the data. While Hastie, Tibshirani, Friedman, and Friedman (2009) suggest that 0.5 for train and 0.25 of each for validation and testing is a reasonable split, Karpathy, Johnson, and Fei-Fei (2015) use a split of 0.8 for training and 0.1 for each for validation and testing.

After completing the training, we calculate the model performance using the test set. We report the aggregate model performance metrics in Table 4. Accuracy, the ratio of correctly predicted observations to the total observations, is 0.98. One caveat of accuracy as a performance measure is that it can be misleading when a large number of observations come from one class and few from others: a model that simply predicts the majority class for every observation can achieve a high accuracy score. We pay particular attention to this issue because each label is typically assigned to only a small proportion of observations (e.g., out of 1,132 rationales, only 28 relate to director attendance). When such data imbalance occurs, precision, recall, and F1-score provide more informative measures of how well the model performs for the minority class. In our model, precision—the correctly predicted positives relative to the correctly predicted positives plus false positives—is 0.96, while recall—the correctly predicted positives relative to the correctly predicted positives plus false negatives—is 0.97. Finally, the macro average of all labels’ F1-scores is 0.96, where the F1-score is the harmonic mean of recall and precision. As we achieve high recall, precision, and F1-score, in addition to high accuracy, we conclude that our model performs well and accurately classifies instances in the minority class. At the proposal level (i.e., director level), we find that each rationale has 1.27 labels on average, 1.35 for votes against and 1.2 for votes in favor. This suggests that institutional investors usually mention one or two most important reasons for each director candidate.

## 4. The Rationale Behind Institutional Investors’ Votes

In this section, we investigate what are the main reasons behind institutional investors’ votes on director elections. While we run the BERT algorithm to categorize each institutional investor’s rationales at the proposal level, in what follows we consider each institutional investor’s rationales at the meeting level (i.e., which issues were raised during the annual meeting for all directors up to vote). We do this for two reasons. First, in many cases, institutional investors vote against directors for reasons that are not director specific, but rather for issues that concern the whole board, or more generally, the firm (e.g., “Concerns about overall board structure.”; “A vote is cast to withhold on all nominees because the board maintains a charter

*that prohibits shareholders to amend bylaws which is adverse to shareholder interests.*”). Second, while rationales are typically director-specific, institutional investors sometimes provide the same rationale for all directors up for election in a given meeting. That is, if they vote against two members of the nominating committee for lack of board diversity, the two directors might have the same rationale.<sup>20</sup> To avoid counting the same rationale multiple times, we consider whether an institutional investor raises each issue at least once in that director election. In the remainder of the paper, we aggregate rationales at the meeting level to measure how many different institutional investors raised each issue.

## 4.1. Overall Patterns

Our objective is to investigate the key factors that determine institutional investors’ votes on director elections. Table 5 provides a breakdown of the frequency of different reasons behind votes against (including abstentions and withheld votes), based on data at the institutional investor-meeting level.<sup>21</sup> Column (2) shows that a lack of independence is the top concern raised by institutional investors, accounting for 21.3% of all mentions across the 15 categories we examine. Independence includes a particular candidate’s (lack of) independence, a low fraction of independent directors on the board, and a lack of independent directors in key committees. Additionally, column (4) shows that at least one institutional investor mentioned independence in 67% of meetings as a reason behind votes against, based on a sample of meetings with at least one rationale for votes against. Our findings indicate that institutional investors have been consistently pushing for increased board independence, even after the enactments of the Sarbanes-Oxley Act in 2002 and exchange regulations in 2003, which mandated companies to have a higher representation of outside directors. An extensive literature documents the importance of board independence for institutional investors (e.g., Gillan and Starks, 2000; Del Guercio et al., 2008).

We find that board diversity is the second most common reason for votes against, accounting

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<sup>20</sup>E.g., “*WITHHOLD votes for incumbent Nominating Committee members Alan Holmer and Paris Panayiotopoulos are warranted for lack of diversity on the board.*”

<sup>21</sup>A description of each label and examples of rationales are provided in Table 3.

for 17.7% (column (2)). In fact, board diversity is mentioned in a higher percentage of meetings than independence, among the meetings where there is at least one rationale for votes against (72.5% vs. 67%, column (4)). This finding is noteworthy for several reasons. First, it indicates that institutional investors consider board diversity one of the most important factors in their voting decisions. Second, prior studies covering earlier periods do not identify board diversity as a factor explaining mutual funds' withhold votes or ISS withhold recommendations for directors (e.g., Choi et al., 2013, Ertimur et al., 2018). Finally, this analysis shows that institutional investors have been taking into account board diversity since at least the 2014 proxy season, even before the Big Three's board gender diversity campaign began in 2017 (Gormley et al., 2022). This trend is shown in Figure 4, where we document the relative frequency of different voting rationales over time.

Our study is unique in that we uncover institutional investors' voting rationales and quantify the relative importance of each issue that institutional investors have been interested in for several years. While many of the governance issues we uncover in Table 5, such as excessive tenure, general governance concerns (including dual-class share structures, adopting major governance changes without shareholder approval, or board interlocks), director busyness, compensation issues, CEO duality, or board structure, have been of interest to institutional investors and proxy advisors for several years, our study is the first to provide evidence of the relative importance of these factors from institutional investors' perspectives. Some factors, such as excessive tenure and general governance issues, are among the most frequently mentioned rationales behind votes against directors, accounting for 13.2% and 12.9% of rationales, respectively. Other factors that have been shown to be important in previous studies, such as a lack of responsiveness to shareholders and lack of regular attendance at board meetings, account for a much smaller proportion of rationales in votes against directors, at 1.2% and 1%, respectively.<sup>22</sup> We find that corporate performance is not an important consideration for institutional investors' votes against, accounting for only 0.4% of rationales in votes against directors. This is consis-

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<sup>22</sup>Cai et al. (2009) show that only 1% of directors do not attend meetings regularly, which explains why attendance is not frequently mentioned even if it is associated with high withhold votes. Regarding responsiveness, Ertimur et al. (2018) find that 72% of board-level recommendations relate to lack of responsiveness to majority-vote shareholder proposals, suggesting that this rationale is more important for ISS than the average institutional investor in our sample.

tent with McCahery et al. (2016) who show that corporate performance is not a key driver of institutional investors’ engagement with companies.<sup>23</sup> By quantifying the relative importance of these governance issues, our study sheds light on the factors that institutional investors prioritize when making voting decisions, and provides new insights that can inform future research and corporate governance practices.

We also find that some institutional investors hold directors accountable for ESG/CSR issues when casting their shares. This is still a relatively uncommon voting rationale—accounting for only 0.8%—it is mentioned in 5% of meetings with rationales for votes against and is becoming more important in recent years (Figure 4), consistent with recent anecdotal and academic evidence (Azar, Duro, Kadach, and Ormazabal, 2021, Aggarwal et al., 2023).<sup>24</sup> While there is a clear picture regarding which factors are more important for institutional investors, we find no clear time-series trend regarding the importance, as shown in Figure 4. If anything, independence became relatively less important over time.<sup>25</sup>

One caveat when interpreting our results is the voluntary nature of rationale disclosure, which could lead to an over- or under-representation of certain investor perspectives. For example, European investors might be more likely to disclose voting rationales, potentially leading to their views being over-represented. To address this, we apply propensity score weighting (Rosenbaum and Rubin, 1983), a method that accounts for factors influencing disclosure decisions, such as investor, firm, and vote characteristics. It allows us to estimate the importance of different rationales within the larger investor community more accurately. Upon implementing the propensity score weighting, we find that the relative importance of various rationales remains largely consistent (Column (3) of Table 5), indicating the robustness of our results despite the voluntary nature of disclosure. Please refer to Section B of the Internet Appendix for further details on our propensity score weighting procedure.

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<sup>23</sup>Yi (2021) also shows that firm performance does not strongly influence mutual funds’ voting behavior, in a sample of shareholder-sponsored governance proposals.

<sup>24</sup>See Dieter Holger, “More Investors Vote Against Corporate Directors Over Climate Change,” Wall Street Journal, July 21, 2022. Available here.

<sup>25</sup>Despite the lack of a time-series trend in the importance of each factor for all institutional investors, examining the data by specific investor type reveals interesting time-series patterns (see Section 4.3).

Next, we discuss rationales for votes in favor of directors. In untabulated results, we find that the most frequent rationale associated with votes in favor lacks any substantive informational content, and thus, we categorize it as “no reason.” That is, almost a quarter of rationales in favor do not provide any meaningful explanation, but rather, they provide a statement of the type “*A vote FOR new director John Sheridan is warranted*”, which we label as ‘no reason.’ In other words, while we observe rationales in these cases, they are not informative on how the institutional investor makes the decision to support the candidate. In a few cases (1%), they state that no significant concern was identified, so they decided to support a director. Therefore, investors are not only more likely to disclose their rationale for voting against a director, as discussed in Section 2.2, but the rationales for voting against directors are typically more informative than the rationale for voting in favor. This suggests that institutional investors use rationales to communicate their concerns with management, rather than to explain why they support them. Accordingly, we primarily focus on votes against management in the following sections of the paper.

## 4.2. Proxy Advisors’ Rationales

Several papers document the influence of proxy advisors on voting (Iliev and Lowry, 2015; Malenko and Shen, 2016), potentially raising concerns as to whether our voting rationales are just capturing the voting rationales provided by these proxy advisors rather than institutional investors’ assessment of firms’ corporate governance.

Ideally, we would like to have voting rationales provided by ISS and Glass Lewis, use the same algorithm used for voting rationales from institutional investors, and compare to what extent the issues raised by proxy advisors match those disclosed by institutional investors. However, this is not possible since proxy advisors are unwilling to make their data available to academics at the time of writing this paper. We therefore adopt another approach. We examine the rationales of “robo-voters,” defined as institutional investors that follow proxy advisors’ recommendations—either from ISS or Glass Lewis—at least 99% of the time in a proxy season. Approximately 19% of investor-proxy season observations are classified as ISS

robo-voters, while approximately 8% are classified as Glass Lewis robo-voters.

We examine whether their voting rationales reflect the voting rationales of their proxy advisors. If robo-voters minimize their voting efforts, we would expect them to just disclose the rationale provided by their proxy advisors, leading to all robo-voters providing the same rationale on the same proposal. Consistently, we find that robo-voters are much more likely to provide the same rationale for a given meeting or proposal, adding weight to the view that these institutional investors provide the rationales of their proxy advisor. Specifically, the average of cosine similarity between any two ISS robo-voters' rationales for votes against at the meeting level is 0.93 (column (3) of Table 6), much higher than 0.42 for all investors (column (1) of Table 6). For Glass Lewis robo-voters, the average cosine similarity is 0.99 (column (5) of Table 6).

We next present the voting rationales of robo-voters in Figure 5 and compare them with all investors' rationales. Panel A presents the patterns for ISS robo-voters, and Panel B presents the results for Glass Lewis robo-voters.<sup>26</sup> The figures show that the voting rationales of ISS and Glass Lewis robo-voters are substantially different from all voting rationales disclosed by all institutional investors. Notably, governance concerns is the main topic mentioned by ISS robo-voters, followed by independence. Board diversity is not frequently mentioned in this subsample. It only appeared for the first time in 2019, and it still shows a very low frequency compared to the full sample. Other rationales that are common in the full sample, such as tenure and CEO duality, rarely appear in Panel A of Figure 5, while others, such as responsiveness and board structure, are very common for ISS robo-voters (similar to Ertimur et al. (2018)).

Regarding Glass Lewis robo-voters, the number of distinct rationales in this subsample is notably lower than for the ISS robo-voters or the full sample. In addition, most rationales seem to focus on a few issues, such as governance concerns, independence, busyness, and compensation. Similar to ISS robo-voters, Glass Lewis robo-voters only began mentioning board diversity in 2019, but this rationale is relatively more common than among ISS robo-voters.

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<sup>26</sup>For comparison, the figure for other non-robo institutional investors is highly similar to Panel A of Figure 4.

Overall, while many of the voting rationales in our sample are typically mentioned by ISS as a reason to oppose directors (Ertimur et al., 2018), we show that the rationales disclosed by institutional investors differ from the rationales disclosed by ISS and Glass Lewis, suggesting that these rationales do not purely reflect proxy advisors’ rationales.

### 4.3. Heterogeneity in Institutional Investors’ Rationales

We next explore whether reasons behind votes against directors vary across different institutional investors types. Figure 6 shows which issues are most important for each investor type.

First, we compare the rationales of US and European institutional investors. Panel A of Figure 6 shows that the figure for US investors is somewhat similar to that for all institutional investors (Panel A of Figure 4). This is not surprising because about half of the investors in our sample are US-based, providing 55% of rationales. Panel B of Figure 6 confirms that these topics are important for European institutional investors, but the relative importance of each issue differs. For instance, tenure and CEO duality are more important for European than US investors, while diversity and busyness are more important for US investors. Interestingly, it also shows that a small fraction of European institutional investors have held directors accountable for ESG/CSR-related issues since 2015. Company performance is a topic that European institutional investors never mentioned.

We next consider the Big Three’s rationales. Panel C of Figure 6 shows that board diversity started to appear in 2017—coinciding with the launch of campaigns by the Big Three institutional investors to increase board diversity (Gormley et al., 2022). Notably, the Big Three institutional investors voted against directors for ESG/CSR concerns since 2020 and increasingly so in 2021, potentially indicating a new method the Big Three investors use to pressure companies to change environmental and social policies.

We also examine the voting rationales of pension funds. Pension funds account for 11% of investors and provide 31% of rationales. Panel D of Figure 6 shows that there is no distinctive



pattern for pension funds, except that board diversity has become important since 2018. Even though there is a debate in the literature regarding the motivation of pension fund activism (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002), we do not find evidence that pension funds' voting rationales are substantially different from rationales in the full sample.

Finally, we analyze the voting rationales of institutional investors who file Schedule 13F, which has been the focus of numerous studies exploring institutional ownership and governance outcomes (e.g., Fich, Harford, and Tran, 2015; Lewellen and Lewellen, 2022). According to SEC regulations, investment managers with assets exceeding \$100 million are obligated to submit 13F filings. Notably, our findings reveal a distinct trend among institutional investors who file 13F reports. Their emphasis on board diversity seems to be relatively lower compared to investors in the overall sample, and instead, these investors place greater emphasis on board independence.

## 5. Are Concerns Well-Grounded?

The results above show that institutional investors vote against directors for several reasons, ranging from issues specific to a director (e.g., busyness or attendance) to general concerns over board composition or other governance issues. It is important to understand whether, on aggregate, voting rationales reflect governance weaknesses related to the concerns raised by institutions in their voting rationales. There are several reasons why that might not be the case. First, institutional investors may resort to *rationale-washing*—the practice of misrepresenting their voting rationales to project a certain narrative or image (e.g., Gibson Brandon, Glossner, Krueger, Matos, and Steffen, 2022). Second, institutional investors may desire to mask the true reason behind their votes due to conflicts of interest with their portfolio companies (e.g., due to business ties) or clients (Davis and Kim, 2007; Cvijanović et al., 2016; Michaely et al., 2023). Third, institutional investors might use voting rationales to pursue their own agendas and achieve goals not shared by other investors (e.g., Del Guercio and Hawkins, 1999; Woidtke,

2002; Matsusaka, Ozbas, and Yi, 2019).<sup>27</sup>

That said, there is a basis for believing that voting rationales can provide insights into why institutional investors support or oppose director candidates. Institutional investors will reveal why they decide to vote against director candidates if they think companies will use this information to address governance problems. In addition, even though disclosing voting rationales is voluntary, institutional investors might be liable for the information disclosed to investors. Moreover, and relatedly, institutional investors always have the option of not disclosing why they vote the way they vote. Therefore, it is unlikely that institutional investors will systematically provide an inaccurate rationale.

For each firm-annual meeting, we estimate the proportion of rationales on votes against directors related to board diversity, tenure, or busyness and study whether they are correlated with board gender diversity, tenure, and busyness at the firm level. We focus on these dimensions because these are board characteristics observable at the company level. They are also three of the five main rationales mentioned by institutional investors. While independence and governance appear very often in our sample, these categories include several dimensions for which no suitable proxy effectively captures all these issues. For instance, governance includes dual-class share structures or changes in governance provisions without shareholders approval. Therefore, we only focus on board diversity, tenure, and busyness.

To formally evaluate whether the concerns are well grounded, we examine whether firms that have lower board diversity (in particular, a lower proportion of females) have a higher fraction of rationales related to board diversity, after controlling for other firm characteristics.<sup>28</sup> Likewise, we test if companies with long-tenured and busy boards receive more concerns about tenure and busyness, respectively. Specifically, we estimate the following equation:

$$Prop\_Rationale_{jt} = \beta_0 + \beta_1 BoardCharacteristics_{jt} + \beta_2 Dissent_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{jt} \quad (1)$$

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<sup>27</sup>For instance, Matsusaka et al. (2019) find that unions strategically use shareholder proposals to influence contract negotiations, thereby benefiting unionized employees.

<sup>28</sup>While board diversity generally refers to gender, it might also refer to other directors' characteristics. In Section C of the Internet Appendix, we consider both gender and ethnic diversity for a smaller sample of firms using an alternative dataset.

where  $Prop\_Rationale_{jt}$  is the proportion of rationales on each issue (board diversity, tenure, and busyness) for firm  $j$  in proxy season  $t$ . This value is estimated as the number of institutional investors mentioning the rationale relative to all the rationales mentioned by all institutional investors in that same firm, and it is intended to capture the relative importance of that rationale for all investors in that firm-year.<sup>29</sup>  $BoardCharacteristics_{jt}$  is either gender diversity, average tenure or average number of boards held by directors.  $Dissent_{jt}$  is the mean dissent voting of all candidates on the ballot.  $X$  includes firm level controls:  $Ln(MktCap)$ ,  $ROA$ ,  $Mkt\_to\_Book$ ,  $Dividends$ ,  $Leverage$  and  $Inst\_Own$ .  $\tau_t$  accounts for proxy season fixed effects, and  $\theta_l$  are industry level fixed effects. Standard errors are clustered at the firm level. We limit our sample to companies that receive at least 5 rationales on director elections to avoid capturing highly idiosyncratic issues raised by some institutional investors. 71% of (16,684) meetings in our sample have at least 5 rationales, but data availability on board characteristics reduce the sample to 11,116 meetings. The average number of distinct labels per meeting is 4.06—4.64 for meetings with at least one rationale and 5.29 for meetings with at least five rationales.

Table 7 presents the results. Column (1) shows that firms with a higher proportion of female directors on the board receive fewer rationales regarding board diversity after controlling for dissent and other firm characteristics. The coefficient is highly statistically significant (t-stat = -26.1), and the economic impact is also large: a one standard deviation increase in the percentage of female directors reduces the fraction of rationales related to board diversity by 5.9%, or 0.27 standard deviations.<sup>30</sup> Column (2) shows that firms with board members with a longer average tenure receive more rationales that reflect concerns about tenure. The coefficient is both economically and statistically significant (t-stat = 28.8). A standard deviation increase in average tenure increases the proportion of tenure-related rationales by 5.4%, or 0.41 standard deviations. Finally, column (3) indicates that companies with busy directors receive a higher proportion of rationales related to directors' busyness. The coefficient is also highly statistically

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<sup>29</sup>For instance, if Investor A mentions board diversity, tenure and ESG/CSR, and Investor B mentions board diversity and busyness, then, the proportion of rationales on board diversity is 0.4 (= 2/5), and 0.2 (= 1/5) for each of the other rationales. By construction,  $Prop\_Rationale_{jt}$  varies between 0 and 1.

<sup>30</sup>We find qualitatively similar results for ethnic diversity, using data from ISS (see Section C of the Internet Appendix). For ethnic diversity, the coefficient is economically smaller than gender, but statistically significant, suggesting that companies with lower ethnic diversity receive more rationales related to board diversity.

significant (t-stat = 12.5) and has a sizeable economic impact: a standard deviation increase in the average busyness of directors increases the fraction of concerns by 5.5%, or 0.30 standard deviations. In untabulated results, we further find that these board characteristics are the main determinant of the fraction of rationales related to each topic.

The key takeaway from above results is that institutional investors, in the aggregate, cast informed votes. This finding is especially relevant in light of recent concerns suggesting that these investors might lack sufficient incentives to engage with portfolio companies (Bebchuk and Hirst, 2019; Iliev et al., 2021). Moreover, our results help alleviate the concern that institutional investors may primarily resort to *rationale-washing*. Although some investors may have incentives to distort their true rationale, our findings indicate that this is not a common practice, and the declared rationales largely reflect corporate governance weaknesses. Lastly, although some activist strategies may be cost-prohibitive for institutional investors (Gantchev, 2013; Lewellen and Lewellen, 2022), the lower cost of disclosing voting rationales enables engagement with portfolio companies even for highly diversified investors.

## **6. Do Firms Listen When Institutional Investors Talk?**

In this section, we analyze whether voting rationales can bring change in portfolio companies. We also present falsification tests to show that we capture firms' reactions to institutional investors' concerns, not general corporate governance trends that might have driven company changes regardless of institutional investors' votes and rationales.

### **6.1. Do Boards Address Investors' Concerns?**

Voting is the key mechanism through which shareholders can hold the board of directors accountable. It is well documented that directors typically receive over 90% of votes cast, but even moderate levels of dissent voting carry severe consequences for CEO turnover and compensation, firms governance, and directors (Cai et al., 2009; Ertimur et al., 2018; Aggarwal

et al., 2019).

Above, we documented that an institutional investor might vote against directors for multiple reasons, and that different institutional investors will vote against the same director for different reasons. For instance, if a director receives high dissent voting, it could be because of insufficient female representation, insufficient independent directors, or a lack of responsiveness to shareholders after substantial withhold votes for directors in prior years. In this section, we examine whether the disclosure of voting rationales is an effective mechanism institutional investors can use to communicate reasons for their disagreement with management, and help them address these governance issues in the following year. Specifically, we investigate whether high dissent related to the lack of female representation is associated with increased female representation in the following year. Similarly, we examine high dissent related to concerns over directors' tenure and busyness.

We estimate the following equation:

$$\begin{aligned} \Delta BoardCharacteristic_{j,t+1} = & \beta_0 + \beta_1 Prop\_rationales_{jt} \times Dissent_{jt} + \\ & \beta_2 Prop\_rationales_{jt} + \beta_3 Dissent_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{j,t+1} \end{aligned} \quad (2)$$

where  $\Delta BoardCharacteristic_{j,t+1}$  is the change in the proportion of females on the board, the change in the average director tenure, or the change in the average busyness of all directors the year after the meeting.  $Dissent_{jt}$  is the mean dissent voting of all candidates on the ballot, and  $Prop\_rationales_{jt}$  is the proportion of rationales related to board diversity, tenure or, busy directors (i.e.,  $Prop\_board\_diversity$ ,  $Prop\_tenure$ , or  $Prop\_busy$ ). Our main coefficient of interest is  $\beta_1$ , and captures future changes in any of the previous board characteristics when the reason for dissent is related to that governance issue.  $X_{jt}$  includes a set of controls for firm characteristics defined in Equation (1).  $\tau_t$  and  $\theta_l$  account for proxy season and industry fixed effects, respectively. Including proxy season fixed effects addresses concerns related to potential time-related trends, such as the growing emphasis on gender diversity and inclusion, allowing us to isolate the variables of interest's effects from those of broader societal movements.

Table 8 presents the results. Columns (1) and (2) present the results for board diversity.

While column (1) shows that high dissent alone is not significantly related to changes in the proportion of female directors on the board in the following year, column (2) shows that high dissent driven by lack of board diversity is positively associated with future changes in the percentage of females on the board. Specifically, the coefficient on the interaction term is positive and significant at the 10% level, and the economic impact is large. When evaluating the effect for a dissent of 12% (75th percentile of dissent), a standard deviation increase in the proportion of rationales on board diversity is associated with a change in the proportion of females by 15.3% (or 2.6 standard deviations). We find that the results are economically and statistically stronger when we consider changes in board diversity after two years, as it might be difficult for firms to secure more female directors in the short-term (column (3)). This result suggests that voting rationales are informative of the reason for voting against directors, and that directors subsequently address these concerns, probably due to career concerns (Aggarwal et al., 2019).

Columns (4) to (6) of Table 8 present the results for the proportion of voting rationales related to directors' tenure. In column (4), contrary to what we would expect, we find that dissent is positively related to board tenure in the following year. However, the coefficient on the interaction term in column (5) is negative, suggesting that high dissent due to concerns over director tenure is associated with a decrease in average director tenure in the following year. The economic impact is large: when evaluated at a dissent of 12%, a one standard deviation increase in concerns over tenure leads to a 7.7 standard deviation decrease in average director tenure. This indicates that companies make changes in the board of directors to address concerns over long-tenured directors, and these effects are stronger when the board receives high opposition. Finally, columns (7) to (9) show the results on busy directors. The coefficient in column (7) is negative, suggesting that high dissent is associated with less busy directors in the following year. However, the coefficient is economically small and statistically insignificant. In column (8), we show that the interaction term is larger in magnitude and highly significant, both economically and statistically. For a dissent of 12%, a one standard deviation increase in the proportion of rationales on busy directors decreases average busyness by 6.8 standard deviations. For both tenure and busyness, the results are also stronger when we consider changes in board

composition  $t+2$  (columns (6) and (9), respectively).

Our results show that companies address institutional investors' concerns expressed through voting rationales. Expectation documents and voting policies explored in earlier studies (Couvert, 2020; Aguilera et al., 2021) address several corporate governance provisions at the same time, making it hard for the researcher to disentangle the role of each of those provisions. Our unique dataset enables us to link these vote-specific rationales to changes in board composition, underscoring the importance of effective communication between firms and shareholders for improving governance practices in portfolio firms.

## 6.2. Robustness Tests

### 6.2.1. Falsification Test

Some concerns might still remain as to whether rationales actually help investors communicate with management, or whether companies could identify the source of dissent based on their governance characteristics. For instance, a firm with low board diversity that received high dissent might be able to identify this issue as the source of discontent from shareholders and change its board composition accordingly. To formally test this possibility, we run a specification similar to Equation (2), but we replace voting rationales with board characteristics at the time of the meeting: percentage of female directors, average tenure, and average busyness of the directors.

We present the results in Table 9. The interaction terms is positive and statistically significant for the percentage of female directors and directors' tenure, but in the opposite direction. The results are statistically insignificant for busyness. As such, general dissent in directors' elections at companies with low female representation, high average tenure, or busy directors do not change board composition. This shows that voting rationales are unique in that they can inform firms of the reason for opposing directors, and companies learn from this information, reinforcing the interpretation that firms change policies in response to votes, particularly when they can identify the reason for institutional investors' opposition. Companies might find it

challenging to identify the source of investor dissatisfaction purely from the firms' board composition or governance weaknesses. Hence, they might not be able to address the policies that lead to dissent in the first place.

### **6.2.2. Big Three Institutional Investors' Influence**

Gormley et al. (2022) show that Big Three institutional investors' campaigns launched in 2017 to increase board gender diversity were successful: they show that companies with higher Big Three ownership increased board gender diversity more than firms with lower Big Three ownership. The timing of these campaigns actually coincides with the increase in voting rationales on board diversity among Big Three investors in our sample (see Panel C of Figure 6), as discussed above. Then, one potential concern is whether our results are driven by these institutional investors, given the high voting power that they have in the average company. To test this possibility, we repeat our analysis excluding voting rationales by Big Three institutional investors and find a positive and significant relationship between dissent related to board diversity and changes in the percentage of females on the board in the following year (see Section D of the Internet Appendix). We also test whether companies in which the Big Three disclose rationales on board diversity drive the results and find that this is not the case. In fact, the results are statistically insignificant when we only consider voting rationales from Big Three institutional investors. Likewise, we find that the main results hold for changes in board tenure and busy directors when excluding the Big Three.

## **7. Conclusion**

In this paper, we study why institutional investors vote the way they vote on director elections. While prior evidence has relied on indirect evidence based on firm, proposal, and meeting characteristics, this paper provides direct evidence by studying voting rationales of institutional investors from across the world, for votes cast in US companies' annual shareholder meetings between July 2013 and June 2021.



We employ the BERT algorithm, a supervised NLP method, to assign rationales on uncontested director elections into 15 categories, and uncover the main rationale behind their votes, along with the relative importance of each rationale. Our analysis reveals that institutional investors vote against directors mainly because of (lack of) independence and board diversity. We also find evidence of some well-known reasons for opposing directors, such as tenure, busyness, or firm governance. Institutional investors are increasingly voting against directors due to concerns over environmental and social issues. Our results indicate that voting rationales are unlikely to capture proxy advisors' rationales, but rather, the independent assessment of institutional investors. We also find heterogeneity in voting rationales among different types of institutional investors.

Further, we find that these rationales are well-grounded: companies with fewer women on the board receive a higher fraction of voting rationales related to board diversity, and similar for other voting rationales. Finally, we examine whether firms listen to institutional investors when they communicate via voting rationales. We find that companies that receive a higher proportion of voting rationales related to board diversity (or alternatively, excessive tenure or busy directors) increase the fraction of females on board in the following year (reduce average tenure or director busyness), and the results are driven by companies that receive high shareholder dissent. In other words, shareholder voices are, and companies react to the issues raised by institutional investors. Taken together, our results suggest that disclosure of voting rationales is an effective, low-cost strategy that institutional investors can use to improve corporate governance in their portfolio companies.

## Appendix A. Variable Definitions

Variable	Definition (Source)	Mean	Median	SD	N
<i>Investor-Meeting Level</i>					
AvBusy	Average number of seats held by all directors on the board. $\Delta(\text{AvBusy})$ represents the change in AvBusy between the current meeting and the meeting in the following year. (BoardEx)	1.91	1.75	0.83	20,065
AvTenure	Average tenure of all directors on the board. $\Delta(\text{AvTenure})$ represents the change in AvTenure between the current meeting and the meeting in the following year. (BoardEx)	7.89	7.47	4.86	20,065
Dissent	Mean dissent voting for all candidates on the ballot, where dissent is the fraction of votes against, abstain, or withheld as a fraction of the sum of votes for, against, abstain, and withheld. (Insightia)	0.09	0.05	0.11	21,458
Dividends	Total dividends divided by total equity as of the end of the fiscal year. (Compustat)	0.02	0.01	0.03	21,381
InstOwn_Perc	Percentage of shares outstanding owned by institutional investors. (Thomson Reuters)	0.68	0.76	0.28	21,488
Leverage	Ratio of long-term and short-term debt to total assets as of the end of the fiscal year. (Compustat)	0.27	0.22	0.26	21,402
Ln(MktCap)	Natural logarithm of market capitalization as of the end of the fiscal year. (Compustat)	7.09	7.11	2.04	21,450
Mkt_to_Book	Market to book value of equity as of the end of fiscal year. (Compustat)	3.29	1.96	8.69	21,443
Per_female	Percentage of females on the board of directors. $\Delta(\text{Per\_female})$ shows the change in the proportion of females on the board between the current meeting and next year meeting. (BoardEx)	0.16	0.14	0.12	20,064
Prop_board_diversity	Proportion of rationales related to board diversity. It is the number of times this rationale is mentioned by institutional investors relative to all rationales mentioned by all institutional investors for the same firm.	0.27	0.18	0.30	18,431
Prop_busy	Proportion of rationales related to busy directors. Defined the same way as Prop_board_diversity (see above). (Insightia)	0.09	0.00	0.18	18,431
Prop_tenure	Proportion of rationales related to tenure. Defined the same way as Prop_board_diversity (see above). (Insightia)	0.10	0.00	0.14	18,431
ROA	Return on assets as of the end of the fiscal year. (Compustat)	-0.03	0.02	0.34	21,265

(Continued)

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Variable	Definition (Source)	Mean	Median	SD	N
<b><i>Investor-Proxy Season Level</i></b>					
Robo_Voter_GL	Dummy equal to one if the institutional investor votes with Glass Lewis 99% of the times or more, and zero otherwise. (Insightia)	0.08	0	0.27	8,297
Robo_Voter_ISS	Dummy equal to one if the institutional investor votes with ISS 99% of the times or more, and zero otherwise. (Insightia)	0.19	0	0.39	8,297
PRI_Signatory	Dummy equal to one if the institutional investor is a UN PRI signatory, and zero otherwise. (UN PRI website)	0.21	0	0.41	8,297
<b><i>Investor Level</i></b>					
Big_Three	Dummy equal to one if the institutional investor is Black-Rock, Vanguard, or State Street, and zero otherwise. (Insightia)	0.002	0	0.05	1,378
European	Dummy equal to one if the institutional investor's country is in Europe, and zero otherwise. (Insightia)	0.14	0	0.35	1,378
Fund_Manager	Dummy equal to one if the investor type is fund manager, and zero otherwise. (Insightia)	0.69	1	0.46	1,378
Pension	Dummy equal to one if the investor type is pension fund, and zero otherwise. (Insightia)	0.11	0	0.31	1,378
US	Dummy equal to one if the institutional investor country is the US, and zero otherwise. (Insightia)	0.75	1	0.44	1,378

## Appendix B. Why Do Institutional Investors Disclose Voting Rationales?

### NEI Investments<sup>31</sup>

*“Proxy voting is only really meaningful if companies understand why shareholders are voting for or against certain proposals. As well as scrutinizing the proposals we are asked to vote on, we also undertake an activity that we call “Feedback on Proxy”: we write to corporate boards where we have identified corporate governance concerns or notable good practices to explain the rationale for our voting decisions. This often leads to further dialogue. Companies have often told us that relatively few investment institutions reach out to provide detailed proxy feedback, so we encourage more investors to adopt this stewardship practice.”*

*“As part of our commitment to transparency, we disclose potential proxy voting conflicts of interest, and how they have been addressed, in the voting rationale disclosure in our public proxy voting database.”*

### Norges Bank<sup>32</sup>

*“In April 2020, the fund pushed transparency on voting to a new level. We began publishing a rationale every time we voted against the board’s recommendation. The published rationale is part of our continuous disclosure of all voting decisions, one business day after the shareholder meeting. The rationale is derived from the recently updated voting guidelines and provides a principled explanation for all votes against the recommendation of the board.”*

### Neuberger Berman<sup>33</sup>

*“Through our NB Votes initiative, we publish our vote intentions in advance of select shareholder meetings, with a focus on companies where our clients have significant economic exposure. NB Votes addresses a broad range of topics across our nine key governance and engagement principles with a balance of votes in support of and against management recommendations; enabling us to share our broad analysis and insights.”*

### AllianzGI<sup>34</sup>

*“AllianzGI sees stewardship as an integral part of our investment process, and proxy voting as an integral part of stewardship. We believe it is important to communicate the rationale for against votes and abstentions to companies, particularly if we would like to see improvements in standards and practices in future. As we cannot reach out to all investee companies individually to communicate our voting decisions in an efficient way, we believe that website publication of these decisions and rationales for votes against/abstentions the day following the shareholder meeting is our next best option. We are observing the increasing use of this information by companies and service providers.*

*Transparency of our voting decisions is also valued by our clients and other stakeholders. Although we provide other forms of proxy voting reporting to our clients, we understand that an ability to quickly check a particular vote and reasoning for any votes against without the need to wait for or access the report is a valuable and convenient tool for our clients. We understand that many other stakeholders, including NGOs, initiatives, consultants, and media outlets have been using our website disclosures to understand our voting behaviour and thinking.”*

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<sup>31</sup> Available here.

<sup>32</sup> Available here.

<sup>33</sup> Available here.

<sup>34</sup> Available here.

## Appendix C. Cosine Similarity of Rationales

Each investor’s rationale is a vector with 15 elements indicating whether each issue (e.g., independence, tenure, board diversity) was raised during the annual meeting for a particular director. Specifically, investor  $i$ ’s rationale is defined as  $R_i = [r_i^1, r_i^2, \dots, r_i^{15}]$ , where  $r_i^1$  is a dummy equal to one if investor  $i$  mentions independence for a given director in a given meeting, and zero otherwise. For any two investors that provided rationales in a given meeting, it is possible to calculate the pairwise cosine similarity of their rationales, which takes a value between 0 and 1.

$$\text{Pairwise cosine similarity} = S_C(R_i, R_k) = \frac{\sum_{n=1}^{15} r_i^n r_k^n}{\sqrt{\sum_{n=1}^{15} r_i^n} \sqrt{\sum_{n=1}^{15} r_k^n}}$$

If there are  $N$  investors that provided rationales in a given meeting, the number of pairwise cosine similarity is  $N(N - 1)/2$ . We average those  $N(N - 1)/2$  values to calculate the cosine similarity at the proposal level (i.e., director level).

We also calculate cosine similarity at the meeting and investor levels. To calculate proposal-level cosine similarity, we define  $R_i$  at the meeting level instead of the proposal level. That is,  $r_i^1$  is a dummy equal to one if investor  $i$  mentions independence for at least one director in a given meeting, and zero otherwise.

Investor-level cosine similarity measures whether an investor mentions the same set of issues for all directors at different companies (vs. different issues for different directors). This can be interpreted as the investor rationales’ extent of “one-size-fits-all.” For example, suppose independence is an investor’s only reason behind the votes for all of its votes in a given proxy season. In that case, the investor’s cosine similarity in that proxy season is 1. In contrast, if the investor mentions board diversity and tenure for director 1, ESG/CSR for director 2, and compensation for director 3, there is no overlap in rationales, and the investor’s cosine similarity is 0.

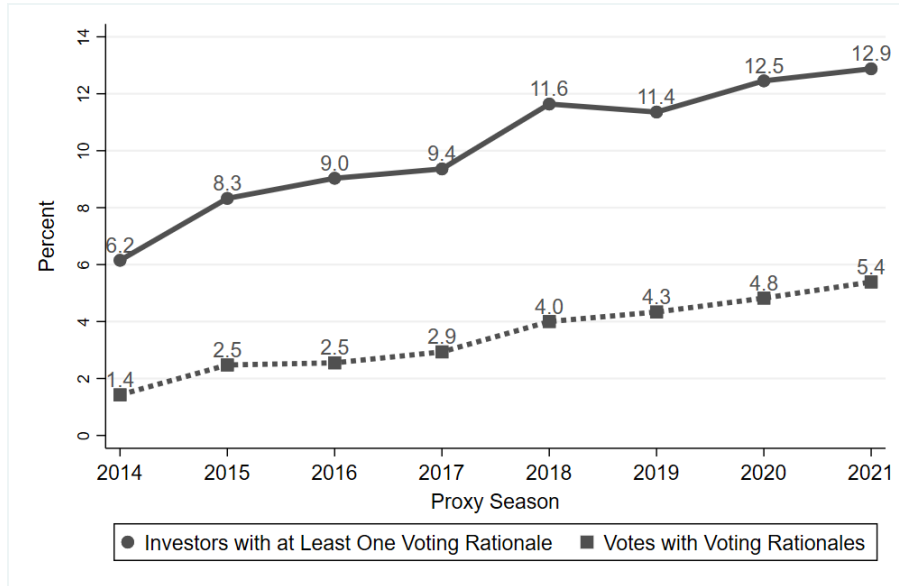
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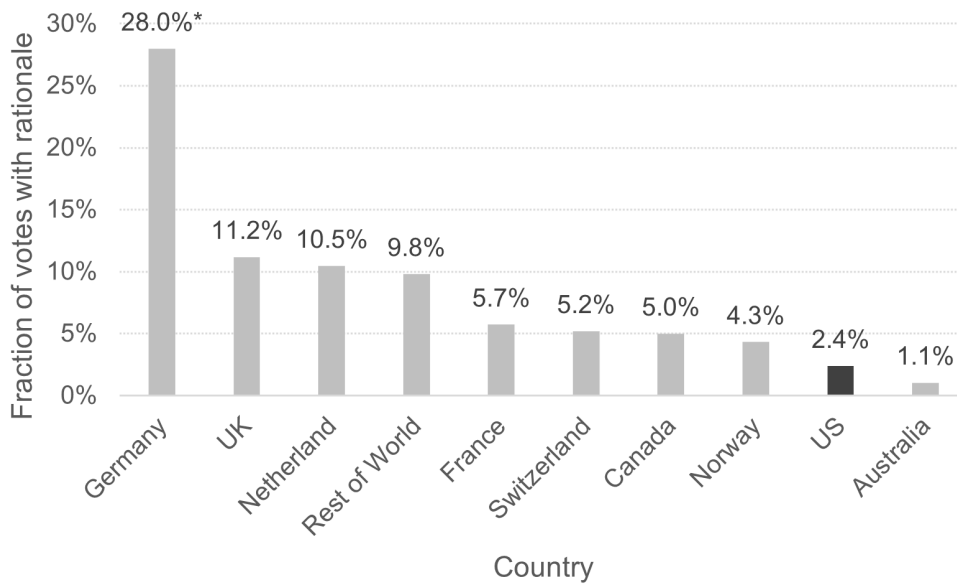
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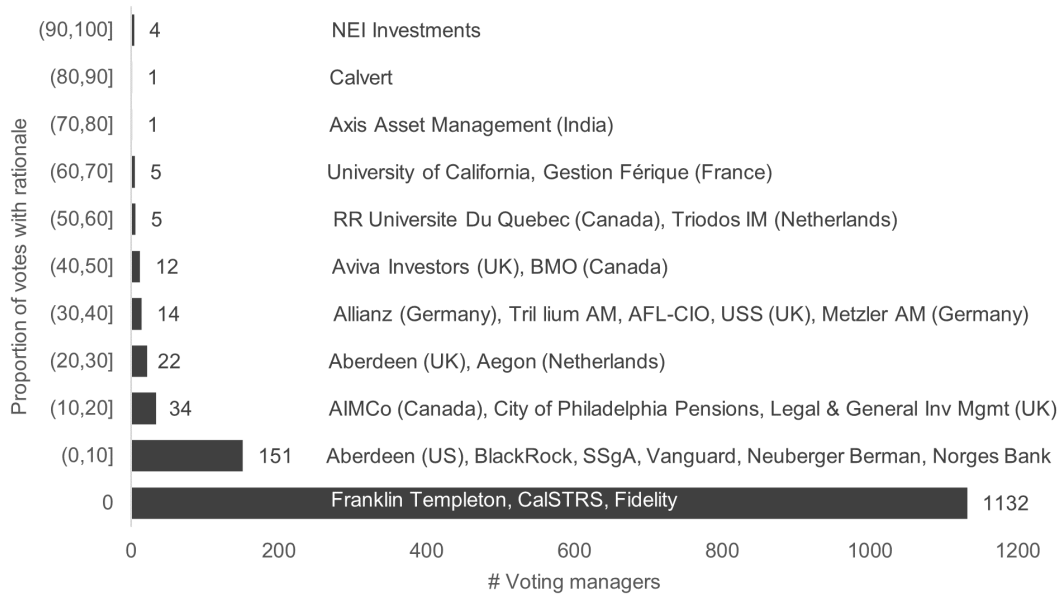




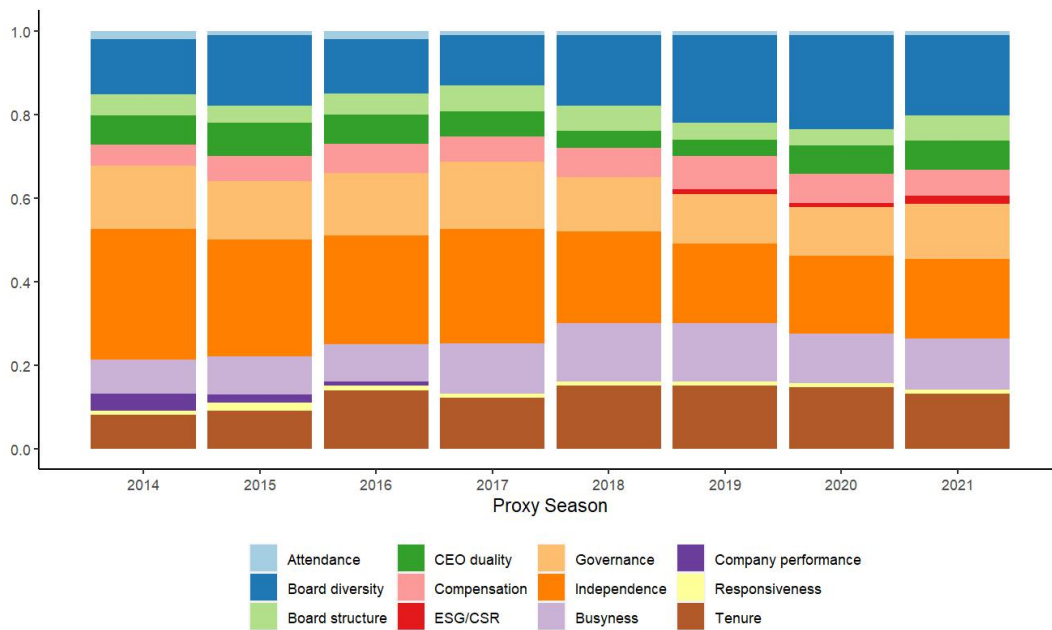
**Figure 1. Fraction of Votes With Voting Rationale Over Time.** The figure shows the trend in voting rationale disclosures over time. While this practice was relatively uncommon at the beginning of the sample period, the fraction of votes with rationales increased over time, reaching 5.4% in 2021.



**Figure 2. Fraction of Votes With Voting Rationale: By Institutional Investor Country.** The figure shows the variation in the disclosure of voting rationales among institutional investors from different countries. The ‘Rest of World’ group encompasses 25 countries, including Denmark, India, Japan, the Republic of Korea, South Africa, Sweden, and Thailand. Evidence from Germany is only based on six voting managers, as institutional investors are not required to disclose actual votes in this country; thus, this figure has to be interpreted with this caveat in mind.

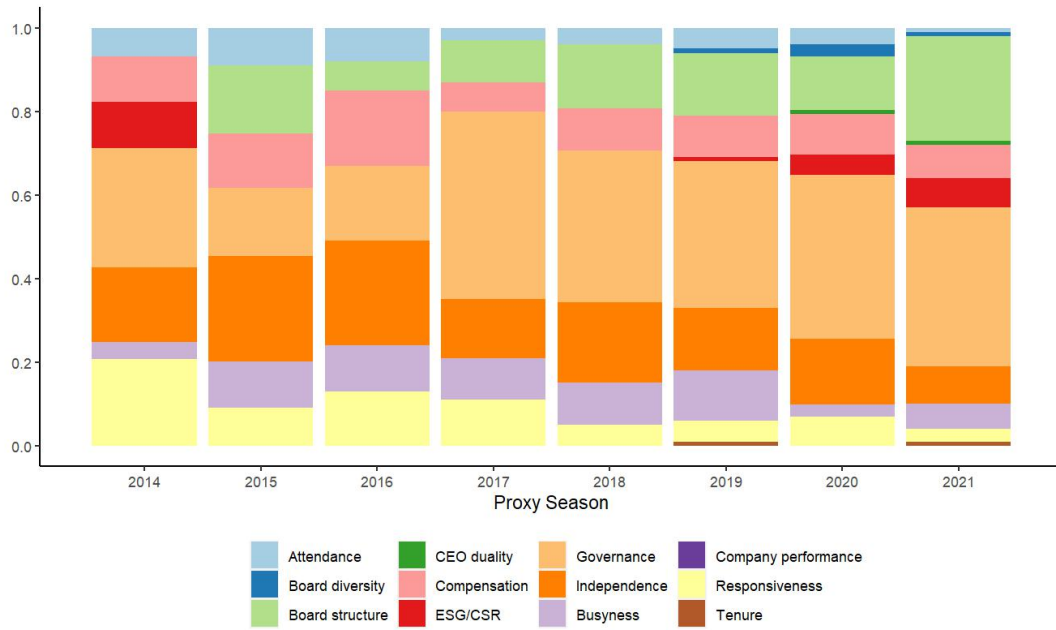


**Figure 3. Fraction of Votes With Voting Rationale: By Institutional Investors.** The figure presents the distribution of institutional investors by the mean proportion of votes with rationales for the full sample period (June 2013 to July 2021). The figure shows that while most institutional investors do not disclose any rationales for their votes (Fidelity, CalSTRS), some of them disclose rationales for most of them (NEI Investments, Calvert).

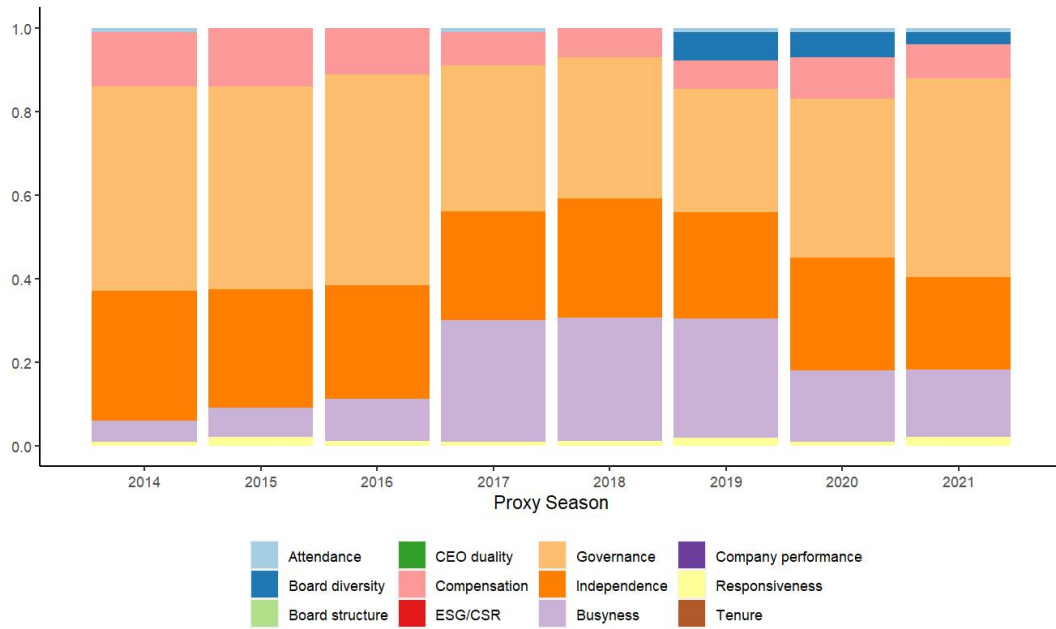


**Figure 4. Relative Frequency of the Various Rationales Over Time.** The figure shows the relative frequency of the different rationales for votes against directors over the years. We exclude rationales in the categories “No reason,” “No significant concern,” and “Miscellaneous.”

Panel A. ISS Robo-Voters

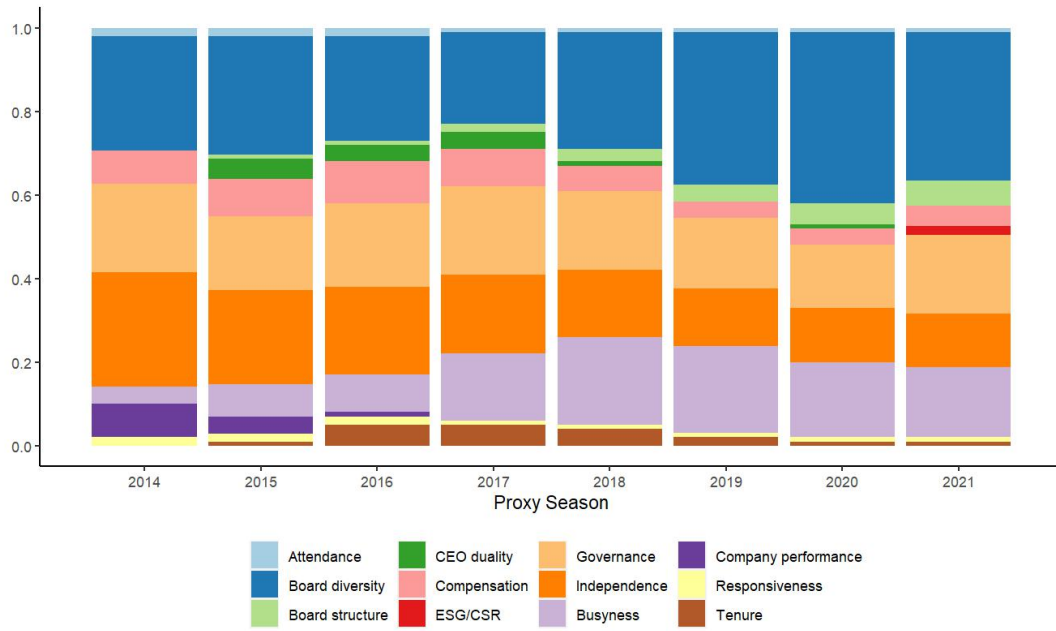


Panel B. Glass Lewis Robo-Voters

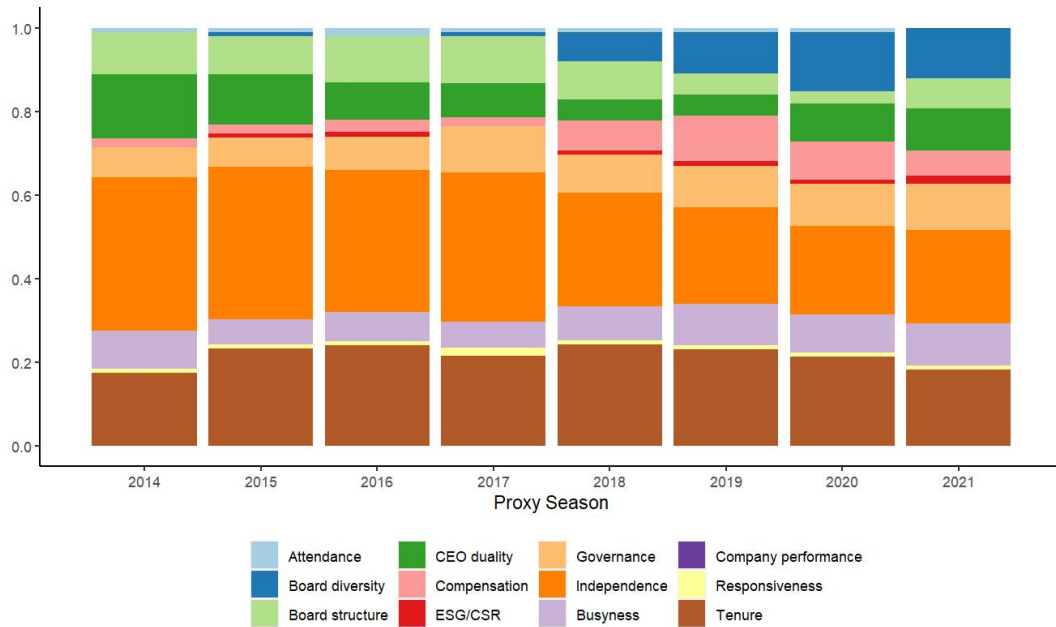


**Figure 5. Proxy Advisors’ Rationales.** This plot shows the relative frequency of the different rationales on votes against by ISS and Glass Lewis robo-voters over the years. We exclude rationales in the categories “No reason,” “No significant concern,” and “Miscellaneous.”

Panel A. US Institutional Investors

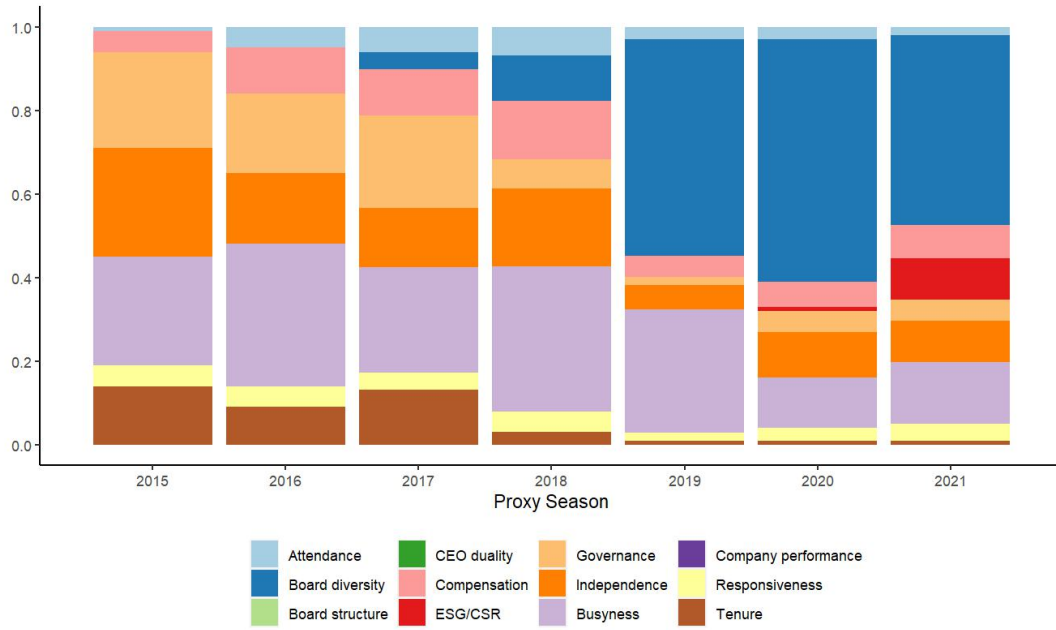


Panel B. European Institutional Investors

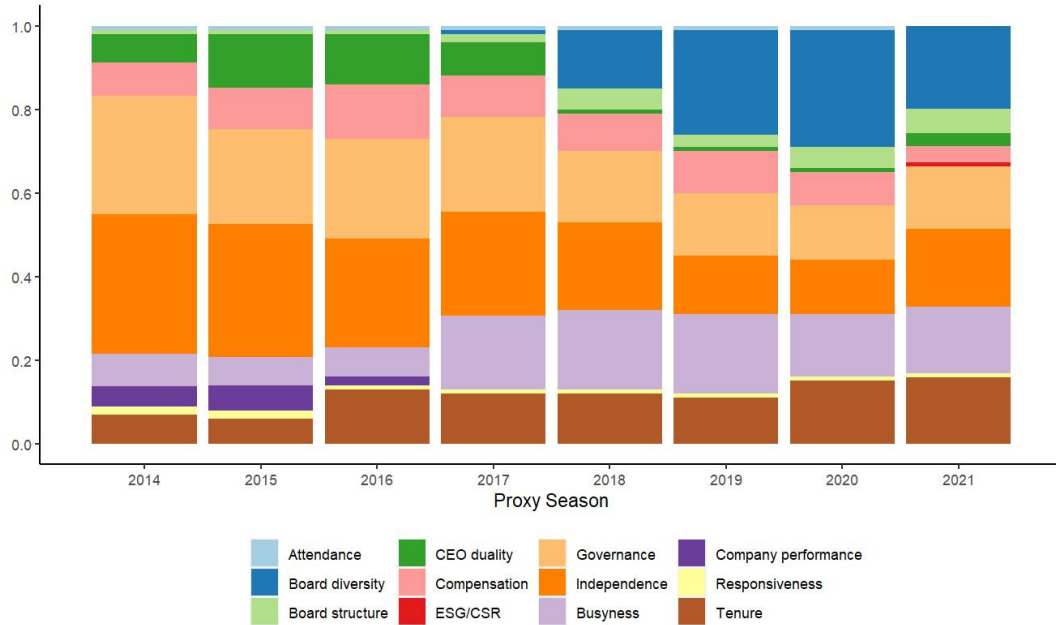


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Panel C. The Big Three Institutional Investors

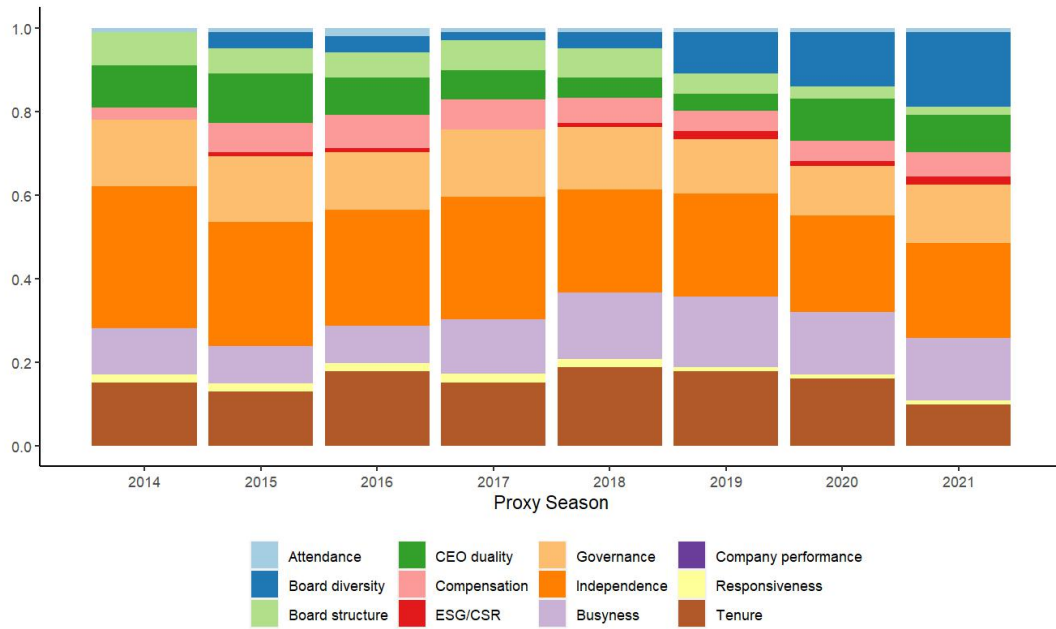


Panel D. Pension Funds



(Continued)

Panel E. 13F Owners



**Figure 6. Heterogeneity in institutional investors' rationales.** This plot shows the relative frequency of the different rationales on votes against by different investor types over the years. We exclude rationales in the categories “No reason,” “No significant concern,” and “Miscellaneous.” For the Big Three, we exclude 2014 because we have very few rationales from the Big Three institutional investors in that year.

**Table 1. Disclosure of Voting Rationales**

The table displays the proportion of votes cast with rationales, sorted by investor type (Panel A) and voting pattern (Panel B). The data are based on 25,866,121 votes, comprising 18,874,565 votes for director elections, 6,004,101 for other management proposals, and 987,455 for shareholder proposals. Column (1) in Panel A shows the number of investors in each category. Note that categories with an asterisk (\*) indicate that the investor classification is at the investor-year level instead of the investor level. Accordingly, an investor may be classified as a certain type of investor in one year but a different type in another year.

<i>Panel A. Investors</i>						
	All Proposals (N=191,076)			Director Election Proposals (N = 136,147)	Other Management Proposals (N=51,395)	Shareholder Proposals (N = 3,534)
	N	% Votes	% Votes with Rationales	% Votes with Rationales		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>By Institutional Investor Type</i>						
Fund Managers	954	59.0	3.5	3.1	3.9	8.0
Pension Funds	148	21.2	5.5	4.8	6.6	13.1
Other Investors	276	19.8	2.1	1.9	2.4	4.9
Total	1,378	100.0	3.7	3.2	4.1	8.4
<i>By Robo-Voter Status</i>						
ISS Robo-Voters*	434	21.3	1.9	2.3	0.6	3.2
Glass Lewis Robo-Voters*	250	6.8	1.1	0.8	1.2	5.7
Non-Robo-Voter*	1,197	71.9	4.4	3.8	5.5	10.1
<i>By Other Investor Attributes</i>						
US Investors	1,030	78.6	2.4	2.3	2.4	4.4
European Investors	192	13.4	11.0	9.0	15.2	24.0
Big Three	3	2.1	3.8	3.3	2.8	35.6
Non-Big Three	1,375	97.9	3.6	3.2	4.2	8.1
UN PRI Signatory*	359	35.1	6.6	5.8	7.8	16.1
Non-UN PRI Signatory*	1,191	64.9	2.0	1.9	2.2	4.5

**Table 1. Disclosure of Voting Rationales** (*—Continued from previous page*)

*Panel B. Voting Patterns*

	Director Election Proposals (N = 136,147)		Other Management Proposals (N=51,395)		Shareholder Proposals (N = 3,534)	
	% Votes (1)	% Votes with Rationales (2)	% Votes (3)	% Votes with Rationales (4)	% Votes (5)	%Votes with Rationales (6)
<i>By Vote</i>						
For	89.9	1.9	87.7	2.0	55.3	12.3
Against	4.4	19.1	11.8	20.1	42.7	3.5
Abstain	5.7	12.4	0.5	3.5	2.0	4.1
Total	100	3.2	100	4.1	100	8.4
<i>By Alignment with Proxy Advisors' Voting Recommendations</i>						
Vote with ISS	91.4	2.2	90.3	2.5	73.1	9.4
Vote against ISS	8.6	14.4	9.7	20.1	26.9	5.6
Vote with Glass Lewis	91.1	2.1	88.1	2.5	67.9	7.5
Vote against Glass Lewis	8.9	13.7	11.9	15.4	32.1	9.4



**Table 2. Largest Institutional Investors**

The table presents the largest institutional investors based on the number of meetings worldwide in which they cast their shares during the 2021 proxy season. Panel A shows the largest fund managers, Panel B the pension funds, and Panel C the non-US institutional investors.

*Panel A. Top 10 Fund Managers*

Meetings	Number of Proposals	Investor Name
19,471	177,260	Dimensional Fund Advisors, Inc.
19,221	172,307	Vanguard Group, Inc.
16,443	153,357	SSGA Funds Management, Inc.
16,435	155,614	Blackrock
11,526	115,098	Northern Trust Investments
11,526	112,293	Geode Capital Management
11,108	108,767	Charles Schwab Investment Management, Inc.
10,923	107,622	American Century
9,993	95,625	BNY Mellon
8,774	85,426	DWS Investment Management Americas, Inc.

*Panel B. Top 10 Pension Funds*

Meetings	Proposals	Investor Name
14,892	137,516	California Public Employees' Retirement System (CalPERS)
12,354	120,431	TIAA-CREF Asset Management LLC
10,758	108,284	University of California
10,206	101,731	Ohio Public Employees Retirement System (OPERS)
9,794	97,193	Oregon Investment Council
9,311	91,468	Los Angeles City Employees' Retirement System (LACERS)
8,897	88,649	California State Teachers' Retirement System (CalSTRS)
8,252	85,520	Massachusetts Pension Reserves Investment Management (PRIM)
7,889	84,805	Maryland State Retirement and Pension System
7,507	74,999	Florida State Board of Administration

*Panel C. Top 10 Non-US Institutional Investors*

Meetings	Proposals	Investor Name
12,228	122,563	Legal & General Investment Management
11,778	120,757	UBS Asset Management
11,708	100,649	Manulife Investment Management
11,245	110,626	Norges Bank Investment Management
9,448	95,111	Allianz Global Investors
8,279	86,560	New Zealand Superannuation Fund
7,937	84,102	HSBC Global Asset Management
7,089	73,984	BMO Global Asset Management
6,816	72,551	Aberdeen Standard Investments
6,562	70,160	Schroders

**Table 3. Labels for Director Elections**

This table presents the 15 labels we identify for votes on director elections following the procedure described in Section 3. The table describes what each label refers to and some examples of the rationales classified according to those labels.

Label	Rationale refers to...	Example from rationales in the sample
Independence	Director independence, affiliates/insiders on the board, fraction of independent directors on the board, lack of independent directors in key committees.	We expect the Lead Independent Director to be independent under our criteria, and will not support the election of relevant director where this is not the case.
Board diversity	Concerns over lack of diversity (gender, race and other minorities) on the board.	WITHHOLD votes for incumbent Nominating Committee members Alan Holmer and Paris Panayiotopoulos are warranted for lack of diversity on the board.
Tenure	Excessive tenure of board members.	Directors with long board tenures should not serve on committees that require absolute independence. The audit committee should be fully independent and this director's membership could hamper the committee's impartiality and effectiveness. Given that this director is due to retire next year, we are supportive at this time.
Governance	Examples of governance concerns in companies include dual-class share structures, adoption of major governance changes without shareholder approval, hedging, board interlocks, excessive audit tenure, and pledging of company shares by executives or directors.	WITHHOLD votes are warranted all incumbent director nominees for the adoption of a new poison pill that has not been ratified by shareholders.
Busyness	Board members serving on "too many" boards, concerns over time commitments.	A vote AGAINST Steven Roth is warranted for serving on more than three public boards while serving as CEO of at least one outside company.
Compensation	Excessive compensation or lack of pay-for-performance sensitivity.	We have concerns around the remuneration plans of the executives other than the CEO; this includes the absence of performance conditions, and the absence of a three year performance period.
CEO duality	The company has a combined CEO and Chairman.	The nominee serves on the nominating committee and the company has a combined Chairman and CEO.
Board structure	Issues related to board structure such as classified boards or lack of appropriate board committees.	Failure to remove the classified board and the supermajority vote requirement to enact certain changes to the charter, each of which adversely impacts shareholder rights.

*(Continued)*

**Table 3. Labels for Director Elections** (*—Continued from previous page*)

Label	Rationale refers to...	Example from rationales in the sample
Miscellaneous	Idiosyncratic cases that are likely to capture errors in rationales, or for which we cannot infer the rationale.	Please refer to the comments for director nominee, Mr. Lloyd Blankfein.
Responsiveness	Failure to implement shareholder proposals with high support, directors' failure to respond to shareholder concerns, or failed say-on-pay proposal/low director support.	Votes AGAINST Compensation Committee members Mark D. Carleton, Robert Ted Enloe III, and Mark S. Shapiro are warranted in light of the company's insufficient disclosure of shareholder outreach following last year's low say-on-pay vote result.
Attendance	Failure to attend board meetings, typically 75% of them.	WITHHOLD votes are warranted for Alex Lieblong for attending less than 75 percent of the board and committee meetings held over the past fiscal year without disclosing an acceptable reason for the absences.
ESG/CSR	Concerns over environmental and social risks not properly addressed by the board.	Vote against on the basis that there is no evidence of leadership on key ESG issues facing the business.
Company performance	Concerns over the firm's poor performance.	This company has underperformed its peer group for the past five years. Given that performance, a vote is cast to withhold authority for all nominees to the board with the exception of directors not previously submitted for shareholder election.
No reason	The rationale does not mention any specific reason for the vote.	A vote FOR new director John Sheridan is warranted.
No significant concern	The rationale states that they do not identify any reason for concern for the candidate.	NAA vote FOR this proposal is warranted as no significant concerns were identified.

**Table 4. Model Performance**

Panel A reports the model performance based on Accuracy, Precision, Recall, and F1-score. Precision is the number of correctly predicted positives ( $TP$ ), relative to the total number of predicted positives, where the total number of predicted positives is the sum of the number of correctly predicted positives ( $TP$ ) and false positives ( $FP$ ) (i.e., precision =  $TP/(TP+FP)$ ). Recall is the correctly predicted positives relative to correctly predicted positives plus false negatives ( $FN$ ) (i.e., recall =  $TP/(TP + FN)$ ). F1-score is the harmonic mean of recall and precision (i.e.,  $(2 \times \text{recall} \times \text{precision})/(\text{recall} + \text{precision})$ ). Support is the number of occurrences of each class in the true responses. Accuracy is the ratio of correctly predicted observation to the total observations, where correctly predicted observation is the sum of the number of correctly predicted positives ( $TP$ ) and correctly predicted negatives ( $TN$ ) (i.e., accuracy =  $(TP + TN)/(TP + TN + FP + FN)$ ). Panel B presents the confusion matrix used to calculate values in Panel A.

*Panel A. Model Performance*

	0	1	Macro Average	Weighted Average	Accuracy
Precision	0.9926	0.9282	0.9604	0.9849	
Recall	0.9900	0.9463	0.9682	0.9847	0.9847
F1-score	0.9913	0.9372	0.9643	0.9848	
Support	2,995	410	3,405	3,405	

*Panel B. Confusion Matrix*

	Predicted	
	0	1
Actual	0	30
	1	388

**Table 5. Rationales on Director Elections: Votes Against**

This table presents the frequency of each rationale at the meeting level for votes against directors. Column (1) shows the total number of times investors mention each rationale. For example, the number of investor-meeting observations that mention independence is 42,005. Column (2) shows the relative importance of each rationale, by dividing the numbers in column (1) by the total number of mentions, 197,526. Column (3) is similar to column (2) but adjusts sample representation using propensity score weighting, as described in Section B of the Internet Appendix. Column (4) shows the percentage of meetings with at least one investor mentioning each rationale for 18,688 meetings with at least one voting rationale.

	# Mention	% Rationale	% Rationale (Adjusted)	% Meetings with at Least One Mention ( <i>N</i> Meetings=18,688)
	(1)	(2)	(3)	(4)
Independence	42,005	21.3	19.7	67.0
Board diversity	34,884	17.7	20.3	72.5
Tenure	26,094	13.2	9.0	44.7
Governance	25,451	12.9	16.0	45.2
Busyness	23,119	11.7	11.3	32.4
Compensation	12,950	6.6	7.0	31.5
CEO duality	11,351	5.7	4.9	20.0
Board structure	9,744	4.9	4.4	27.5
Miscellaneous	4,943	2.5	3.0	15.0
Responsiveness	2,287	1.2	1.7	4.9
Attendance	2,013	1.0	1.3	2.6
ESG/CSR	1,620	0.8	0.7	5.0
Company performance	714	0.4	0.5	3.4
No reason	346	0.2	0.3	1.7
No significant concern	5	0.0	0.0	0.0
Total	197,526	100.0	100.0	.

**Table 6. Cosine Similarity of Rationales**

This table shows the average cosine similarity of institutional investors' rationales for votes against, at the proposal, meeting, and investor levels. N shows the number of observations used to calculate the average cosine similarity. We exclude proposals/meetings/investor-proxy seasons with fewer than five observations. For example, the first row of Panel A shows that there are 19,482 proposals for which at least five investors provided rationales for votes against, and the average cosine similarity across these proposals is 0.51.

	All Investors		ISS Robo-Voters		Glass Lewis Robo-Voters	
	Mean (1)	N (2)	Mean (3)	N (4)	Mean (5)	N (6)
Proposal level	0.51	19,482	0.82	893	0.98	2,179
Meeting level	0.42	9,262	0.93	342	0.99	1,608
Investor level	0.44	631	0.44	62	0.29	52

**Table 7. Are Concerns Well Grounded?**

The table presents the regression of the proportion of rationales on a given topic on board characteristics reflecting those issues. Standard errors are clustered at the firm level. *t*-statistics are provided in parenthesis. \*, \*\*, and \*\*\* denote statistical significance at the 1%, 5%, 10% level, respectively. Firm-level variables are defined in Appendix A and rationales in Table 3.

	Prop_board_diversity (1)	Prop_tenure (2)	Prop_busy (3)
Per_female	-0.655*** (-26.087)		
AvTenure		0.012*** (28.781)	
AvBusy			0.065*** (12.465)
Dissent	-0.320*** (-15.292)	-0.218*** (-19.368)	-0.167*** (-9.433)
Ln(MktCap)	-0.030*** (-19.028)	0.013*** (12.837)	-0.001 (-0.693)
ROA	0.044*** (3.587)	0.019*** (2.984)	-0.044*** (-3.154)
Mkt_to_Book	0.001*** (2.620)	-0.000* (-1.743)	-0.000* (-1.739)
Dividends	-0.168 (-1.481)	0.043 (0.681)	-0.030 (-0.321)
Leverage	0.002 (0.208)	-0.009 (-1.159)	0.030*** (2.648)
InstOwn_Perc	0.058*** (4.498)	0.055*** (6.803)	0.045*** (3.628)
Observations	11,116	11,116	11,116
Adjusted R-squared	0.257	0.287	0.118
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

**Table 8. Board Changes Following Investors' Concerns**

The table presents the regression of changes in board characteristics on dissent voting and rationales related to those board characteristics (Equation 2). Columns (1), (2), (4), (5), (7) and (8) present results for board changes in t+1, and columns (3), (6) and (9) for changes in t+2. Standard errors are clustered at the firm level. *t*-statistics are provided in parenthesis. \*, \*\*, and \*\*\* denote statistical significance at the 1%, 5%, 10% level, respectively. Firm-level variables are defined in Appendix A and rationales in Table 3.

	$\Delta(\text{Per\_female})$			$\Delta(\text{AvTenure})$			$\Delta(\text{AvBusy})$		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dissent	0.004 (0.633)	-0.004 (-0.541)	0.012 (0.918)	0.666*** (4.955)	0.795*** (5.917)	1.132*** (4.758)	-0.028 (-1.020)	0.020 (0.717)	-0.028 (-0.644)
Prop_board_diversity		0.005 (1.315)	0.028*** (5.180)						
Dissent × Prop_board_diversity		0.057* (1.758)	0.249*** (4.069)						
Prop_tenure					-0.476*** (-3.956)	-1.514*** (-7.448)			
Dissent × Prop_tenure					-6.044*** (-3.805)	-19.844*** (-6.742)			
Prop_busy								-0.006 (-0.278)	-0.081*** (-2.708)
Dissent × Prop_busy								-0.831*** (-3.082)	-1.848*** (-4.618)
Ln(MktCap)	-0.001** (-2.494)	-0.000 (-1.187)	0.000 (0.510)	-0.027*** (-3.401)	-0.021*** (-2.640)	-0.021 (-1.361)	0.002 (1.047)	0.002 (1.500)	0.001 (0.344)
ROA	-0.011*** (-2.590)	-0.012*** (-2.657)	-0.015** (-2.028)	-0.147*** (-2.593)	-0.060 (-1.091)	-0.135 (-1.132)	0.066*** (2.833)	0.056** (2.363)	0.134*** (3.252)
Mkt.to.Book	0.000 (0.930)	0.000 (0.911)	0.000 (1.550)	0.003** (2.502)	0.003** (2.124)	0.004** (2.173)	-0.001 (-1.628)	-0.001* (-1.692)	-0.000 (-0.907)
Dividends	0.007 (0.291)	0.012 (0.482)	-0.019 (-0.451)	-1.103** (-2.041)	-0.965* (-1.846)	-2.477** (-2.484)	0.084 (0.769)	0.096 (0.871)	-0.027 (-0.139)
Leverage	-0.004 (-1.559)	-0.003 (-1.438)	-0.003 (-0.809)	0.201*** (3.762)	0.145*** (2.787)	0.355*** (3.651)	-0.014 (-1.187)	-0.011 (-0.925)	-0.041** (-2.107)
InstOwn_Perc	0.010*** (3.332)	0.010*** (3.370)	0.018*** (3.423)	-0.145** (-2.056)	-0.131* (-1.903)	-0.161 (-1.202)	0.018 (1.389)	0.024* (1.858)	0.031 (1.435)
Observations	10,820	10,712	9,814	10,820	10,712	9,814	10,820	10,712	9,814
Adjusted R-squared	0.02	0.021	0.050	0.011	0.018	0.051	0.014	0.018	0.070
Proxy Season FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y



**Table 9. Falsification Tests**

The table presents the regression of changes in board characteristics on dissent voting and board characteristics at the time of the meeting. Standard errors are clustered at the firm level. *t*-statistics are provided in parenthesis. \*, \*\*, and \*\*\* denote statistical significance at the 1%, 5%, 10% level, respectively. Firm-level variables are defined in Appendix A and rationales in Table 3.

	$\Delta(\text{Per\_female})$ (1)	$\Delta(\text{AvTenure})$ (2)	$\Delta(\text{AvBusy})$ (3)
Dissent	-0.034*** (-3.538)	-0.009 (-0.052)	-0.111 (-0.912)
Per_female	-0.180*** (-23.142)		
Dissent x Per_female	0.080* (1.729)		
AvTenure		-0.092*** (-17.006)	
Dissent x AvTenure		0.084*** (2.639)	
AvBusy			-0.098*** (-15.012)
Dissent x AvBusy			0.055 (0.811)
Ln(MktCap)	0.003*** (6.913)	-0.034*** (-4.164)	0.022*** (11.222)
ROA	-0.013*** (-2.931)	0.217*** (3.590)	0.002 (0.073)
Mkt.to.Book	0.000 (0.861)	0.002 (1.339)	-0.001* (-1.906)
Dividends	0.038 (1.498)	-0.483 (-0.950)	0.213* (1.915)
Leverage	-0.004 (-1.548)	0.018 (0.338)	-0.003 (-0.240)
InstOwn.Perc	0.021*** (6.539)	-0.347*** (-5.150)	0.024* (1.758)
Observations	10,820	10,820	10,820
Adjusted R-squared	0.109	0.092	0.077
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y