Shareholder Voting and Corporate Governance Around the World

Peter Iliev
Penn State University

Karl V. Lins
University of Utah

Darius P. Miller
Southern Methodist University

Lukas Roth
University of Alberta

January 13, 2011

Abstract

Shareholder voting is one of the fundamental mechanisms through which corporate governance is exercised, yet to date it has not been systematically analyzed across countries. We study the votes cast by U.S. institutional investors in elections held by 5,211 firms across 46 countries to assess the impact of internal (firm-level) and external (country-level) corporate governance on shareholder voting patterns. The propensity to vote against management's recommendations increases with managerial entrenchment, indicating that firm-level governance plays an important role in voting decisions for firms domiciled around the world. This effect is stronger when external country-level governance is relatively weak. Further, we provide evidence that independent proxy voting recommendations are closely linked to the voting patterns of shares held in non-U.S. firms, and this effect is stronger for firms domiciled in countries with weak external governance.

Keywords: Corporate governance, Voting, Insider control, Analysts, Shareholder protection, Institutional investors

JEL Classifications: D7, F30, G15, G32, G34, K22

---

* Email addresses for the authors are pgi1@psu.edu, karl.lins@business.utah.edu, dpmiller@cox.smu.edu, and lukas.roth@ualberta.ca. We thank Mike Lemmon, Zach Sautner, David Yermack, and seminar participants at University of Amsterdam, INSEAD, Lancaster University and Tilburg University for helpful suggestions, and thank Verdun Edgtton, Dori Flanagan, and Jenell Wilkie from BNY Mellon for assistance with some of the data used in this study.

Shareholder Voting and Corporate Governance Around the World

Abstract

Shareholder voting is one of the fundamental mechanisms through which corporate governance is exercised, yet to date it has not been systematically analyzed across countries. We study the votes cast by U.S. institutional investors in elections held by 5,211 firms across 46 countries to assess the impact of internal (firm-level) and external (country-level) corporate governance on shareholder voting patterns. The propensity to vote against management's recommendations increases with managerial entrenchment, indicating that firm-level governance plays an important role in voting decisions for firms domiciled around the world. This effect is stronger when external country-level governance is relatively weak. Further, we provide evidence that independent proxy voting recommendations are closely linked to the voting patterns of shares held in non-U.S. firms, and this effect is stronger for firms domiciled in countries with weak external governance.

Shareholder Voting and Corporate Governance Around the World

> "The proxy is often the principal means for shareholders and public companies to communicate with one another, and for shareholders to weigh in on issues of importance to the corporation," said U.S. Securities and Exchange Commission Chairman Mary L. Schapiro on July 14, 2010. "To result in effective governance, the transmission of this communication between investors and public companies must be timely, accurate, unbiased, and fair."

1. Introduction

Corporate governance has long been an important topic in the field of finance because it is the fundamental mechanism through which shareholders ensure a return on the money they invest in the equity of firms. Further, it is through the process of shareholder voting that corporate governance is actually exercised. The U.S. has long maintained a proxy system that governs the way in which investors vote their shares in a public company regardless of whether they attend shareholder meetings.

The topic of shareholder voting has become increasingly prominent in recent years as the emphasis on ensuring proper corporate governance has grown (see Yermack (2010) for a review of the literature on voting patterns for U.S. firms). In light of this movement, the U.S. SEC announced in July 2010 that it would undertake a concept release seeking public comment on the U.S. proxy system and asking whether rule revisions should be considered to promote greater efficiency and transparency.[1] As the above quote makes clear, regulators believe that voting is indeed fundamental to the exercise of corporate governance.

While the study of corporate governance and voting patterns for U.S. firms certainly matters given the size and importance of U.S. stock markets, the impact of governance and voting can potentially be much greater in settings outside of the U.S. Across the world,

[1] In their concept release, the SEC noted that it has been nearly 30 years since the Commission last conducted a comprehensive review of the proxy voting infrastructure. With significant changes since then in shareholder demographics, technology, and other areas, the Commission's review of the U.S. proxy system will examine emerging issues that either did not exist or were not considered significant three decades ago.

shareholders of firms face far greater dispersion in both shareholder protection and corporate disclosure which, when lacking, make the exercise of corporate governance more important and also more difficult. This potential lack of protection and transparency is the driving force behind the burgeoning literature on international corporate governance that has developed over the past decade (see Bebchuk and Weisbach (2010) and Denis and McConnell (2003) for surveys of this literature).

As these survey papers show, the need to fully understand the drivers and outcomes of international corporate governance remains as strong as ever. To our knowledge, no large scale cross-country research on shareholder voting patterns across a set of firms and countries that differ in their levels of expected governance and transparency has been conducted to date. In this paper, we conduct such a study. Specifically, we examine the linkage between voting patterns for and against management proposals put forth for shareholder voting and firm- and country-level characteristics that capture governance and transparency, and whether these patterns depend on recommendations given by proxy advisory firms.

While the theory and basic intuition that underpins corporate governance indicates that the process of shareholder voting for non-U.S. firms should clearly be important, it is nonetheless difficult to predict *ex ante* the voting patterns that may actually be uncovered. Shareholders might of course attempt to use their voting power to steer managers in the direction of better governance. This is the outcome suggested by recent research papers that, collectively, examine U.S. institutions' voting for director outcomes, U.K. "say on pay" voting, and institutional investors' survey responses in the U.S. and the Netherlands. Cai, Garner, and Walkling (2009) report that while U.S. institutions overwhelmingly cast "For" votes in director elections held by U.S. firms, greater managerial entrenchment is associated

with more "Against" votes being cast. For U.K. firms, Ferri and Maber (2009) and Carter and Zamora (2009) find that greater dissent voting in say on pay elections results in several outcomes: greater sensitivity of CEO cash and total compensation to negative operating performance, curbing of excess salaries, and a lessening of equity holder dilution due to stock option grants. More directly related to our paper, McCahery, Sautner, and Starks (2010) conduct a survey on the corporate governance preferences of institutions that invest in U.S-. and Netherlands-based firms and report that 66% of the 118 survey respondents state that voting against the company at the annual meeting is among the corrective actions they would take to express governance concerns.[2]

However, some research suggests that the voting mechanism might not be useful for expressing governance concerns. Parrino, Sias, and Starks (2003) study U.S. institutional holdings of U.S. firms over the period 1982 to 1993 and find that institutional investors tend to "vote with their feet" by selling their shares in firms that do not implement stronger governance practices. Leuz, Lins, and Warnock (2009) use the 1997 U.S. Treasury and Federal Reserve benchmark survey to show that U.S. investors of all types (institutional and individual) hold significantly smaller equity positions in non-U.S. firms predicted to have poor governance and information flow.[3] Further, Kahan and Rock (2008) describe in detail a number of "hanging chad" pathologies that interfere with the accurate tabulation of U.S. shareholder votes, which could lessen investors' beliefs that the votes cast will be meaningfully interpreted. Additionally, the clinical study of the activist-style Hermes U.K.

[2] There is also a nascent research stream on the prevalence of vote lending, which provides additional (albeit indirect) evidence that shareholder voting is important for institutional investors (see Christofferson, Geczy, Musto, and Reed (2007), Hu and Black (2007, 2008), and Aggarwal, Saffi, and Sturgess (2010)).

[3] In contrast to these findings, Aggarwal, Erel, Ferreira, and Matos (2010) study U.S. institutions' portfolio holdings of foreign firms from 2003 to 2008 and find that greater institutional ownership over time is correlated with improvements in firm-level governance.

focus fund by Becht, Franks, Mayer, and Rossi (2009) shows that even activist investors may prefer to express governance concerns via private engagement rather than public voting. Consistent with these results, the McCahery et al. (2010) survey also documents that 80% of institutional investors are prepared to sell shares and 55% are prepared to initiate private discussions with the executive board to express concerns with governance. Taken together, these papers indicate that shareholder voting may not be an effective way to exercise governance because either: 1) concerned investors are simply not present because they do not expect to be able to change the governance of firms when they find it lacking, or 2) investors believe it is better to use private channels to communicate with management.

Given the mixed evidence and predictions regarding the ways in which shareholders communicate with management about governance, we believe that an important unanswered question in the literature is whether the process of shareholder voting plays a significant role in the exercise of corporate governance outside the United States. To this end, we assess the voting patterns of shareholders' stakes in non-U.S. firms with two different databases. We first examine shareholders' voting behavior using voting data from the Institutional Shareholder Services (ISS) Voting Analytics database collected from U.S. SEC-mandated Form N-PX. The database contains about 2.37 million votes cast by U.S. institutional investors for 5,211 distinct foreign firms. We conduct a variety of large scale analyses using these data. Second, we assess proxy advisory firm recommendations. While ISS does provide recommendations for shareholder elections held by non-U.S. firms, they do not currently offer a dataset containing their recommendations. Therefore, to assess the importance of ISS recommendations we obtain a proprietary Bank of New York Mellon

(BNYMellon) database of the votes cast and the ISS recommendations made for elections held by 134 non-U.S. firms with American Depository Receipts (ADRs) in 2009.

The main dependent variable in our tests is a measure of the percentage of the overall votes cast that go against the recommendation of management for a given fiscal year and firm. We also examine the voting patterns for different agenda items by organizing Voting Analytics' agenda item codes into sub-groups that capture whether the item pertains to directors, compensation, mergers and acquisitions (M&A), firm capitalization, antitakeover provisions, or routine business issues.

For our tests, the primary variable of interest is *Insider control* which measures the percentage of shares held by insiders. We use this firm-level governance measure to proxy for the degree of controlling shareholder entrenchment and thus a greater ex ante possibility that outside (minority) shareholders can be expropriated. This measure excludes shares held in a fiduciary capacity by institutional investors. We also include coverage by equity analysts because they can provide both information production and external oversight to firms that they cover. Finally, we include a number of firm-level control variables from Worldscope.

Our results show that *Insider control* is significantly positively associated with the votes cast against management's recommendations. This suggests that U.S. institutional investors are more likely to vote against management in firms with greater possibility of outside (minority) shareholders expropriation. Economically, a one standard deviation increase in *Insider control* is associated with a 6.8% increase in votes cast against management. We also find evidence that shareholders are less likely to vote against management's recommendations for firms with greater analyst coverage. These results are consistent with the idea that analysts provide external monitoring that can uncover, and thus

possibly deter, controlling shareholder expropriation, which reduces the need for shareholders to make a vote against management's recommendations.

It is helpful to frame some of our paper's findings in the context of recent research on shareholder voting in U.S. firms. Cai et al. (2009) report that U.S. institutions cast "For" votes in director elections held by U.S. firms 94% of the time, on average. We find that U.S. institutions vote affirmatively for non-U.S. firms' directors about 93% of the time, a very similar percentage. Regressions reported in Cai et al. (2009) document that a one standard deviation increase in their entrenchment index is associated with about 6.6% more votes that go against the management's recommendation for director elections. Using our measure of entrenchment, *Insider control*, our regressions show that a one standard deviation increase in entrenchment corresponds to a 17.5% increase in votes that go against management's recommendation for director elections.

We next split our sample into countries that have low and high levels of minority shareholder protection to assess whether shareholders vote against management's recommendations more frequently when managers are more capable of expropriating minority shareholders. For these splits, we use four country-level measures (e.g., the *Anti-self-dealing* index) based on data assembled by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), La Porta, Lopez-de-Silanes, and Shleifer (2006), and Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008). For all four measures, we find that shareholders' propensity to vote against management's recommendations when insider control is higher on average is about three times as large when firms are domiciled in low-shareholder-protection countries. As an example, a one standard deviation increase of *Insider control* is associated with a 10.8% increase in the voting propensity against management for the low *Anti-self-dealing* index

group of countries versus a 2.5% increase for the high *Anti-self-dealing* index group. Our results also suggest that increases in analyst coverage do not have a significantly different impact for shareholders' voting patterns for firms from countries with different external governance levels.

Turning to the U.S.-firm research regarding voting recommendations by outside parties, Bethel and Gillan (2002) report univariate statistics for director elections in which an unfavorable recommendation by ISS is associated with 13.6% to 20.6% fewer votes in favor of management. The negative effect of unfavorable ISS recommendations also holds up in multivariate regressions, although the magnitude is much diminished. Cai et al. (2009) report that when ISS recommends a vote against a director, the percentage-favorable vote drops by 20.7% in univariate comparisons and by about 9% in a comprehensive regression model. Morgan and Poulsen (2001) study votes on compensation and also find a negative coefficient for the percentage-favorable vote when ISS recommends against the proposal.

In our BNYMellon sample of non-U.S. firms we find that ISS recommendations to vote against management are very highly correlated with the actual votes cast that go against management. In our sample, an unfavorable recommendation by ISS is associated with 60% fewer votes in favor of management. Further, regressions show that an ISS recommendation to vote against management is positively and significantly associated with shareholders' votes going against management. In fact, it is the only significant factor in such models. The magnitudes suggested by the coefficients from our BNYMellon sample tests indicate that ISS recommendations are particularly important for the voting of shares in non-U.S. firms.

In further tests using the BNYMellon sample, we examine whether different levels of external country-level governance affect the relationship between independent proxy voting

recommendations and institutional investors' voting. Despite the relatively small sample sizes, our splits into "low" and "high" governance subsamples show that the ISS recommendations have a stronger effect on the propensity to vote against management for firms from countries with poor governance.

Taken together, our evidence from a large sample across many countries shows that the process of shareholder voting plays an important role in the exercise of corporate governance outside of the U.S. Thus, while it may be the case that a set of potentially interested shareholders do not own shares in non-U.S. firms because of expected governance problems,[4] the shareholders who do hold stakes not only exercise their right to vote, but they also choose to challenge management more often in cases of entrenched management and low analyst coverage. It also appears that their voting patterns rely heavily on independent proxy recommendations. Overall, we conclude that today's shareholders of non-U.S. firms choose to exercise corporate governance by voting their shares in a meaningful way.[5]

The remainder of the paper is organized as follows. Section 2 discusses the research design, our data, and sample selection. Section 3 presents the empirical findings. Section 4 concludes.

2. Research Design, Sample Selection, and Data

We design our tests to investigate the voting patterns of shareholders of non-U.S. firms. An ideal dataset to use for this task would be a mapping of votes cast by all holders domiciled in all countries of the proposals put forth for voting by all non-U.S. firms.

[4] Given data limitations, our test design does not attempt to assess whether this outcome implied by Parrino et al. (2003) and Leuz et al. (2009) obtains in our more recent sample of firms.

[5] Maug and Rydqvist (2009) and Morgan, Poulsen, Wolf, and Yang (2010) find that shareholders' screening of proposals put forth for U.S. firms is particularly valuable when managers' ability to objectively evaluate a proposal is compromised and/or there are potential firm level governance issues.

Unfortunately, such a dataset does not exist because regulators generally do not require the disclosure of shareholder voting data for the persons and institutions present in their country. However, in 2003 the U.S. SEC mandated the reporting (via Form N-PX) of all votes cast on corporate ballots by all U.S. institutional investors, a group collectively considered to be the most influential equity investing bloc in the world. As part of the U.S. SEC rules adopted in 2003, there was an additional mandate (other than a requirement to disclose voting) that U.S. institutional investors adopt written policies and procedures ensuring that proxies are voted in the best interests of clients, thus reinforcing their longstanding fiduciary duty responsibilities. This component of the 2003 regulations makes it particularly interesting to study U.S. institutions' voting patterns for non-U.S. firms' corporate elections because they are required to take such voting seriously. Thus, even if data were available for the voting patterns of shareholders outside of the U.S., there is unlikely to be a similar mandate across other countries for all such votes to be cast with fiduciary duty as the driving factor. We therefore conclude that our voting pattern data source is reasonable to employ for our study.

We obtain the voting data from the Institutional Shareholder Services (ISS) Voting Analytics database.[6] This database provides the identity and country of domicile of companies holding elections, the shareholder meeting date, the agenda item descriptions, the number of "For", "Against", "Abstain", and "Withhold" votes of institutional owners, and the management's recommendations. The ultimate source of this data is the investment company filings of Form N-PX collected by the SEC. The Voting Analytics database begins election coverage in 2003 and we use the data up through 2009.[7] Table 1 tabulates the overall vote

[6] We note here that while ISS was recently purchased by Risk Metrics Group, the division still operates and communicates with investors (and academics) as ISS; thus we use the name ISS throughout the paper.

[7] In our sample we use only annual meetings held after July 1, 2003 to ensure the funds reported under the mandate of SEC Rule No. 33-9089.

counts for non-U.S. firms' elections. We have more than 2.37 million distinct votes which we match to 5,211 distinct international firms.[8] Firms from countries with less than 10 firm-year observations are excluded.

For each of the 5,211 firms we create a variable (*Against management*) that measures the percentage of the overall votes that went against the management's recommendations across all different agenda items on the shareholder meetings over the fiscal year. To get a better understanding of the vote at the agenda item level, we also create six additional variables that measure the votes for important groupings of agenda items. For example, we measure the percentage of director-related votes that went against the management recommendation. We are able to create this variable for any year in which a firm had an agenda item that was related to director issues. In this manner we are able to construct variables that measure the degree of against-management vote for the following issue categories: directors, compensation, M&A, firm capitalization, antitakeover provisions, and routine business issues. Note that these variables are not mutually exclusive for each firm-year because many of these agenda items are discussed and voted on in each shareholder meeting. Some of these issues are on the ballot almost each year (directors and routine business issues), while others are less frequent (M&A and antitakeover). Appendix A has examples of the most common agenda items coded in each of the categories. In allocating the votes to these categories we use the groupings defined by ISS.

Table 2 reports the country and year distribution of firms with shareholder meetings in our sample. In total, there are 15,768 firm-years with detailed data on the way U.S. institutional holders voted in elections held by such firms. The non-U.S firms are spread out

[8] It is interesting to note that in 13% of the total votes the institutions did not vote, which seems to be against their fiduciary duty mandate to vote in the best interest of their clients.

across 46 countries, and these countries have wide dispersion in measures that capture the treatment of minority shareholders, which should give power to our country-level tests. The majority of firm-years fall in the 2003 to 2008 period with a small amount of data for 2002 and some recent data for votes occurring in 2009. Also, while for brevity we do not report a comprehensive table with voting categories across countries, we note here that the voting categories are spread out fairly well across the sample countries. As an example, compensation agenda items are present in 44 of the 46 countries, and the U.K.—where say on pay compensation issues have recently been analyzed—comprises only 18% of the firm-years in which elections are held regarding compensation issues.

For our tests, we collect financial statement data from the Worldscope database. For our country-level institutional variables that reflect a country's relative treatment of minority shareholders we employ the *Anti-self-dealing* index of Djankov et al. (2008), a combination measure of *Securities regulation* (based on variables from La Porta et al. (2006)) computed as outlined in Hail and Leuz (2006) and Leuz et al. (2009), the measure for *Disclosure requirements* from La Porta et al. (2006), and whether a country has an English *Common law* legal origin as detailed in La Porta et al. (1998).

We obtain a firm-level governance measure that, in principal, represents controlling shareholder entrenchment and thus a greater ex ante possibility that outside (minority) shareholders could be expropriated. Specifically, we employ the percentage of closely held shares from Worldscope. According to Worldscope, this measure represents shares held by insiders and specifically includes: (1) Shares held by officers, directors and their immediate families; (2) Shares held in trust; (3) Shares of the company held by any other corporation (except shares held in a fiduciary capacity by banks or other financial institutions); (4) Shares

held by pension/benefit plans; and (5) Shares held by individuals who hold 5% or more of the outstanding shares. Importantly for our analysis it explicitly excludes shares held in a fiduciary capacity and shares held by insurance companies, which are the exact "outsider" shareholders whose voting patterns we are trying to assess. The idea behind this measure is that higher levels of insider control will correspond to greater insider entrenchment and a lesser ability for outsiders to challenge the usage of such control. We refer to this measure as *Insider control*. For robustness we also use a threshold measure of *Insider control* that equals one if a firm's *Insider control* is larger than the median value of *Insider control* in the firm's country, and zero otherwise. We refer to this threshold measure as *High insider control*.

We employ a firm-level proxy for transparency and potential outside monitoring. Specifically, equity analysts are associated with increased information production and external oversight for non-U.S. firms (see Lang, Lins, and Miller (2004)). As such, we include in our regressions the number of analysts (*Analysts*) that make forecasts for a firm in a given fiscal year obtained from the I/B/E/S database.

We also use a number of other firm-level control variables. Because the total amount of investible equity is likely to matter to U.S. institutions, we control for the *Investible equity market cap* measured as the market capitalization of equity multiplied by one minus insider control. We control for growth opportunities including the *Market-to-book* ratio defined as the market value of equity divided by the book value of equity. We measure firm performance with *Profitability*, defined as net income plus interest expenses divided by total assets. Research conducted on U.S. firms shows that investors are more inclined to disagree with management following poor firm performance (see, for example, Del Guercio, Seery, and Woidtke (2008), Cai et al. (2009), and Fischer, Gramlich, Miller, and White (2009)). We

also control for *Leverage*, measured as the ratio of total debt to total assets. Highly levered firms might attract less outside investment because they face greater bankruptcy risk. On the other hand, investors bearing this greater risk may be more inclined to monitor such firms. We also follow Leuz et al. (2009) and include a dummy variable that measures whether the firm is cross-listed on a major U.S. stock exchange (*Cross-list*). Cross-listed firms are likely to have better governance and higher levels of disclosure associated with their U.S. presence, which reduces information asymmetries between outside investors and insiders.

Table 3 summarizes the basic firm-level voting statistics and regression model variables. It shows that investors cast 10.8% of their votes against management's recommendations overall, with varying levels of disagreement depending on whether the voting issue is related to directors, compensation, M&A, firm capitalization, antitakeover provisions, or was classified as routine business issues.

The firms in our analysis are similar to the ones examined in recent international finance studies (see, e.g., Ferreira and Matos (2008), Leuz et al. (2009), and Aggarwal, Erel, Ferreira and Matos (2010)). The sample includes large firms with median assets of $2.0 billion, but, as the quartile breakdown shows, it also includes a significant portion of firms with assets of less than $0.7 billion and in excess of $6.9 billion. The firms are generally followed by analysts with the median firm having nine analyst forecasts, and have a median insider ownership of about 35%.

As mentioned, several recent papers using U.S. firm data show that the proxy voting recommendations given by ISS can have a significant impact on voting in non-contested elections. Ideally, for our study we would obtain the voting recommendations made by ISS and track the way in which they are correlated with the votes cast by institutional holders of

non-U.S. firms. Unfortunately, while ISS has an available database tracking the voting recommendations they make for U.S. firms (which allowed the above-cited studies to be conducted), they do not have such a database for non-U.S. firms. Because this component of the shareholder voting process is interesting for non-U.S. firms as well, we take another approach to assess it. We employ a proprietary BNYMellon database of the votes cast during shareholder meetings held in the first half of 2009 by shareholders of non-U.S. firms with American Depository Receipts (ADRs) that are sponsored by BNYMellon. This database contains information on the votes cast by ADR shareholders, the voting direction recommended by management, and, importantly, the voting recommendations, if any, provided by ISS. While this sample is quite small in terms of firms (134), it contains data on voting patterns for 1,887 unique voting recommendations made by ISS, and thus allows us to address the relevance of ISS recommendations for non-U.S. firms in a meaningful way.

In our research design, we focus on non-contested elections, which constitute the vast majority of voting situations faced by firms. In contrast, contested elections refer to those in which a dissident actively and formally solicits votes for a slate of directors in opposition to incumbent management: such elections occur with mild frequency in the U.S. and the U.K.[9,10] but are to our knowledge infrequent or nonexistent in most other countries around the world.

[9] Alexander, Chen, Seppi, and Spatt (2009) study contested elections in U.S. firms and conclude that proxy advisor recommendations bring new information to the market and that recommendations in favor of dissidents have a cumulative abnormal stock return of several percentage points. Buchanan, Netter, and Yang (2009) find that shareholder-initiated proposals for U.S. firms are associated with more significant subsequent policy changes than shareholder proposals put forth for U.K. firms.

[10] Only 241 of the 15,678 firm years with shareholder elections feature one or more proposals coded by ISS as being shareholder initiated. We choose to include these proposals in our final sample but note here that all of our results hold in magnitude and significance when these elections are dropped from our sample.

3. Empirical Tests and Results

3.1. Construction of the Empirical Model

We want to assess whether U.S. institutional investors are sufficiently concerned about potential corporate governance problems such that they use their voting power to make their preferences for better governance known to managers of non-U.S. firms that they hold in their portfolios. To investigate this proposition empirically, we estimate OLS regression models with the dependent variable *Against management*. Recall that this variable compiles the average fraction of votes that went against the direction recommended by management for each firm year.[11] We use *Insider control* as our primary variable of interest from a direct governance perspective. We expect that greater levels of managerial entrenchment that result from higher levels of insider control will coincide with a greater incidence of institutional investors voting against the direction of voting recommended by management.

Before we assess the effect of our entrenchment proxy, we first discuss in more detail several of the variables likely to affect the frequency with which institutions vote against management's recommendations. Lang et al. (2004) conclude that a greater number of analysts covering a firm corresponds to a higher level of external oversight that may shed light on, and possibly deter, actions taken by controlling shareholders that go against the interest of minority outside shareholders. If true, such external governance could lessen the need for shareholders to vote against management's recommendations and we would expect to observe a negative relation between *Against Management* and *Analysts*.

Another variable likely to matter to institutional investors is the total size of the available float in which they can invest, *Investible equity market cap*. We do not have clear

[11] Cai et al. (2009) also estimate OLS models in which the average vote percentage is compiled for each firm year.

predictions for this variable. Larger firms are likely to have both a greater demand for information about their activities as well as a greater production of such information. Along the same reasoning behind analyst coverage, greater information production may shed light on actions that are possibly harmful to outside shareholders, thus it may be that there is less need for investors to vote against management. However, the deeper pool of liquidity that comes with a large degree of investible float can also make it easier for investors to simply vote with their feet (i.e., sell their shares) if they don't like the management of the firm rather than voting against management when it comes time to do so. That said, the returns to active voting against management if management subsequently improves governance of the firm would be potentially larger for firms with more investible float for the very same reason: portfolio investors could more easily sell out and capture profits after governance improvements are made. Thus, while investible float seems to be an important control variable it is not clear what ex ante prediction should be made for its sign in our regression models.

Predictions for *Leverage, Market-to-book*, and *Profitability* were briefly discussed in Section 2. Generally, we expect that institutional shareholders will be more likely to exercise their votes in a meaningful way when firms have higher leverage, lower growth prospects, and lower profitability, although some of these expected relations are likely to be nuanced. Finally, we expect that investors will be less likely to vote against management's proposals for firms that are cross-listed in the U.S. One of the reasons is that shareholders of cross-listed firms face a lower risk of expropriation by controlling shareholders (see, e.g., Doidge, Karolyi, Lins, Miller, and Stulz (2009)). Moreover, firms listed in the U.S. have to disclose relevant information to U.S. investors following U.S. SEC regulations, which reduces

information asymmetries and induces less disagreement between management and outside shareholders.

Because investor interest often varies across industries and sectors, we include industry fixed effects using the groupings in Campbell (1996). We include country fixed effects in our models because individual country-level variables for minority shareholder protection or legal origin are unlikely to capture all relevant differences across countries (for example, Hong Kong and the U.K. each have English legal origin but their firms' insider ownership structures are substantially different). For all of our results, the *t*-statistics reported are adjusted to correct for heteroskedasticity and are clustered to account for firm-level correlation.

Finally, because it could be the case that U.S. institutions are relatively more or less concerned with voting against management depending upon the type of agenda item up for a shareholder vote, we employ separate regression models that feature each of the groupings of voting agenda items reported in Table 3. The exception is for votes taken on antitakeover provisions. This grouping is excluded because we have only 619 observations of antitakeover votes, a number that is too low for a meaningful analysis that controls for industry, country, and year fixed effects.[12]

3.2. Results for the Full Sample

We start our analysis by assessing the relation between corporate governance and the frequency with which outside shareholders vote their shares against management's

[12] For the same reason, we do not analyze shareholder-initiated proposals as a separate voting group. We have only 241 firm-years with shareholder-initiated proposals.

recommendations using tests that capture the effect of firm-level governance across a wide range of countries.

Table 4 reports the coefficients of our models estimated on the full sample of 15,768 firm years across 46 countries. Panel A of Table 4 reports results for the continuous measure *Insider control*. In the first model, we show the coefficients for tests using all categories of agenda items proposed at firms' shareholder meetings for a given fiscal year. We observe a positive coefficient on *Insider control*, significant at the 1% level, indicating that U.S. institutional investors vote substantially more often against the wishes of management when controlling shareholders are more likely to be firmly entrenched in their firms. The magnitude of this coefficient suggests economic significance as well. Specifically, when the coefficient of 3.096 is multiplied by a one standard deviation change in *Insider control* of 0.236 (obtained from Table 3) the result is a 0.731 percentage point change in the frequency that institutions vote against management. The mean of *Against management* is 10.81% (from Table 3); therefore, a one standard deviation change in *Insider control* corresponds to a 6.8% (= 0.731/10.81) change in the propensity to vote against management.

The coefficients on *Insider control* are also positively and significantly related to the percentage of votes against management for agenda items classified as director elections, compensation issues, and M&A (but not for capital authorization or routine business issues). We can use the coefficient on votes for director elections to draw comparisons with the institutional voting patterns documented for U.S. firms by Cai et al. (2009). Cai et al. compute a measure of managerial entrenchment and find that a one-standard deviation increase in that measure is associated with about 6.6% more "Against" votes in director

elections.[13] In contrast, our coefficient of 5.396 indicates that a one standard deviation increase in managerial entrenchment is associated with a 17.5% increase in *Against management* votes (computed as 5.396×0.236/7.294). This finding for U.S. institutional votes cast against directors for their non-U.S. portfolio firms is almost three times greater than for U.S. portfolio firms based on the Cai et al. (2009) result. It provides evidence that institutional shareholder voting for non-U.S. firms is indeed taken seriously and that institutional shareholders are quite interested in shaping the governance of these firms.

Turning to other variables in the regression models, we observe that *Analysts* is significantly negatively related to voting against management in the full sample and for routine and directors. This coefficient, however, is not significant in other voting categories. Overall, the negative coefficient in several of the models is consistent with the idea that analysts provide external monitoring that may uncover, and possibly deter, controlling shareholder expropriation, which lessens the need for shareholders to make a vote against management's recommendations. The coefficient on *Investible equity market cap* is not consistently signed over the range of voting categories and overall, yet it is significant in all but two of the voting categories. As mentioned, this variable is likely to be important for institutional shareholders, but its linkage to voting patterns has no clear cut expectation. This is borne out in the models. As expected, the dummy variable for U.S. exchange listed firms (*Cross-list*) is negative and significant in our full model, which suggests that cross-listings in the U.S. are associated with fewer votes against management.

[13] From Table I of Cai et al. (2009), the standard deviation of their entrenchment index is 1.06, and the average percent "For" votes is 93.03%, thus, on average the percent "Against" votes is 6.07% (= 1-0.9393). Multiplying the coefficient on the entrenchment index of -0.38 (from their Table II) with a one standard deviation increase in the entrenchment index (1.06) results in a *decrease* in "For" votes of 0.4028, or alternatively an *increase* in "Against" votes of the same magnitude. Thus, in percentage terms, a one standard deviation increase in their entrenchment index is associated with a 6.6% (= 0.4028/6.07) increase in "Against" votes.

Panel B of Table 4 reports results for the threshold measure *High insider control*. Consistent with the Panel A results, the coefficients on *High insider control* are positively and significantly related to the percentage of votes against management overall and for agenda items classified as director elections, compensation issues, and M&A (but not for capital authorization or routine business issues). Therefore, the results are consistent across both measures of insider control. For space considerations, we report the remainder of our results using the continuous *Insider control* variable, but we note here that we also obtain similar results using the threshold measure.

Taken together, the results in Table 4 provide support for the notion that, across a broad set of countries, institutional shareholders' votes are cast more frequently against the wishes of management in firms with higher levels of managerial entrenchment, indicating that firm-level governance plays an important role in voting decisions. Additionally, the results provide only moderate support for the idea that greater numbers of equity analysts following a firm lessen the need to vote against management's recommendations, which could stem from an oversight role played by analysts. However, as noted before, the effect of insider control and analyst coverage is likely to be muted in countries with strong protection of outside shareholders. Therefore, we next conduct tests that discriminate based on country-level governance.

3.3. Results Segmented by Country-level Parameters

Greater protection of minority shareholders reduces the private benefits of control and thus should affect the need to exercise corporate governance at the firm level (Aggarwal, Erel, Stulz, and Williamson (2010)). We hypothesize that U.S. institutional shareholders will face

larger governance problems in countries with weak investor protection rules. As such, it is likely that they will be more interested in shaping the governance of firms in these countries. Similarly, the monitoring role of analysts is likely to be more important in weak investor protection countries. To capture the interplay between firm- and country-level governance effects, we re-estimate our previous regressions, partitioning the sample based on four country-level governance measures: *Anti-self-dealing*, *Securities regulation*, *Disclosure requirements*, and *Common law* legal origin. By estimating subsample models, we explicitly allow for differences in all coefficients across the two subsamples and country level fixed effects.

Table 5 presents the association between our firm-level governance proxy and U.S. institutional holders' votes cast against management using the *Anti-self-dealing* variable to segment the sample. Panel A reports results for the low *Anti-self-dealing* subsample comprised of countries whose score is below the sample median score of 0.5. Model 1 shows that when all voting categories are considered in aggregate *Insider control* is again positively related to *Against management,* and the coefficient of 4.952 is now about 60% larger than it was in the all-country model estimated in Table 4. Panel B reports results for the high *Anti-self-dealing* subsample comprised of countries whose score is at or above 0.5. We find that the *Insider control* coefficient is also positive but is not statistically significant. When we test significance across subsamples, the *Insider control* coefficient in Model 1 is different at the 5% level of significance between the low and high *Anti-self-dealing* subsamples.[14] Segmenting by category type, we find that in the low *Anti-self-dealing* subsample the

[14] The significance level is based on (untabulated) combined regressions in which all variables are interacted with an indicator variable set equal to one when a country belongs to the low protection subsample. Again, standard errors are clustered at the firm level.

coefficient on *Insider control* is positive and significant in director and compensation votes, whereas it is positive and significant only for director votes in the high *Anti-self-dealing* countries. The coefficient on *Insider control* for compensation votes is different at the 1% level while the *Insider control* coefficient for director votes is not different at conventional significance levels.

In Tables 6, 7, and 8 we repeat the procedure followed in Table 5 and again separate our countries into low and high shareholder protection subsamples. For these three tables, we split our full sample based on whether a country scores below or above the median *Securities regulation* score of 0.52, into whether a country scores below or above the median *Disclosure requirements* score of 0.75, and into whether countries have *Common law* legal origins. We find results broadly similar to those contained in Table 5.

More specifically, in the *Securities regulation* sample splits of Table 6 the coefficients on *Insider control* are generally higher in the low *Securities regulation* subsample, although the statistical significance of the test of differences between high and low subsamples is not significant at traditional levels (i.e., below 10%). In Table 7 we split based on *Disclosure requirements*. We find that in the low *Disclosure requirements* subsample the coefficients on *Insider control* are positive and significant for the full set of agenda items as well as in four of the five agenda item categories. Further, the *Insider control* coefficients are different at the 5% significance level between the low and high disclosure subsamples in the first and second models. In Table 8, not-*Common law* legal origin countries are the ones likely to have poor external shareholder protection, and we find results similar to the splits based on *Anti-self-dealing* reported in Table 5. In not-*Common law* countries the coefficient on *Insider control* is positive and significant overall and in four of the five agenda item categories and the

difference in *Insider control* effects between the not-*Common law* and *Common law* subsamples is significant at the 5% level in the first, third, and fourth models.

Collectively, these four sets of country-level corporate governance splits provide support for the notion that managerial entrenchment matters more for shareholder voting when external country-level governance is relatively weak. We observe U.S. institutions increasing their percentage of votes against management's recommendations when the potential for minority shareholder expropriation is greater. Turning to the importance of *Analysts*, only one external country-level shareholder protection split (*Disclosure requirements*) shows statistically significant support for the idea that analysts' information gathering and monitoring activities are associated with a lesser need to vote against management when external shareholder protection is low. We therefore conclude that U.S. institutional investors' voting patterns are not uniquely impacted by analysts' activities when outsider shareholder protection is weak.

3.4. The Importance of Proxy Voting Recommendations

We next want to assess the importance of proxy voting recommendations given by ISS for votes cast by shareholders of non-U.S. firms. As discussed in Section 2, ISS does not have an available dataset tracking the voting recommendations for non-U.S. firms. Therefore, we use a proprietary BNYMellon database of the votes cast in the first half of 2009 by shareholders of non-U.S. firms with American Depository Receipts (ADR). The database includes the total number of votes "For", "Against", and "Abstain" for each agenda item. The data also contains the management recommendation for each agenda item as well as the ISS

recommendations. The final sample consists of 134 firms from 26 countries and has shareholders' votes for 1,887 agenda items.

The main variable of interest is *ISS against management*. *ISS against management* is the percentage of items for which ISS recommended to vote against management for all agenda items proposed at a firm's shareholder meetings. We analyze its effect on the same outcome variable as before, *Against management*, defined as the percentage of shares voted against management for all agenda items proposed at a firm's shareholder meetings held during the first half of 2009. Consistent with the previous analysis, we count votes as against management's recommendations when management recommended "For" and investors voted "Against" or "Abstain"; or when management recommended "Against" and investors voted "For" or "Abstain."

Panel A of Table 9 reports summary statistics for the BNYMellon sample. About 13.8% of the votes cast by shareholders of non-U.S. firms with ADRs are against management's recommendations. ISS recommends to vote against management's recommendations in about 12.5% of the cases. The 134 firms in the BNYMellon sample are generally larger (median total assets of $7.3 vs. $2.0 billion) and have greater median investible equity market capitalization ($1.5 vs. $0.9 billion) than the firms in our main sample. They also have greater median insider control (0.46 vs. 0.35), and are followed by more analysts (median number of analysts of 14 vs. 9).

We begin our analysis by comparing the ISS voting recommendations against management and the actual vote outcomes among the ADR holders. The results are shown in Panel B of Table 9. For agenda items that receive favorable ISS recommendations, shareholders vote in the direction of management's recommendation 97% of the time

(1634/1683). In contrast, when ISS recommends a vote against the agenda item, shareholders vote in direction of management only 37% of the time (75/204), and the Chi^2 test rejects the hypothesis that ISS recommendations are not related to investors votes (*p*-values < 1%). Thus, an ISS recommendation against an agenda item is associated with 60% fewer favorable votes cast in the direction of management. While it is not possible to unequivocally assess causality in our modest sample, the correlations constitute initial evidence that the recommendations made by proxy advisory services such as ISS are likely to have substantial influence on the voting in non-U.S. firms.

We next control for the range of firm-level variables that may also affect investors' decisions to vote against management in a regression framework to assess whether the strong correlation between ISS voting recommendations and ADR-holder votes remains robust. In Table 10 we report regression analysis of the determinants of investors' votes against management's recommendations, controlling for the same independent variables as in the regression models of Tables 4 through 8. Specifically, besides *ISS against management*, we also include *Insider control*, *Analysts*, and the other firm-level controls, including industry indicator variables. Given the small number of firms, we do not include country indicator variables (recall also that the data are all for the same year, 2009). Using the full set of firms in the first column, we find that the ISS recommendations to vote against management are positively and significantly associated with shareholders' voting against management. Specifically, we find that the coefficient on *ISS against management* is 0.394 with a *t*-statistic of 3.26 (*p*-value < 1%). No other variables are significant in these regressions. These results suggest that ADR shareholders are substantially more likely to vote against management when ISS recommends voting against management. The lack of significance on *Insider*

control could result from a lack of meaningful variation in this small sample or because its relevance is captured as part of the ISS recommendation—data limitations preclude further tests on this issue.

Next, we follow the same line of reasoning used for our country splits in Tables 5 through 8 and test whether different levels of external country-level governance affect the relationship between independent proxy voting recommendations and investors' voting. In columns 2 through 7 we split the sample into "low" and "high" governance subsamples using the *Anti-self-dealing* index, the *Securities regulation* measure, and the measure of *Disclosure requirements* (we use the same cutoffs as in Tables 5-7).[15] For all three external governance measures, we find that investors follow ISS recommendations to vote against management more often when governance is weak. In these three splits, the coefficients on *ISS against management* are all larger in the "low" compared to "high" external governance subsamples (0.506 vs. 0.232, 0.581 vs. 0.186, and 0.539 vs. 0.157) and their significance levels are higher as well. These results suggest that the ISS recommendations have a stronger effect on the propensity to vote against management for firms from countries with poor governance.

Taken together, our results provide the first outside-the-U.S. evidence on the importance of proxy voting recommendations for the actual votes cast in shareholder elections. We find strong evidence that ISS voting recommendations are closely linked to shareholders' voting patterns, and that this effect is incrementally pronounced in settings where outside shareholder protection is likely to be weakest.

[15] We do not split the sample by *Common law* legal origin as the number of firms in the not-*Common law* and *Common law* group is 112 and 22, respectively, and this does not allow us to estimate our models in a meaningful way.

4. Conclusion

The right to vote is arguably the most fundamental tool behind shareholder corporate governance. The impact of shareholder voting can potentially be much greater outside of the U.S. as such firms face a far greater range of shareholder protection and corporate disclosure which makes the proper exercise of corporate governance by shareholders both more difficult and more important. Nonetheless, academic research has largely ignored this form of governance for firms outside of the U.S.

To our knowledge, this paper conducts the first empirical study assessing voting patterns for a large sample of non-U.S. firms. Our sample, obtained from the ISS Voting Analytics database, comprises more than 2.3 million proxy votes cast by U.S. institutional investors over the 2003 to 2009 period for more than 5,200 non-U.S. firms from 46 different countries. We further employ a proprietary BNYMellon database of ADR-holders' votes that enables us to quantify the impact of independent proxy recommendations on the way shareholders vote their positions held in non-U.S. firms. Such data are not contained in the ISS Voting Analytics database.

We document that shareholders are actively voting against the management's recommendations for non-U.S. firms. The votes against the management's recommendations are positively and significantly related to *Insider control*, suggesting that U.S. institutional investors are more likely to oppose management's recommendations in cases of entrenched management and potential shareholder expropriation. Compared to U.S. studies, we document a larger correlation between poor governance and the propensity to vote against management. A one standard deviation increase in our entrenchment measure corresponds to a 6.8% increase in overall voting against management, and a 17.5% increase in votes that go

against management's recommendation for director elections in particular, which is considerably greater than the 6.6% increase documented for U.S. firms (see Cai et al. (2009)). We find in some models that greater analyst coverage corresponds to less frequent voting against management, which provides moderate support for the idea that analysts provide external monitoring that might deter shareholder expropriation.

Further, we document that differences in governance quality across countries affect shareholder voting. We find that shareholders' propensity to vote against management's recommendations when insider control is higher is on average about three times as large when firms are domiciled in low shareholder protection countries, as measured by *Anti-self-dealing*, *Securities regulation*, *Disclosure requirements*, and not-*Common law* origin. This suggests that institutions are more interested in exercising corporate governance through the voting mechanism when portfolio firms are from countries with weak external governance.

When we analyze the BNYMellon database of the votes cast in the first half of 2009 by shareholders of 134 American Depository Receipts, we find results underscoring the impact of proxy advisory firms' recommendations regarding the elections held by non-U.S. firms. First, we document that investors rely heavily on the ISS recommendations when voting their stakes in firms domiciled outside of the U.S. In more than 90% of the cases when the ADR holders reject the management recommendation, they follow ISS. Further, this very strong correlation between ISS recommendations and institutions' voting patterns is confirmed in a regression framework, and the linkage is even stronger when external country-level shareholder protection is weakest.

Overall, our empirical results show that investors not only exercise their right to vote their shares held in non-U.S. firms, but they also choose to challenge management more often

in cases of entrenched management and low analyst coverage. It also appears that their voting patterns rely heavily on independent proxy recommendations. Overall, our results suggest that the process of shareholder voting plays a significant role in the exercise of corporate governance outside the United States.

References

Alexander, Cindy R., Mark A. Chen, Duane J. Seppi, and Chester S. Spatt, The Role of Advisory Services in Proxy Voting, NBER Working Paper No. 15143.

Aggarwal, Reena, Isil Erel, René M. Stulz, and Rohan Williamson, 2010, Differences in Governance Mechanisms between U.S. and Foreign Firms: Measurements, Causes and Consequences, *Review of Financial Studies* 23, 3131-3169.

Aggarwal, Reena, Isil Erel, Miguel A. Ferreira, and Pedro Matos, 2010, Does Governance Travel Around the World? Evidence from Institutional Investors, forthcoming, *Journal of Financial Economics*.

Aggarwal, Reena, Pedro A. C. Saffi, and Jason Sturgess, 2010, Does Proxy Voting Affect the Supply and/or Demand for Securities Lending?, Working Paper, Georgetown University.

Bebchuk, Lucian A., and Michael S. Weisbach, 2010, The State of Corporate Governance Research, *Review of Financial Studies* 23, 939-961.

Becht, Marco, Julian Franks, Colin Mayer, and Stefano Rossi, 2009, Returns to Shareholder Activism: Evidence from a Clinical Study of the Hermes UK Focus Fund, *Review of Financial Studies* 22, 3093-3129.

Bethel, Jennifer E., and Stuart L. Gillan, 2002, The Impact of the Institutional and Regulatory Environment on Shareholder Voting, *Financial Management* 31, 29-54.

Buchanan, Bonnie, Jeffry M. Netter, and Tina Yang, 2010, Are Shareholder Proposals an Important Corporate Governance Device? Evidence from US and UK Shareholder Proposals, Working Paper, University of Georgia.

Cai, Jie, Jacqueline Garner, and Ralph Walkling, 2009, Electing Directors, *Journal of Finance* 64, 2389-2421.

Campbell, John, 1996, Understanding Risk and Return, *Journal of Political Economy* 104, 298-345.

Carter, Mary Ellen, and Valentina Zamora, 2009, Shareholder Remuneration Votes and CEO Compensation Design, Working Paper, Boston College.

Christoffersen, Susan E. K., Christopher C. Geczy, David K. Musto, and Adam V. Reed, 2007, Vote Trading and Information Aggregation, *Journal of Finance* 62, 2897-2929.

Del Guercio, Diane, Laura Seery, and Tracy Woidtke, 2008, Do Boards Pay Attention when Institutional Investor Activists "Just Vote No"?, *Journal of Financial Economics* 90, 84-103.

Denis, Diane K., and John J. McConnell, 2003, International Corporate Governance, *Journal of Financial and Quantitative Analysis* 38, 1-36.

Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2008, The Law and Economics of Self-dealing, *Journal of Financial Economics* 88, 430-465.

Doidge, Craig, Andrew G. Karolyi, Karl V. Lins, Darius P. Miller, and René M. Stulz, 2009, Private Benefits of Control, Ownership, and the Cross-listing Decision, *Journal of Finance* 64, 425-466.

Ferreira, Miguel A., and Pedro Matos, 2008, The Color of Investors' Money: The Role of Institutional Investors Around the World, *Journal of Financial Economics* 88, 495-533.

Ferri, Fabrizio, and David Maber, 2009, Say on Pay Votes and CEO Compensation: Evidence from the UK, Working Paper, New York University.

Fischer, Paul E., Jeffrey D. Gramlich, Brian P. Miller, and Hal D. White, 2009, Investor Perceptions of Board Performance: Evidence from Uncontested Director Elections, *Journal of Accounting Economics* 48, 172-189.

Hail, Luzi, and Christian Leuz, 2006, International Differences in the Cost of Equity Capital: Do Legal Institutions and Securities Regulation Matter? *Journal of Accounting Research* 44, 485-531.

Hu, Henry T. C., and Bernard Black, 2007, Hedge Funds, Insiders, and the Decoupling of Economic and Voting Ownership: Empty Voting and Hidden (Morphable) Ownership, *Journal of Corporate Finance*, 13, 343-367.

Hu, Henry T. C., and Bernard Black, 2008, Equity and Debt Decoupling and Empty Voting II: Importance and Extensions, *University of Pennsylvania Law Review* 156, 625-739.

Kahan, Marcel, and Edward Rock, 2008, The Hanging Chads of Corporate Voting, *Georgetown Law Review* 155, 1227-1281.

La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2006, What Works in Securities Laws?, *Journal of Finance* 61, 1-32.

La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, 1998, Law and Finance, *Journal of Political Economy* 106, 1113-1155.

Lang, Mark, Karl V. Lins, and Darius P. Miller, 2004, Concentrated Control, Analyst Following, and Valuation: Do Analysts Matter Most When Investors are Protected Least?, *Journal of Accounting Research* 42, 2004, 581-623.

Leuz, Christian, Karl V. Lins, and Francis E. Warnock, 2009, Do Foreigners Invest Less in Poorly Governed Firms?, *Review of Financial Studies* 22, 3245-3285.

Maug, Ernst, and Kristian Rydqvist, 2009, Do Shareholders Vote Strategically? Voting Behavior, Proposal Screening, and Majority Rules, *Review of Finance* 13, 47-79.

McCahery, Joseph A., Zacharias Sautner, and Laura T. Starks, 2010, Behind the Scenes: The Corporate Governance Preferences of Institutional Investors, Working Paper, University of Texas at Austin.

Morgan, Angela G., and Annette B. Poulsen, 2001, Linking Pay to Performance – Compensation Proposals in the S&P 500, *Journal of Financial Economics* 62, 489-523.

Morgan, Angela G., Annette B. Poulsen, Jack Wolf, and Tina Yang, 2010, Mutual Funds as Monitors: Evidence from Mutual Fund Voting, Working Paper, University of Georgia.

Parrino, Robert, Richard W. Sias, and Laura T. Starks, 2003, Voting with Their Feet: Institutional Ownership Changes around Forced CEO Turnover, *Journal of Financial Economics* 68, 3-46.

Yermack, David, 2010, Shareholder Voting and Corporate Governance, forthcoming, *Annual Review of Financial Economics*.

Table 1
U.S. Institutional Investors' Votes Relative to Management's Recommendations

The table reports the outcome of U.S. institutional investors' votes relative to management's recommendations for shareholder elections held by international firms. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX.

U.S. institutional investors' votes	Management's recommendations				
	For	Against	Abstain	None	Total
For	1,916,784	4,093	20	13,628	1,934,525
Against	128,767	19,386	11	7,480	155,644
Abstain	20,381	508	6	4,101	24,996
Withhold	6,723	40	0	403	7,166
Do not vote	219,416	1,623	1	25,453	246,493
Total	2,292,071	25,650	38	51,065	2,368,824

Table 2
Country Distribution by Year

The table reports the number of firms with shareholder meetings by country and year. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX.

Country	2002	2003	2004	2005	2006	2007	2008	2009	Total
Argentina	2	0	2	0	1	1	9	0	15
Australia	1	92	104	129	143	151	191	1	812
Austria	0	13	14	18	20	29	29	1	124
Belgium	3	16	21	16	13	7	33	1	110
Bermuda	0	9	11	3	16	11	16	0	66
Brazil	4	7	17	10	34	41	56	0	169
Canada	5	70	149	217	271	291	222	7	1,232
Cayman Islands	0	1	0	0	3	4	4	0	12
Chile	2	10	13	8	15	9	33	0	90
China	7	21	16	14	47	126	151	0	382
Czech Republic	0	5	4	4	5	3	4	0	25
Denmark	1	12	16	23	26	24	25	0	127
Egypt	1	1	2	4	3	4	0	0	15
Finland	2	21	22	2	7	10	40	0	104
France	7	67	68	1	3	18	124	1	289
Germany	1	50	55	77	88	89	102	0	462
Greece	5	11	11	5	4	2	6	0	44
Hong Kong	11	98	115	126	151	169	203	4	877
Hungary	1	4	4	5	3	2	4	0	23
India	1	20	33	66	90	96	153	26	485
Indonesia	3	11	13	22	34	26	31	0	140
Ireland	0	16	17	13	22	29	25	0	122
Israel	12	22	24	20	19	41	24	0	162
Italy	9	27	32	2	1	4	47	0	122
Japan	0	53	518	582	726	721	920	853	4,373
Luxembourg	0	3	4	2	2	3	7	0	21
Malaysia	3	53	55	58	60	60	60	2	351
Mexico	4	6	5	2	0	2	5	0	24
Netherlands	2	26	24	26	36	16	45	0	175
New Zealand	2	14	16	18	18	18	19	0	105
Norway	0	13	19	30	29	37	34	0	162
Pakistan	0	0	0	1	4	4	7	0	16
Philippines	1	9	12	17	23	17	24	0	103
Poland	1	5	5	16	16	3	3	0	49
Portugal	1	6	9	1	7	12	13	0	49
Russian Federation	2	13	17	9	30	31	36	0	138
Singapore	5	38	41	40	58	71	79	3	335
South Africa	1	25	30	6	16	26	60	1	165
South Korea	10	76	86	101	102	85	15	0	475
Spain	5	30	43	47	54	70	68	0	317
Sweden	4	44	40	37	47	57	63	0	292
Switzerland	3	30	29	37	39	55	66	1	260
Taiwan	5	100	97	101	98	109	137	0	647
Thailand	0	8	9	14	8	24	27	0	90
Turkey	3	14	19	30	24	12	69	0	171
United Kingdom	8	148	169	196	264	283	360	13	1,441
Total	138	1,318	2,010	2,156	2,680	2,903	3,649	914	15,768

Table 3
Summary Statistics

The table reports summary statistics for voting and firm-level variables. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. *Against management* is the percentage of U.S. institutional investors' votes cast against management's recommendations for all agenda items proposed at a firm's shareholder meetings for a given fiscal year. We count votes as against management's recommendations when management recommended "For" and investors voted "Against", "Abstain", or "Withhold"; or when management recommended "Against" and investors voted "For", "Abstain", or "Withhold." Detailed descriptions of the categorization of the subcategory voting variables are reported in Appendix A. *Insider control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. It includes: (1) shares held by officers, directors and their immediate families; (2) shares held in trust; (3) shares of the company held by any other corporation (except shares held in a fiduciary capacity by banks or other financial institutions); (4) shares held by pension/benefit plans; and (5) shares held by individuals who hold 5% or more of the outstanding shares. *High insider control* is a threshold measure of *Insider control* equal one if a firm's *Insider control* is larger than the median *Insider control* in the firm's country, zero otherwise. *Analysts*, obtained from I/B/E/S, is the number of analysts that make forecasts for a firm in a given fiscal year. Data for the remaining firm-level variables are from Worldscope. *Investible equity market cap* is the market value of publicly available stock calculated as market capitalization of equity multiplied with one minus insider control. *Total assets* is measured in billions of US$. *Leverage* is total debt to total assets. *Market-to-book* is the market value of equity divided by the book value of equity. *Profitability* is net income plus interest expenses to total assets. *Cross-list* is a dummy variable equal one if the firm is cross-listed on a major U.S. stock exchange, zero otherwise. The sample consists of 5,211 distinct international firms. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009.

Variable	Mean	SD	P25	Median	P75	N
Against management	10.810	14.820	0.000	6.019	15.830	15,768
Against management: Directors	7.294	17.600	0.000	0.000	4.000	14,250
Against management: Compensation	22.440	34.100	0.000	0.000	37.500	7,341
Against management: M&A	18.500	35.650	0.000	0.000	8.333	5,118
Against management: Capital	14.100	25.490	0.000	0.000	20.000	6,823
Against management: Antitakeover	60.660	43.900	0.000	88.890	100.000	619
Against management: Routine	7.389	16.020	0.000	0.000	7.143	14,044
Insider control	0.371	0.236	0.181	0.349	0.550	15,768
High insider control	0.451	0.498	0.000	0.000	1.000	15,768
Analysts	11.490	9.969	4.000	9.000	16.000	15,768
Investible equity market cap	3.512	11.150	0.312	0.853	2.419	15,768
Total assets	19.840	117.800	0.712	2.036	6.857	15,768
Leverage	0.223	0.183	0.058	0.201	0.342	15,768
Market-to-book	2.513	2.571	1.081	1.748	2.899	15,768
Profitability	0.060	0.097	0.020	0.054	0.098	15,768
Cross-list	0.099	0.299	0.000	0.000	0.000	15,768

Table 4
Voting Against Management's Recommendations – Full Sample

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's recommendations for agenda items proposed at a firm's shareholder meetings for a given fiscal year. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. Our primary measures of firm-level governance are *Insider control* (Panel A) and *High insider control* (Panel B). *Insider control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. *High insider control* is a threshold measure of *Insider control* equal one if a firm's *Insider control* is larger than the median *Insider control* in the firm's country, zero otherwise. *Analysts*, obtained from I/B/E/S, is the number of analysts that make forecasts for a firm in a given fiscal year. All other firm-level variables are described in Table 3; Appendix A provides descriptions of the voting variables. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. The *t*-statistics are in brackets and are corrected for heteroskedasticity and adjusted for clustering on firms. *, **, *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Insider Control

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	3.096	5.396	6.060	5.983	2.266	0.958
	[4.24]***	[5.26]***	[2.49]**	[1.95]*	[1.41]	[1.25]
Log (1+Analysts)	-0.840	-0.481	-0.617	-0.977	-0.550	-0.877
	[-4.05]***	[-1.75]*	[-0.85]	[-1.30]	[-1.11]	[-3.85]***
Log (Investible equity market cap)	-0.346	-0.130	-1.741	-2.697	-0.462	0.417
	[-2.92]***	[-0.79]	[-4.26]***	[-5.35]***	[-1.64]	[3.01]***
Leverage	1.456	1.346	-2.168	-3.479	-3.405	0.788
	[2.10]**	[1.51]	[-0.91]	[-1.18]	[-2.13]**	[1.00]
Market-to-book	0.046	-0.125	0.263	0.391	0.131	0.030
	[0.91]	[-1.98]**	[1.55]	[1.62]	[1.15]	[0.50]
Profitability	-3.545	-0.702	-17.682	14.205	-4.845	-1.771
	[-2.30]**	[-0.35]	[-3.51]***	[1.91]*	[-1.43]	[-1.03]
Cross-list	-1.072	-0.103	-1.754	-1.799	0.502	-1.483
	[-2.34]**	[-0.18]	[-1.12]	[-0.92]	[0.47]	[-2.62]***
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.11	0.08	0.12	0.07	0.33	0.15
Observations	15,768	14,250	7,341	5,118	6,823	14,044

Panel B: High Insider Control

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
High insider control	0.637	1.256	1.978	3.571	-0.331	0.018
	[2.45]**	[3.67]***	[2.23]**	[3.31]***	[-0.55]	[0.06]
Log (1+Analysts)	-0.804	-0.430	-0.598	-1.086	-0.479	-0.858
	[-3.88]***	[-1.56]	[-0.83]	[-1.44]	[-0.96]	[-3.77]***
Log (Investible equity market cap)	-0.453	-0.298	-1.851	-2.525	-0.636	0.361
	[-3.88]***	[-1.80]*	[-4.60]***	[-5.03]***	[-2.26]**	[2.59]***
Leverage	1.396	1.246	-2.218	-3.175	-3.476	0.752
	[2.01]**	[1.39]	[-0.93]	[-1.08]	[-2.17]**	[0.95]
Market-to-book	0.058	-0.107	0.271	0.365	0.149	0.037
	[1.14]	[-1.70]*	[1.60]	[1.52]	[1.30]	[0.62]
Profitability	-3.123	-0.034	-17.099	13.830	-4.299	-1.561
	[-2.03]**	[-0.02]	[-3.41]***	[1.87]*	[-1.27]	[-0.91]
Cross-list	-1.064	-0.100	-1.655	-1.948	0.478	-1.482
	[-2.32]**	[-0.17]	[-1.06]	[-0.99]	[0.44]	[-2.62]***
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.11	0.08	0.12	0.07	0.33	0.15
Observations	15,768	14,250	7,341	5,118	6,823	14,044

Table 5
Voting Against Management's Recommendations and Anti-Self-Dealing

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's recommendations for agenda items proposed at a firm's shareholder meetings for a given fiscal year. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. *Insider control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. *Analysts*, obtained from I/B/E/S, is the number of analysts that make forecasts for a firm in a given fiscal year. The *Anti-self-dealing* index measures the average of ex-ante and ex-post private control of self-dealing; it potentially ranges from 0 to 1 with higher values indicating better shareholder protection. The index is obtained from Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008). The low *Anti-self-dealing* subsample consists of countries that score below our sample median of 0.5 on the *Anti-self-dealing* index. All other firm-level variables are described in Table 3; Appendix A provides descriptions of the voting variables. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. The *t*-statistics are in brackets and are corrected for heteroskedasticity and adjusted for clustering on firms. *, **, *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Low Anti-Self-Dealing

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	4.952	7.068	13.292	6.136	2.098	1.568
	[4.64]***	[4.81]***	[4.19]***	[1.48]	[0.87]	[1.36]
Log (1+Analysts)	-0.848	-0.577	-1.104	-1.737	-1.632	-0.879
	[-2.55]**	[-1.39]	[-1.21]	[-1.50]	[-1.46]	[-2.42]**
Log (Investible equity market cap)	0.077	0.419	0.629	-3.132	-0.414	0.517
	[0.45]	[1.80]*	[1.20]	[-4.57]***	[-0.79]	[2.33]**
Leverage	0.979	1.086	-2.922	-4.465	-5.488	0.172
	[1.05]	[0.95]	[-0.98]	[-1.21]	[-1.93]*	[0.15]
Market-to-book	0.091	-0.089	0.317	1.056	0.598	-0.074
	[0.92]	[-0.74]	[1.12]	[2.56]**	[2.75]***	[-0.75]
Profitability	-4.785	-5.175	-28.182	3.024	-15.190	5.914
	[-1.56]	[-1.50]	[-2.96]***	[0.26]	[-1.91]*	[2.11]**
Cross-list	-0.983	-0.139	-3.728	0.019	1.669	-0.349
	[-1.40]	[-0.15]	[-1.74]*	[0.01]	[0.99]	[-0.33]
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.11	0.13	0.05	0.05	0.07	0.13
Observations	8,144	7,400	4,286	3,622	2,341	7,254

Panel B: High Anti-Self-Dealing

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	1.278	4.330	-1.745	3.239	2.120	-0.083
	[1.27]	[2.93]***	[-0.47]	[0.71]	[1.00]	[-0.08]
Log (1+Analysts)	-0.760	-0.426	-0.316	-0.419	-0.158	-0.853
	[-2.88]***	[-1.15]	[-0.28]	[-0.48]	[-0.29]	[-2.96]***
Log (Investible equity market cap)	-0.683	-0.578	-4.206	-0.576	-0.433	0.367
	[-4.12]***	[-2.45]**	[-6.77]***	[-0.75]	[-1.28]	[2.12]**
Leverage	1.950	1.089	-0.220	-1.237	-2.981	2.251
	[1.86]*	[0.78]	[-0.06]	[-0.28]	[-1.53]	[2.03]**
Market-to-book	0.020	-0.147	0.216	-0.436	-0.049	0.062
	[0.35]	[-1.97]**	[1.01]	[-1.74]*	[-0.37]	[0.84]
Profitability	-2.536	1.467	-7.901	24.210	-2.772	-4.435
	[-1.37]	[0.58]	[-1.30]	[2.48]**	[-0.76]	[-2.18]**
Cross-list	-1.114	0.106	0.009	-4.620	0.290	-2.423
	[-1.83]*	[0.14]	[0.00]	[-1.86]*	[0.21]	[-3.74]***
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.12	0.04	0.21	0.11	0.41	0.19
Observations	7,546	6,776	3,026	1,486	4,450	6,716

Table 6
Voting Against Management's Recommendations and Securities Regulation

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's recommendations for agenda items proposed at a firm's shareholder meetings for a given fiscal year. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. *Insider control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. *Analysts*, obtained from I/B/E/S, is the number of analysts that make forecasts for a firm in a given fiscal year. The *Securities regulation* measure potentially ranges from 0 to 1 and is defined as in Hail and Leuz (2006) as the average of the disclosure requirements, liability standards, and public enforcement indexes, which are obtained from Table 2 of La Porta, Lopez-de-Silanes, and Shleifer (2006). The low *Securities regulation* subsample contains countries that score below our sample median of 0.52 on the *Securities regulation* measure. All other firm-level variables are described in Table 3; Appendix A provides descriptions of the voting variables. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. The *t*-statistics are in brackets and are corrected for heteroskedasticity and adjusted for clustering on firms. *, **, *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Low Securities Regulation

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	3.603	5.945	9.658	6.367	-0.681	0.376
	[3.23]***	[3.87]***	[2.72]***	[1.49]	[-0.27]	[0.32]
Log (1+Analysts)	-0.911	-0.758	-0.987	-1.573	-1.478	-0.873
	[-2.62]***	[-1.69]*	[-1.04]	[-1.32]	[-1.32]	[-2.32]**
Log (Investible equity market cap)	0.131	0.463	0.167	-3.155	-0.253	0.552
	[0.74]	[1.89]*	[0.30]	[-4.46]***	[-0.46]	[2.34]**
Leverage	1.010	1.061	-1.475	-4.759	-5.583	-0.498
	[1.06]	[0.92]	[-0.46]	[-1.27]	[-1.93]*	[-0.43]
Market-to-book	0.139	-0.100	0.397	1.098	0.570	0.043
	[1.34]	[-0.79]	[1.25]	[2.60]***	[2.45]**	[0.39]
Profitability	-4.294	-2.906	-27.415	4.633	-14.967	6.706
	[-1.33]	[-0.80]	[-2.55]**	[0.39]	[-1.90]*	[2.29]**
Cross-list	-0.928	0.642	-2.927	-0.080	-0.676	-0.069
	[-1.30]	[0.66]	[-1.14]	[-0.03]	[-0.48]	[-0.06]
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.11	0.14	0.03	0.05	0.06	0.11
Observations	7,362	6,660	3,800	3,503	2,026	6,475

Panel B: High Securities Regulation

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	2.728	5.549	2.447	3.432	3.362	1.171
	[2.79]***	[3.88]***	[0.73]	[0.78]	[1.64]	[1.14]
Log (1+Analysts)	-0.774	-0.286	-0.253	-0.500	-0.228	-0.908
	[-2.99]***	[-0.81]	[-0.24]	[-0.58]	[-0.42]	[-3.19]***
Log (Investible equity market cap)	-0.638	-0.512	-3.332	-1.020	-0.515	0.359
	[-3.97]***	[-2.24]**	[-5.79]***	[-1.37]	[-1.56]	[2.13]**
Leverage	1.598	0.915	-2.971	-0.368	-3.194	2.583
	[1.54]	[0.66]	[-0.82]	[-0.08]	[-1.63]	[2.39]**
Market-to-book	0.003	-0.134	0.203	-0.413	-0.011	0.011
	[0.05]	[-1.81]*	[1.00]	[-1.68]*	[-0.09]	[0.16]
Profitability	-2.997	0.040	-10.853	21.913	-3.137	-4.333
	[-1.64]	[0.02]	[-1.84]*	[2.28]**	[-0.85]	[-2.16]**
Cross-list	-1.134	-0.309	-1.367	-4.415	1.255	-2.264
	[-1.89]*	[-0.42]	[-0.66]	[-1.88]*	[0.86]	[-3.51]***
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.12	0.05	0.19	0.10	0.39	0.18
Observations	8,210	7,403	3,491	1,584	4,708	7,378

Table 7
Voting Against Management's Recommendations and Disclosure Requirements

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's recommendations for agenda items proposed at a firm's shareholder meetings for a given fiscal year. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. *Insider control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. *Analysts*, obtained from I/B/E/S, is the number of analysts that make forecasts for a firm in a given fiscal year. The *Disclosure requirements* measure potentially ranges from 0 to 1 and is obtained from Table 2 of La Porta, Lopez-de-Silanes, and Shleifer (2006). The high *Disclosure requirements* subsample contains countries that score above our sample median of 0.75 on the *Disclosure Requirements* measure.. All other firm-level variables are described in Table 3; Appendix A provides descriptions of the voting variables. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. The *t*-statistics are in brackets and are corrected for heteroskedasticity and adjusted for clustering on firms. *, **, *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Low Disclosure Requirements

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	4.484	7.465	8.616	6.511	1.404	1.843
	[4.59]***	[5.80]***	[3.04]***	[1.76]*	[0.69]	[1.69]*
Log (1+Analysts)	-1.169	-0.459	-1.876	-0.926	-0.248	-1.339
	[-3.85]***	[-1.18]	[-2.18]**	[-0.95]	[-0.32]	[-3.85]***
Log (Investible equity market cap)	-0.073	0.187	-0.275	-3.425	-0.704	0.645
	[-0.45]	[0.84]	[-0.57]	[-5.57]***	[-1.70]*	[3.07]***
Leverage	1.306	1.277	-3.842	-3.487	-3.844	1.309
	[1.42]	[1.12]	[-1.35]	[-1.01]	[-1.66]*	[1.18]
Market-to-book	0.144	-0.107	0.468	0.741	0.375	-0.046
	[1.67]*	[-1.05]	[1.99]**	[2.03]**	[2.22]**	[-0.45]
Profitability	-5.473	0.042	-23.741	6.938	-10.665	3.216
	[-2.02]**	[0.01]	[-3.17]***	[0.71]	[-1.90]*	[1.22]
Cross-list	-0.803	0.309	-1.670	-0.238	1.044	-1.636
	[-1.19]	[0.35]	[-0.83]	[-0.10]	[0.71]	[-1.81]*
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.11	0.11	0.05	0.05	0.08	0.16
Observations	10,111	8,990	5,061	4,121	3,201	8,656

Panel B: High Disclosure Requirements

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	0.926	2.745	-0.133	0.034	2.457	-0.289
	[0.85]	[1.56]	[-0.03]	[0.01]	[0.99]	[-0.27]
Log (1+Analysts)	-0.346	-0.425	1.232	-0.609	-0.584	-0.292
	[-1.26]	[-1.11]	[0.96]	[-0.67]	[-0.91]	[-1.03]
Log (Investible equity market cap)	-0.720	-0.522	-4.416	-0.093	-0.300	0.158
	[-4.23]***	[-2.12]**	[-6.12]***	[-0.11]	[-0.78]	[0.95]
Leverage	0.841	1.175	-0.176	-6.791	-3.746	0.423
	[0.79]	[0.81]	[-0.04]	[-1.52]	[-1.66]*	[0.40]
Market-to-book	-0.054	-0.176	-0.006	-0.335	-0.019	0.063
	[-0.98]	[-2.28]**	[-0.02]	[-1.32]	[-0.13]	[0.96]
Profitability	-2.298	-1.398	-9.990	22.901	-2.171	-3.415
	[-1.24]	[-0.54]	[-1.45]	[1.92]*	[-0.51]	[-1.58]
Cross-list	-1.029	-0.191	0.048	-4.919	-0.257	-1.166
	[-1.61]	[-0.24]	[0.02]	[-1.86]*	[-0.16]	[-1.74]*
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.13	0.03	0.24	0.09	0.42	0.10
Observations	5,461	5,073	2,230	966	3,533	5,197

Table 8
Voting Against Management's Recommendations and Legal Origin

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's recommendations for agenda items proposed at a firm's shareholder meetings for a given fiscal year on subsamples of countries without and with *Common law* legal origin as indicated in Table 2 of LLSV (1998). The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years 2002 to 2009. *Insider control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. *Analysts*, obtained from I/B/E/S, is the number of analysts that make forecasts for a firm in a given fiscal year. All other firm-level variables are described in Table 3; Appendix A provides descriptions of the voting variables. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. The *t*-statistics are in brackets and are corrected for heteroskedasticity and adjusted for clustering on firms. *, **, *** indicate significance at 10%, 5%, and 1%, respectively.

Panel A: Not Common Law

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	4.845	6.720	11.777	7.675	2.724	1.897
	[4.75]***	[4.87]***	[3.69]***	[2.07]**	[1.21]	[1.70]*
Log (1+Analysts)	-1.066	-0.652	-0.973	-1.119	-1.942	-1.117
	[-3.57]***	[-1.67]*	[-1.07]	[-1.18]	[-2.35]**	[-3.28]***
Log (Investible equity market cap)	0.112	0.384	0.170	-3.026	-0.074	0.564
	[0.70]	[1.74]*	[0.32]	[-5.00]***	[-0.17]	[2.74]***
Leverage	2.515	2.110	-2.890	-3.758	-4.570	1.468
	[2.72]***	[1.86]*	[-0.96]	[-1.09]	[-1.73]*	[1.30]
Market-to-book	0.063	-0.122	0.355	0.776	0.594	-0.076
	[0.68]	[-1.06]	[1.27]	[2.16]**	[2.81]***	[-0.74]
Profitability	-2.763	-0.774	-24.599	6.113	-15.259	3.763
	[-1.00]	[-0.24]	[-2.63]***	[0.61]	[-2.22]**	[1.38]
Cross-list	-1.708	0.169	-1.563	-1.172	1.663	-1.398
	[-2.62]***	[0.20]	[-0.72]	[-0.49]	[1.03]	[-1.55]
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.11	0.12	0.06	0.05	0.20	0.16
Observations	9,497	8,343	4,367	4,169	3,161	8,541

Panel B: Common Law

	Against management					
	All	Directors	Compensation	M&A	Capital	Routine
	(1)	(2)	(3)	(4)	(5)	(6)
Insider control	1.058	3.978	-0.554	-3.333	1.450	-0.355
	[1.02]	[2.54]**	[-0.15]	[-0.63]	[0.64]	[-0.35]
Log (1+Analysts)	-0.557	-0.315	-0.427	-0.201	0.238	-0.561
	[-1.96]**	[-0.81]	[-0.37]	[-0.21]	[0.40]	[-1.93]*
Log (Investible equity market cap)	-0.857	-0.668	-3.904	-1.234	-0.737	0.272
	[-4.93]***	[-2.67]***	[-6.24]***	[-1.38]	[-2.12]**	[1.57]
Leverage	0.293	0.677	-0.044	-4.489	-3.110	0.501
	[0.28]	[0.47]	[-0.01]	[-0.92]	[-1.53]	[0.49]
Market-to-book	0.013	-0.128	0.207	-0.335	-0.097	0.075
	[0.23]	[-1.70]*	[0.96]	[-1.33]	[-0.74]	[1.10]
Profitability	-2.366	0.494	-9.247	22.573	0.352	-4.603
	[-1.25]	[0.19]	[-1.55]	[2.14]**	[0.09]	[-2.10]**
Cross-list	-0.366	-0.089	-1.175	-3.101	-0.374	-1.590
	[-0.56]	[-0.11]	[-0.51]	[-1.13]	[-0.27]	[-2.30]**
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.12	0.04	0.20	0.09	0.43	0.10
Observations	6,271	5,907	2,974	949	3,662	5,503

Table 9
Descriptive Statistics for the BNYMellon Sample

The table reports descriptive statistics for voting and firm-level variables for the BNYMellon sample. The sample covers votes cast in the first half of 2009 by shareholders of non-U.S. firms with American Depository Receipts (ADR) managed by BNYMellon. The final sample consists of 134 firms from 26 countries and includes the number of shareholders' votes for 1,887 agenda items. Panel A reports summary statistics, and Panel B tabulates the outcome of shareholders' votes against management's recommendations relative to the ISS recommendations to vote against management. *Against management* is the percentage of votes cast against management's recommendations for all agenda items proposed at a firm's shareholder meetings. We count votes as against management's recommendations when management recommended "For" and investors voted "Against" or "Abstain"; or when management recommended "Against" and investors voted "For" or "Abstain." *ISS against management* is the percentage of which ISS recommended to vote against management's recommendations. The last row of Panel B reports the Chi^2 test statistic and associated p-value in parentheses for a test of the degree of association between the two variables in the table, *Against management* and *ISS against management*. The null hypothesis tested is that the vote outcome against management does not differ across ISS recommendation. All other variables are described in Table 3. The voting data are from BNYMellon, and the data for firm-level variables are from Worldscope.

Panel A: Summary Statistics

Variable	Mean	SD	P25	Median	P75	N
Against management	13.795	15.702	2.929	8.861	19.763	134
ISS against management	12.516	15.854	0.000	8.333	20.000	134
Insider control	0.438	0.308	0.140	0.462	0.700	134
Analysts	16.813	13.971	4.000	14.000	26.000	134
Investible equity market cap	10.271	22.066	0.144	1.468	7.990	134
Total assets	116.827	433.104	1.881	7.321	29.611	134
Leverage	0.238	0.190	0.088	0.213	0.337	134
Market-to-book	1.534	1.953	0.562	0.953	1.694	134
Profitability	0.041	0.092	0.006	0.050	0.090	134

Panel B: Outcome of Shareholders' Votes Relative to ISS Recommendations to Vote Against Management

	ISS recommends to vote against management's recommendations		
Vote outcome is against management's recommendations	No	Yes	Total
No	1,634	75	1,709
Yes	49	129	178
Total	1,683	204	1,887
Chi^2 test	775.0 (0.000)		

Table 10
The Effect of ISS Recommendations on Percentage of Votes Against Management's Recommendations

The table reports OLS regression estimates of the percentage of votes cast against management's recommendations on the frequency of which ISS recommended to vote against management. The sample is based on the BNYMellon data introduced in Table 9. Column 1 shows the baseline regression results including firms from all countries. Columns 2-7 sorts firms into subsamples based on legal institutions variables. Variables are described in Tables 3 and 8. The *Anti-self-dealing* index measures the average of ex-ante and ex-post private control of self-dealing. The index is obtained from Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008). The *Securities regulation* measure is defined as in Hail and Leuz (2006) as the average of the disclosure requirements, liability standards, and public enforcement indexes, which are obtained from Table 2 of La Porta, Lopez-de-Silanes, and Shleifer (2006). The *Disclosure requirements* measure is obtained from Table 2 of La Porta, Lopez-de-Silanes, and Shleifer (2006). We use the same cutoffs to group firms into low and high subsamples as in Tables 5-7. Indicator variables for industry groups (based on the classification of Campbell (1996)) are included but not reported. The *t*-statistics are in brackets and are corrected for heteroskedasticity and adjusted for clustering on firms. *, **, *** indicate significance at 10%, 5%, and 1%, respectively.

	Against management						
	Full sample	Low anti-self-dealing	High anti-self-dealing	Low securities regulation	High securities regulation	Low disclosure requirements	High disclosure requirements
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ISS against management	0.394	0.506	0.232	0.581	0.186	0.539	0.157
	[3.26]***	[6.35]***	[1.17]	[6.83]***	[0.87]	[5.59]***	[0.82]
Insider control	-1.010	1.764	-4.689	0.508	2.751	2.964	-7.772
	[-0.36]	[0.46]	[-0.57]	[0.12]	[0.24]	[0.93]	[-0.71]
Log (1+Analysts)	-0.621	0.115	1.606	-2.230	-1.858	0.013	-1.014
	[-0.40]	[0.10]	[0.54]	[-1.10]	[-0.29]	[0.01]	[-0.24]
Log (Investible equity market cap)	-0.364	-0.720	0.767	0.776	-0.864	-0.432	-0.043
	[-0.50]	[-1.00]	[0.52]	[0.67]	[-0.48]	[-0.48]	[-0.04]
Leverage	-2.255	-6.986	-14.603	1.724	-5.894	-7.194	-5.350
	[-0.42]	[-1.23]	[-1.41]	[0.17]	[-0.99]	[-0.94]	[-0.70]
Market-to-book	-0.946	0.086	-1.224	-3.412	-0.682	0.274	-1.342
	[-1.49]	[0.21]	[-0.78]	[-1.59]	[-1.86]*	[0.56]	[-0.69]
Profitability	-7.054	-5.028	-34.612	-17.473	14.847	-3.741	-13.190
	[-0.38]	[-0.60]	[-0.93]	[-0.63]	[1.56]	[-0.63]	[-0.32]
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.21	0.69	0.09	0.20	0.29	0.74	0.13
Observations	134	78	56	88	46	79	55

Appendix A
Description of Voting Variables

The table shows descriptions of voting variables. The data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX.

Variable	Description
Against management	Percentage of U.S. institutional investors' votes cast against management's recommendations for all agenda items proposed at a firm's shareholder meetings for a given fiscal year. We count votes as against management's recommendations when management recommended "For" and investors voted "Against", "Abstain", or "Withhold"; or when management recommended "Against" and investors voted "For", "Abstain", or "Withhold." We exclude votes that were reported as "Do not vote" or "None."
Against management: Directors	Percentage of U.S. institutional investors' votes cast against management's recommendations for directors-related agenda items. The most common directors-related agenda items are "elect directors" and "approve remuneration of directors."
Against management: Compensation	Percentage of U.S. institutional investors' votes cast against management's recommendations for compensation-related agenda items. The most common compensation-related agenda items are "approve remuneration report", "approve stock option plan", and "amend stock option plan."
Against management: M&A	Percentage of U.S. institutional investors' votes cast against management's recommendations for reorganization- and mergers-related agenda items. The most common reorganization- and mergers-related agenda items are "approve transaction with a related party" and "amend articles."
Against management: Capital	Percentage of U.S. institutional investors' votes cast against management's recommendations for capitalization-related agenda items. The most common capitalization-related agenda items are "authorize share repurchase program" and "approve issuance of equity or equity-linked securities without preemptive rights."
Against management: Antitakeover	Percentage of U.S. institutional investors' votes cast against management's recommendations for antitakeover-related agenda items. The most common antitakeover-related agenda item is "adopt or amend shareholder rights plan (poison pill)."
Against management: Routine	Percentage of U.S. institutional investors' votes cast against management's recommendations for routine-business-related agenda items. The most common routine-business-related agenda items are "approve allocation of income and dividends" and "accept financial statements and statutory reports."