Shareholder Voting and Corporate Governance Around the World

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Abstract

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Abstract

There is significant debate as to whether the shareholder voting process is an effective way to exercise corporate governance. Using a sample of 7,975 companies across 42 countries over the years 2003-2009, we investigate whether the votes cast by U.S. institutional investors for director elections, as well as subsequent director turnover, are consistent with a shareholder voting process that works. We find greater voting against directors when country-level shareholder protection is low or firm-level managerial entrenchment is high, indicating that investors exercise dissent voting when they fear expropriation the most. Further, controlling for firm performance, greater voting against directors is associated with greater director turnover. Our findings suggest that shareholders vote as though they are exercising governance, and that the votes they cast have a governance-related outcome. We conclude that shareholder voting is an important channel through which corporate governance is exercised in firms across the world.

1. Introduction

The process of shareholder voting underpins the exercise of corporate governance. If well functioning, this process has two fundamental components: first, outside shareholders should vote as though they are exercising governance and second, the votes they cast should have a governance-related outcome. Whether this process works is an open (and controversial) question because studies of U.S. firms have found mixed evidence regarding both of these fundamental components of shareholder voting and corporate governance.[1]

While the study of voting patterns and corporate governance 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, shareholders of firms face far greater dispersion in both shareholder protection and corporate disclosure which, when lacking, make exercising corporate governance more important and also more difficult. To our knowledge, no large scale cross-country research on the two fundamental components of shareholder voting has been conducted to date. This paper undertakes such a study.

We examine the linkage between shareholders' voting patterns and firm- and country-level characteristics that capture the potential for expropriation of minority investors. Further, we assess whether voting actually matters by linking voting patterns to governance-related outcomes. Our study exploits data on the votes cast by U.S. institutional investors for director elections, as well as subsequent director turnover in 7,975 companies across 42 countries over the years 2003-2009. We focus on U.S. institutional investors' votes because since 2003 the U.S. SEC has mandated that U.S.-registered investment management companies report all

[1] Examples include Cai, Garner, and Walkling (2009), Fischer, Gramlich, Miller, and White (2009), and Armstrong, Gow, and Larcker (2012). These and other related papers are discussed in more detail in Section 2.

votes cast on corporate ballots for U.S. and foreign firms and that these institutional investors put in place policies and procedures ensuring that they vote in the best interests of their clients, thus upholding their fiduciary duty responsibilities. We focus on director elections because these votes are the most common and arguably the most consequential votes cast at an annual shareholder meeting. Director votes are binding in nature and it is directors who shape the future policies of the firm because the board of directors has to approve all important corporate decisions.[2]

We first assess whether shareholders vote as though they are exercising governance. Specifically, we use the ISS Voting Analytics database to test whether the percentage of U.S. institutional investors' votes cast against management's recommendations for annual director elections for a given fiscal year and firm—*Voting Against*, our dependent variable—is related to variables that capture expected expropriation at the country and firm level. For U.S. firms, Daines, Gow, and Larcker (2010) find no evidence that greater firm-level agency problems correspond to fewer votes cast for directors, whereas Cai, Garner, and Walkling (2009) do find such evidence.

In our regressions, we use country-level proxies that capture transparency, shareholder protection, the enforcement of laws, and other aspects of the firm's external institutional environment indicative of expected expropriation. We also use firm-level proxies that capture the degree of controlling shareholder entrenchment, and thus a greater ex ante possibility that outside shareholders can be expropriated. These include *Insider Control*, which measures the

[2] Conclusions from the NYSE Proxy Working Group report of 2006 state that director elections are of critical importance because "Directors have authority over the most fundamental issues of corporate governance today, while investors, regulators, courts and others have all recognized the critical role directors play in the life of a corporation." We note here that while studies of whether shareholder voting patterns are linked to changes in executive compensation are also informative, we cannot analyze this topic because around the world executive compensation packages are generally not disclosed.

percentage of shares held by insiders and specifically excludes shares held in a fiduciary capacity by institutional investors, as well as a comprehensive governance index (Gov_{41}) compiled by ISS and used in Aggarwal, Erel, Ferriera, and Matos (2011). This latter measure of expected firm-level agency problems is available for only a subsample of our firms (generally the largest ones). Finally, we assess whether the combination of country-level and firm-level expected agency problems matters for the propensity to vote against directors. We estimate models that contain firm-level agency cost proxies in subsamples of high and low external-investor-protection countries.

Our results show that a firm's country-level investor protection environment matters for the exercise of corporate governance via voting. Specifically, in countries with weak legal institutions (Civil law or French/socialist legal origin countries), countries with poor corporate disclosure, and countries with weak shareholder protection laws and enforcement we observe a significantly higher level of votes cast against directors. These results suggest that expected agency problems induced by poor country-level institutions lead to a greater exercise of corporate governance through shareholder voting. That said, similar to the Cai et al. (2009) U.S. firm results, we also find that the vast majority of votes nonetheless go in the direction of management's recommendations regarding directors.

Turning to expected agency problems at the firm level, we document that higher levels of managerial entrenchment as measured by *Insider Control* and the Gov_{41} index are associated with greater levels of voting against directors. These results are also economically significant; for example, a one standard deviation change in *Insider Control* corresponds to a 18% increase in the propensity to vote against directors. Moreover, we find that the relation between managerial entrenchment and voting against directors is prevalent in both strong and

weak investor protection countries. Thus, our results suggest that shareholders use their voting power to challenge entrenched managers irrespective of the country's investor protection laws.

In our next set of tests, we examine whether U.S. institutions voting against management's recommendations for director elections is positively associated with the number of directors that are turned over in our sample of non-U.S. firms. Although the vast majority of votes go in favor of directors, a larger proportion of against votes, while not enough to mechanically disqualify a director, may nonetheless result in the removal or the voluntary resignation of a director. Importantly, we test whether there is an incremental effect of voting on turnover that goes beyond the well-documented effect attributable to poor firm performance (e.g., Weisbach (1988) and Yermack (2004)). Cai et al. (2009) do not find that fewer favorable votes have any measurable effect on director turnover in their sample of U.S. firms. However, Fischer et al. (2009) do find evidence that greater dissent voting corresponds to greater director turnover in U.S. firms.

Around the world, we find that greater voting against directors is associated with a significantly higher number of directors that exit the board over the following year. Further, this result obtains even after we use several methods to control for prior poor performance of a firm. Thus, shareholder voting has an independent effect on director turnover over and above the negative votes attributable to poor performance. These results are economically important as well. A one standard deviation increase in *Voting Against* is associated with an increase of 5% in the number of directors that are turned over. We benchmark the specific effect of voting relative to the expected negative effect of poor firm performance. A one standard deviation decrease in firm profitability is associated with a 14% increase in director

turnover, implying that the incremental effect of voting on director turnover is 35% as large as that for the most commonly identified source of turnover, poor performance. Finally, we find that greater voting against directors is associated with higher director turnover in both strong and weak investor protection countries.

Collectively, our cross-country evidence is consistent with a shareholder voting process that works because the two fundamental components of the process are well functioning. First, institutional investors choose to challenge management more often in cases where they fear expropriation the most: investor protection at the country level is weak or firm-level managerial entrenchment is high. Second, their votes cast have a governance-related outcome. Voting against directors in director elections is positively associated with director turnover, and this important governance channel exists in both weak and strong investor protection countries. Summarizing, we conclude that shareholders of non-U.S. firms do indeed exercise corporate governance by voting their shares in a meaningful way, and that shareholder voting is an important channel through which corporate governance is exercised in firms across the world. In this way, our results extend the research by Aggarwal et al. (2011) and Ferreira, Massa, and Matos (2010) by providing a specific channel, shareholder voting, through which foreign institutional investors improve the governance of the firms they hold.

The remainder of the paper is organized as follows. Section 2 reviews the literature on shareholders' exercise of corporate governance. Section 3 discusses our data and the research design. Section 4 presents the empirical findings. Section 5 details a series of robustness tests, and Section 6 concludes.

2. Literature Review

As the emphasis on ensuring proper corporate governance has grown rapidly in recent years, research on shareholder voting has become increasingly prominent (Yermack (2010) surveys the voting literature). However, there is significant debate as to whether shareholder voting is an effective part of the governance process, because the prior evidence is mixed on (1) whether shareholders vote as though they are exercising governance and (2) whether the votes shareholders cast actually have a governance-related outcome. Moreover, prior studies typically focus on shareholder voting in a single country where governance characteristics are relatively homogeneous.

2.1. Do Outside Shareholders Vote as Though they are Exercising Governance?

The first fundamental question in shareholder voting research is based on the central premise of the shareholder voting process: shareholders should use their voting power to steer managers in the direction of better governance. When expected agency problems are present in a firm, one would expect shareholders to vote against management's recommendations with greater frequency. Recent studies that examine the determinants of shareholder voting for uncontested director elections and equity-based compensation plans find evidence consistent with this prediction. For example, in a recent study of U.S. director elections, Cai, Garner, and Walkling (2009) show that while institutional investors overwhelmingly cast "For" votes in director elections of U.S. firms, greater managerial entrenchment is associated with more "Against" votes being cast against directors. Choi, Fisch, and Kahan (2011) also study uncontested director elections in U.S. firms and find that shareholders vote against directors more often when a firm has poor director attendance at board meetings, poor

performance, or an accounting restatement. There is, to our knowledge, no research on director voting patterns for non-U.S. firms.

While director elections are the most common subject of shareholder voting in U.S. firms, equity compensation plans also require shareholder approval and voting patterns for these plans have been studied as well.[3] The study by Armstrong, Gow, and Larcker (2012) exploits recent data and finds that shareholders are more likely to vote against executive pay plans that are excessive. Morgan, Poulsen, and Wolf (2006) examine aggregate shareholder votes for S&P 500 firms from 1992 to 2003 and find evidence that shareholders provide less support for plans that are more dilutive. Outside the U.S., the only evidence comes from the U.K.'s introduction in 2002 of non-binding "say on pay" shareholder voting on executive compensation proposals. Carter and Zamora (2009) find evidence that excess salary and excess bonus are associated with lower levels of shareholder support in U.K. firms' "say-on-pay" voting.

While the above studies suggest that outside shareholders vote as though they are attempting to exercise governance, Daines, Gow, and Larcker (2010) find that proxies for expected governance problems (e.g., RiskMetrics/ISS governance ratings) are not associated with lower shareholder support in director elections. Further, a body of research across different settings suggests mechanisms other than voting might 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. Consistent with this concept, Leuz, Lins, and Warnock (2009) use the 1997 U.S.

[3] Equity compensation plans are the third most prevalent shareholder voting agenda item (behind director elections and auditor ratifications).

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.

Private engagement with managers also has been shown to be important. A clinical study of the activist-style Hermes U.K. 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, Sautner and Starks (2010) survey documents that 80% of U.S.- and Netherlands-based institutional investors are prepared to sell shares and 55% are prepared to initiate private discussions with the executive board to express concerns with governance. Moreover, 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 amalgamated.[4]

Overall, there is mixed evidence regarding whether outside shareholders actually vote as though they are exercising governance. Further, there is ample evidence indicating that shareholder voting may not, in fact, be a useful 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.

[4] Maug and Rydqvist (2009) study "non-standard" management proposals and Morgan, Poulsen, Wolf, and Yang (2011) study shareholder-sponsored proposals for U.S. firms. Collectively, these papers find that shareholders' screening of proposals put forth is particularly valuable when managers' ability to objectively evaluate a proposal is compromised and/or there are potential firm-level governance issues.

2.2. Do the Votes Outside Shareholders Cast Have a Governance-related Outcome?

The second fundamental question in shareholder voting research is concerned with the effectiveness of shareholder voting as a mechanism to bring about changes in corporate policy. That is, do the votes shareholders cast actually matter? When examining the efficacy of votes in director elections, the primary corporate governance outcome of interest is whether more negative votes cause changes in the composition of the board. Although the vast majority of votes go in favor of directors, a larger proportion of against votes, while not enough to mechanically disqualify a director, may nonetheless result in the removal or the voluntary resignation of a director. This is the result documented by Fischer et al. (2009): greater dissent voting corresponds to greater director turnover in U.S. firms. Ertimur, Ferri and Oesch (2012) study U.S. firms switching from plurality voting to majority voting rules. They find that the sensitivity of board turnover to votes withheld from directors at annual elections is higher subsequent to the adoption of majority voting, consistent with the notion that the majority voting election system makes boards more responsive to shareholder pressure. In contrast, Cai et al. (2009) also study director turnover in U.S. director elections and do not find that fewer favorable votes have any measurable effect on director turnover in their sample of U.S. firms.[5] Collectively, prior research finds mixed evidence of whether a larger proportion of against votes results in changes in the composition of the board of

[5] Cai et al. (2009) and Fischer et al. (2009) also examine outcomes of director elections other than director turnover, such as firm performance, compensation and CEO turnover, also with mixed results. Cai et al. (2009) find votes against directors are unrelated to other board memberships of a director or to subsequent changes in firm performance, but do find that for firms with positive abnormal CEO compensation in the year of the vote, future abnormal CEO compensation is decreasing in the level of shareholder support for directors that serve on the compensation committee. However, this association does not hold for directors in general or for directors that are not members of the compensation committee. Fischer et al. find evidence of a positive relation between future excess compensation and shareholder support for CEOs standing for election, but not when shareholder support is measured as the median ratio of votes "for" to total votes cast across all directors standing for election.

directors for U.S. firms. There is, to our knowledge, also no research on whether voting patterns for director elections matter for changes in board composition for non-U.S. firms.

The evidence on the efficacy of shareholder voting for equity compensation plans is also mixed. For example, Armstrong, Gow and Larcker (2012) find that there is no relation between shareholder voting on compensation proposals and subsequent changes in CEO compensation. In contrast, Ertimur, Ferri, and Muslu (2012) study activist "vote no" campaigns and shareholder proposals related to executive pay in U.S. firms and find that CEOs with excess pay who are targeted by vote-no campaigns receive lower future compensation.[6] For "say on pay" voting in U.K. firms, Ferri and Maber (2012) and Carter and Zamora (2009) collectively 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.

Taken together, the prior evidence is mixed both on whether shareholders vote as if they care about corporate governance as well as whether the votes they cast actually matter to governance outcomes. Further, the evidence is primarily obtained from studying U.S. firms. However, as discussed in the introduction, relative to U.S. firms, firms from around the world face far greater dispersion in both country-level and firm-level expected agency costs. Thus, the proper exercise of corporate governance is both more important and more difficult. As such, it is useful to understand whether shareholder voting plays an important role in the corporate governance process for these non-U.S. firms.

[6]Other research shows that institutional activism also results in positive governance changes (see, e.g. Del Guercio, Seery, and Woidtke (2008) and Morgan et al. (2010)).

3. Data and Research Design

3.1. Voting Data

We design tests to investigate the voting patterns of shareholders of non-U.S. firms. Ideally, one starting point for this task would be to gather data that maps the votes cast by all holders domiciled in all countries for the proposals put forth for voting by all non-U.S. firms. Unfortunately, such a dataset does not exist because of inconsistent, and sometimes quite minimal, regulatory requirements to disclose shareholder voting data for the persons and institutions present in a given country. However, in 2003 the U.S. SEC mandated the reporting (via Form N-PX) by U.S.-registered management investment companies of all votes cast on corporate ballots for the U.S. and non-U.S. firms they hold. Collectively, these U.S. institutional investors are generally considered to be the most influential equity investing bloc in the world. The 2003 U.S. SEC rules also required that these 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.[7] This component of the 2003 regulations makes it particularly interesting to study U.S. institutions' voting patterns for non-U.S. firms' director 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.

[7] It is interesting to note that in 6.6% of the director election votes the institutions did not vote, which seems to be against their fiduciary duty mandate to vote in the best interest of their clients.

We obtain the voting data used in our paper from the ISS Voting Analytics database.[8] This database uses the investment company filings of Form N-PX to provide the identity of the companies holding elections, the shareholder meeting date, the agenda item descriptions, the number of "For", "Against", "Abstain", "Withhold" and "Do Not Vote" votes of institutional owners, and the management's recommendations. The Voting Analytics database begins election coverage in 2003 and we use the data up through 2009.[9]

We link the voting data to firm-level data from Thomson Reuters Worldscope using several matching methods. First, we match using ISIN, SEDOL, and CRSP identifiers because these codes are publicly available. However, the ISS Voting Analytics database also uses CINS numbers (CUSIP International Numbering System, developed by Standard & Poor's and SIX Telekurs, but not freely available) to identify non-U.S. firms. We obtain a link between CINS and ISIN numbers, which allows us to match additional firms from the voting database to Worldscope. As a result, our sample contains 2.2 million distinct director election votes, which are matched to 7,975 distinct international firms. Firms from countries with less than 10 firm-year observations are excluded.

For each of the 7,975 firms we create a variable (*Voting Against*) that measures the percentage of the votes that go against the management's proposals for agenda items related to director elections on the shareholder meetings over the fiscal year.[10] As previously discussed, we focus on voting for director elections because these are the most common, and

[8] 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. [The full name of the division is Institutional Shareholder Services but that moniker is less frequently used in practice].
[9] 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.
[10] Cai et al. (2009) also use the average vote percentage compiled for each firm year in their tests.

generally most important votes cast at shareholder meetings.[11] ISS is sometimes quite broad in its classification of agenda items related to directors. For our paper, we use the agenda items that contain "Elect Directors," "Elect Board Members," or "Approve Discharge of Directors" in the item title for which management recommends to vote "For".[12] We count "Against", "Withhold", and "Abstain" votes as votes that go against management's recommendations. The *Voting Against* variable is calculated as the sum of "Against", "Withhold", and "Abstain" votes on the shareholder meetings over the firm's fiscal year divided by the sum of "For", "Against", "Withhold", and "Abstain" votes.

For robustness, we also use a variable that tallies the votes for all agenda items ISS classifies as director-related items. This broader set of items includes items that do not deal with the core issue we consider—the election of directors. Examples of these extraneous items include: "Allow Board to Delegate Powers to Committees," and "Approve Discharge of Auditors." We find consistent results when we use this broader but noisier measure of director elections (not tabulated for the sake of brevity).

Table 1 reports the country distribution of our sample and the average percentage of director election votes that are voted against management's recommendations per firm-year. In total, there are 21,632 firm-years with data on the way in which U.S. institutional holders vote and with Worldscope firm characteristic data. The average percentage vote against directors is 7.6%, and this average varies widely by country. We note that the non-U.S firms in our sample are spread out across 42 countries, and these countries have wide dispersion in

[11] For robustness, we also conduct tests that use voting variables consisting of all non-director-related votes cast at firms' shareholder meetings. These results are presented in a subsequent section of the paper.

[12] Less than 0.3% of director election votes cast are for elections concerning shareholder-sponsored proposals. Management recommends to vote against shareholder proposals for directors in 88% of these cases. Very rarely, management recommends to vote against its own director proposals (0.16% of all votes). We drop shareholder proposals as well as management proposals for directors in which management recommends to vote against. Our results hold in magnitude and significance when these votes are included in our sample.

measures that capture the institutional environment faced by outside investors, which should give power to our country-level tests. The majority of firm-year observations fall in the 2003 to 2008 fiscal year period.[13]

3.2. Country- and Firm-Level Expropriation Measures and Control Variables

Our tests feature both country-level and firm-level variables that measure the potential for outside (minority) shareholder expropriation. At the country-level, we employ *Civil Law* legal origin, a dummy variable equal to one if the firm is from a civil-law country, and zero otherwise, as well as a *French/Socialist Legal Origin* dummy variable equal to one if the firm is domiciled in a country with French or Socialist legal origin, and zero otherwise. Civil-law countries and countries with French and Socialist legal origin family have been shown to have the weakest investor protection laws (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)). We also use *Legal*, a combination measure of anti-director rights index times the average rule of law over our sample period (Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)), as employed in Durnev and Kim (2005) and Doidge, Karolyi, Lins, Miller, and Stulz (2009); *Disclosure*, a measure of average firm-level disclosures concerning research and development expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods obtained from Bushman, Piotrowski, and Smith (2004); *Shareholder Suits Index*, a measure of the powers of shareholders to challenge self-dealing transactions, with higher values indicating greater shareholder power to challenge related-party transactions (Djankov et al. (2008)); and *Efficiency of Judicial System*, produced

[13] The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period. Since most firms' fiscal year-end is on December 31, we have fewer firms in the first (2002) and last (2009) year. All of our results are robust to excluding observations for those two years.

by the country risk rating agency Business International Corporation, an assessment measure of the "efficiency and integrity of the legal environment as it affects business" (see La Porta et al. (1998)).

At the firm level, we first employ *Insider Control*, which is the percentage of closely held shares obtained from Worldscope, as a measure of expected managerial entrenchment. 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 (see, for example, Doidge et al. (2009)). This measure tabulates 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. 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 directors. For robustness, we also use a threshold measure of *Insider Control* that equals one if a firm's *Insider Control* is larger than the sample median value of *Insider Control*, and zero otherwise.

Alternatively to *Insider Control*, we employ a firm-level governance index (Gov_{41}) which is based on 41 governance attributes for the categories of board, audit, anti-takeover provisions, compensation, and ownership, as compiled by Aggarwal et al. (2011). It ranges from zero to one, with higher values indicating better firm-level corporate governance. The

index is available for a subsample of our observations (5,881 of 21,632 firm-years) and spans the years 2004 to 2008.

Our regressions include a number of firm-level control variables available from the Worldscope database. Because the total size of a firm's equity is likely to matter to U.S. institutions, we control for the *Market Capitalization* of the firm's equity. We do not have clear 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. 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 larger market capitalization 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 equity for the very same reason: portfolio investors could more easily sell out and capture profits after governance improvements are made. Thus, while *Market Capitalization* 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.

We control for firm performance with *Profitability*, defined as net income plus interest expenses divided by total assets. A large body of research conducted on U.S. firms shows that investors are more inclined to disagree with management and to expect changes in board oversight or composition following poor firm performance (see, for example, Weisbach (1988), Yermack (2004), Del Guercio et al. (2008), Cai et al. (2009), and Fischer et al.

(2009)). While firm performance is an interesting variable on its own to investigate in terms of whether poor performance is linked to greater voting against directors, our paper's primary focus is on whether specific ex ante governance measures that capture potential expropriation are associated with greater dissent voting. That said, based on extensive prior research, we expect that if the shareholder voting process is working as a governance mechanism there will be more voting against directors when firm performance is poor.

We also control for *Leverage*, measured as the ratio of total debt to total assets and control for growth opportunities, as proxied by the *Market-to-book* ratio (defined as the market value of equity divided by the book value of equity). While we generally expect that institutional shareholders will be more likely to exercise their votes in a meaningful way when firms have higher leverage, and thus greater potential risk, or lower growth prospects, and thus a more uncertain future, 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 on U.S. exchanges because of the incremental transparency and governance provided by such a listing (see Doidge et al. (2009) and Leuz et al. (2009)). We include a dummy variable that measures whether the firm is cross-listed on a major U.S. stock exchange (*Cross-list*).

Table 2 summarizes the basic firm-level voting statistics and regression model variables. It shows that U.S. investors cast 7.6% of their votes against management's proposals for director elections in our sample of non-U.S. firms, and that this average has a wide standard deviation, at 19.5%. The firms in our analysis are similar to the ones examined in recent international corporate finance studies (see, e.g., Ferreira and Matos (2008), Leuz et al. (2009), and Aggarwal et al. (2011)). The sample includes firms with average assets of

$7.3 billion, leverage of 21.6%, and profitability of 5.6%. The firms have average insider control of about 39% with significant variation (standard deviation of 24%), and score an average 0.46 on the governance index of Aggarwal et al. (2011).

3.3. Research Design

In our research design, we focus on non-contested director elections, which constitute the vast majority of director 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.[14] but are to our knowledge infrequent or nonexistent in most other countries around the world.

Because investor interest varies across time and industries, we include year fixed effects and industry fixed effects using the groupings in Campbell (1996). Whenever we focus on firm-level managerial entrenchment, we include country fixed effects in our models. These fixed effects are important because countries differ in their levels of insider control and governance practices, and these may not be adequately controlled for by simply including country-level investor protection variables in a model (for example, Singapore and the U.K. have similar levels of many investor protection variables but their firms' insider ownership structures are substantially different). In all of our results, the standard errors are adjusted to correct for heteroskedasticity and clustered to account for the correlation within country/industry groups.

[14] Alexander, Chen, Seppi, and Spatt (2010) 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.

4. Empirical Tests and Results

We want to assess whether U.S. institutional investors: (1) use the voting process to make their preferences for better governance known to managers of the non-U.S. firms that they hold in their portfolios; and (2) whether their votes cast actually matter for governance. To investigate these fundamental shareholder voting propositions empirically, we first assess the determinants of voting in the next three subsections below. Specifically, we begin by testing whether country-level investor protection shapes the way institutions vote in director elections by estimating models with the dependent variable *Voting Against*. We then test whether firm-level proxies for greater managerial entrenchment are related to *Voting Against*, and afterward test whether country-level investor protection affects the degree to which investors are concerned with firm-level managerial entrenchment when voting, using regressions in which countries are split into subsamples based on their levels of investor protection. In the fourth subsection below, we test whether the votes cast against directors matter for our sample of non-U.S. firms by looking at a specific outcome: whether directors are turned over more frequently. As before, we do this both across all countries and within country-subsample splits.

4.1. County-level Investor Protection

Table 3 presents the results of models testing whether expected agency problems induced by poor country-level investor protection map into a greater propensity to vote against directors. Models 1 and 2 include the dummy variables *Civil Law* and *French/Socialist Legal Origin* to proxy for expected governance problems at the country level. Both coefficients are positive and significant (*p*-value less than 0.01), suggesting that

shareholders cast more votes against directors in countries with weaker investor protection laws. For example, in civil-law countries, U.S. institutional shareholders cast on average 6.7 percentage points more votes against directors than in common-law countries, and this distinction is slightly more pronounced (7.4 percentage points more votes against directors) for the French and Socialist legal origin countries relative to other countries. Models 3 through 6 collectively show that lower scores for a country's legal and disclosure environment are associated with more votes being cast against directors. All country variables show a strong statistical link. Moreover, the effects are sizable economically—for example, a one standard deviation decrease in the *Legal* variable (0.798) in model 3 implies a 28.6% increase in the votes cast against directors (calculated as 0.798 × 2.718 / 7.597).

Turning to other variables in the regression models, the coefficient on *Market Capitalization* is negative and significant in four of the six models and the coefficient on *Leverage* is positive and significant in two of the six models. As mentioned previously, these variables are likely to be important for institutional shareholders but the exact link to voting patterns is not easily definable ex ante. The other control variables have coefficients with signs that are generally consistent with expectations, with the exception of profitability, but none are statistically significant at conventional levels so we cannot draw conclusions regarding the importance of these factors for shareholders' voting patterns.

Overall, results in Table 3 are consistent with the notion that agency problems induced by poor country-level institutions lead to the greater exercise of corporate governance through shareholder voting.

4.2. Firm-level Managerial Entrenchment

In this section, we assess the relation between firm-level managerial entrenchment and the frequency with which outside shareholders vote their shares against directors. We control for country fixed effects to eliminate the possibility that our results are driven by country-level differences in investor protection or any other unobserved country effects.

Table 4 reports the coefficients of our managerial entrenchment regression models. Model 1 of Table 4 uses *Insider Control* as the measure for management entrenchment and is estimated on the full sample of 21,632 firm-years across 42 countries. *Insider Control* has a positive coefficient, significant at the 1% level, indicating that U.S. institutional investors vote substantially more often against directors when controlling shareholders are more likely to be entrenched in their firms. The magnitude of this coefficient suggests economic significance as well. Specifically, the coefficient of 5.720 implies that a one standard deviation change in *Insider Control* of 0.237 results in 1.3 percentage points greater voting against management's recommendations regarding directors. In percentage terms, a one standard deviation change in *Insider Control* corresponds to a 17.8% increase in the propensity to vote against directors (the mean of *Voting Against* is 7.597%; the percentage change is measured as 1.356 / 7.597 = 0.178).

The model 1 results can be compared 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.[15] For our sample of non-U.S.

[15] 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). We multiply 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), and obtain a *decrease* in "For" votes of 0.4028, or alternatively an *increase* in

firms, a similar exercise results in a larger increase of *Voting Against* for director elections of 17.8%. While it is difficult to draw direct inferences between the U.S. and non-U.S. firm results because the data are not strictly comparable, we do conclude that institutional shareholders are quite interested in shaping the governance of their non-U.S. portfolio firms.[16]

Model 2 of Table 4 reports results for the managerial entrenchment proxy, $Gov_{41,}$ obtained from Aggarwal et al. (2011). While Gov_{41} is available for only a subsample of 5,881 firm-years, we confirm our findings that greater expected managerial entrenchment is associated with more votes cast against management's recommendations for director elections. The results are even stronger economically than for the *Insider Control* measure presented in model 1; a one standard deviation decrease in Gov_{41} (0.105) is associated with a 42.5% increase in voting against management's recommendation for director-related agenda items (computed as -30.765 × -0.105 / 7.597). Turning to other variables in the regression models, only the coefficient on *Market-to-book* is negative and significant in each model, indicating that institutional investors vote against directors more frequently when a firm's growth prospects are lower, a result also consistent with using the voting process to express governance concerns.

Taken together, the results in Table 4 show that, across a broad set of countries, institutional shareholders cast "against" votes more frequently in firms with higher levels of managerial entrenchment, providing support for the notion that shareholders are voting in a manner consistent with exercising governance.

"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.

[16] For robustness we use a threshold measure of *Insider Control* that equals one if a firm's *Insider Control* is larger than the sample median value of *Insider Control*, and zero otherwise. This alternative measure of *Insider Control* is positively and significantly (p-value < 0.01) associated with voting against management, confirming our findings.

4.3. Interaction: Firm-level Managerial Entrenchment and Country-level Investor Protection

Our results so far document that country-level investor protection and firm-level managerial entrenchment each matter for the exercise of corporate governance via voting. In our next set of tests, we examine the interaction between firm- and country-level agency problems. Greater protection of minority shareholders at the country level reduces the private benefits of control and thus might lessen the need to consider firm-level managerial entrenchment when exercising corporate governance (Aggarwal, Erel, Stulz, and Williamson (2010)). This premise also implies that investors would be more concerned with managerial entrenchment when country institutions are weak, and would thus be especially interested in shaping the governance of such firms. On the other hand, Bergman and Nicolaievsky (2007) and Doidge, Karolyi, and Stulz (2007) argue that in poor investor-protection countries, firm-level mechanisms to commit to improved governance are either not available or are prohibitively expensive. Under this line of reasoning, U.S. institutions may not vote differently for firms from weak investor-protection countries that appear to have entrenched managers because there is no reasonable way that this entrenchment could somehow be changed.

To empirically test the relation between firm- and country-level expected agency problems and *Voting Against*, we re-estimate our previous regressions, partitioning observations in subsamples based on our six country-level investor protection measures. The weak investor protection subsamples are comprised of *Civil Law* or *French/Socialist Legal Origin* countries, or those countries that score below the sample country median for *Legal, Disclosure, Shareholder Suits Index*, or *Efficiency of Judicial System*. By estimating

subsample models, we allow for differences in all coefficients across the two subsamples and also control for country fixed effects.

Table 5 presents the results of these subsample partitions. In Panel A we find that *Insider Control* is positively and significantly related to *Voting Against* for the weak investor protection subsamples. The coefficients range between 3.900 and 8.614 and are comparable to the estimated coefficient in the full sample model reported in Table 4. Panel B of Table 5 reports results for the strong investor protection subsamples. This panel shows that *Insider Control* is also positively and significantly related to *Voting Against* in all subsamples. The coefficients range between 5.396 and 6.508, suggesting that firm-level entrenchment also matters for voting decisions in firms from countries with strong investor protection. When we test for statistical significance across subsamples, the *Insider Control* coefficients in all models are not significantly different (all *p*-values are greater than 0.10) between the weak and strong protection subsamples.[17]

Overall, the Table 5 results suggest that the effect of firm-level managerial entrenchment on shareholder votes cast against directors is independent of country-level institutions.[18] That is, shareholders challenge entrenched managers both in countries with weak *and* strong investor-protection institutions.

[17] The significance level is based on 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, and zero otherwise. Again, standard errors are clustered at the country/industry group level.

[18] In alternative specifications, we replace *Insider Control* with Gov_{41} and re-estimate the regressions for the different subsamples (not tabulated for brevity). Because the Gov_{41} index variable is available for relatively few firms, generally the largest ones from strong investor-protection countries, the weak protection subsamples have a relatively low number of observations (for example, out of 5,580 firms, 471 firms are domiciled in countries with a low *Legal* score). Nevertheless, these tests also show that there is significantly greater voting against directors when Gov_{41} is worse in both weak and strong investor protection countries.

4.4. The Importance of Shareholder Voting: Does it Matter for Director Turnover?

In this section, we assess whether outside shareholder voting matters by linking the voting patterns for director elections to director turnover.

We obtain data on director positions from Thomson Reuters ONE Banker, which provides termination dates for directors for a large number of Thomson Reuters Worldscope firms. We use this information to calculate the number of directors of a particular firm that leave the board of directors (*Director Turnover*), over the time period from one annual meeting to the next annual meeting as in Fischer et al. (2009).[19] We are able to collect directors' data for 7,304 firms, resulting in a total of 19,692 firm-year observations. The average number of directors turned over each year is 1.09 with a standard deviation of 1.54 directors.

To test whether U.S. institutional investors' voting impacts director turnover, we use regression specifications similar to Lel and Miller (2008), Fischer et al. (2009), Cai et al. (2009), and Aggarwal et al. (2011). Specifically, since the dependent variable *Director Turnover* is a count variable, we run Poisson regressions of *Director Turnover* on *Voting Against* measured as the percentage of votes cast against management's proposals on director elections. We control for firm-level managerial entrenchment, firm size, and firm performance. As before, we measure managerial entrenchment with *Insider Control* and alternatively with the Governance Index (Gov_{41}). We proxy for firm size with *Log (Market capitalization)*, and use *Profitability* (net income plus interest expenses to total assets) and *Excess Stock Return* (the difference between a firm's annual stock return and the annual

[19] In contrast to data on when directors leave the board, director hiring dates are often missing so it is not possible to compute the total number of board members. Thus, while we can compute a count measure of board turnover, we cannot compute the percentage of directors turned over each year.

return on the stock market index of its country) to control for past performance (see Lel and Miller (2008), Fischer et al. (2009), and Aggarwal et al. (2011)).

Table 6 reports the results. The first three columns show that voting against management for director elections is positively and statistically significantly associated with the number of directors that are turned over each year. This result provides evidence that the votes cast by U.S. institutions do indeed matter. We obtain this result when we use no firm-level entrenchment control (model 1) and when we use *Insider Control* and Gov_{41} in models 2 and 3, respectively. In terms of economic significance, the coefficient of 0.227 on *Voting Against* in model 2 implies a 4.8% increase in director turnover for a one standard deviation increase in *Voting Against*, using marginal effects. Alternatively, going from the median of the first quintile to the median of the fifth quintile of *Voting Against* leads to a 5.8% increase in turnover, all things equal.

It is also helpful to gauge the economic significance of these results on the effect of voting by comparing them to the sensitivity of board turnover to poor firm performance since, as discussed earlier, turnover to performance sensitivity is argued to be a first-order outcome demonstrating good corporate governance. The coefficient on *Profitability* of -1.204 in model 2 implies a 13.9% increase in director turnover for a one standard deviation decrease in *Profitability*, holding all other variables constant.[20] Therefore, our results suggest that voting against management's wishes on director elections results in director turnover that is approximately 35% as large as the impact attributable to poor performance. Collectively, we conclude that votes cast against directors are economically meaningful for our sample of non-U.S. firms.

[20] Yermack (2004) finds for U.S firms that a one standard deviation decrease in performance leads to a slightly less than 20% increase in director turnover on a base of unconditional director turnover of 4.6% per year.

While the previous turnover tests control for firm performance, we also use the method employed in Cai et al. (2009) to verify that our results are still not in part driven by firm performance. Specifically, we estimate a regression of *Voting Against* on prior year industry-adjusted *Profitability* and *Excess Stock Return*, as well as industry, country, and year dummies. We use the residual from this regression, *Residuals of Voting Against*, as the dependent variable of interest in models 4, 5 and 6. Using the residual measure of shareholder voting against management does not change our results from Table 6. Thus, shareholder voting again has an independent effect over and above the negative votes motivated by poor performance.

Finally, we test whether shareholder voting has a different association with director turnover for firms domiciled in countries with weak versus strong investor protections. We estimate the same Poisson regressions as in model 2 of Table 6 for different subsamples partitioned on the six country-level governance measures: *Civil Law*, *French/Socialist Legal Origin*, *Legal*, *Disclosure*, *Shareholder Suits Index*, and *Efficiency of Judicial System*. As in earlier tests, the weak investor protection subsamples are *Civil Law* or *French/Socialist Legal Origin* countries, or those that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, or *Efficiency of Judicial System*.

Panel A of Table 7 reports the results for the weak protection subsamples. Across all subsamples the coefficient on *Voting Against* is positively and significantly associated with director turnover. The magnitude of the coefficients range from 0.205 to 0.311 and are on average bigger than the coefficient reported for the full sample in model 2 of Table 6. In Panel B of Table 7 we document the same positive relation between *Voting Against* and director turnover for countries with strong investor protections. The coefficients on *Voting*

Against are slightly smaller and less significant in the strong protection subsamples. Across all the different measures, however, the differences in the *Voting Against* coefficients between the two types of countries are not statistically significant at customary levels (i.e., *p*-values of less than 0.10). Thus, our findings show that across a number of measures of investor protection laws, voting matters for director turnover in countries with weak and strong legal institutions.

Overall, Table 6 provides evidence that voting against directors has real effects on firms' board of directors for firms across the world. Greater voting against management's recommendations regarding director elections is associated with a greater number of directors that exit the board. Further, Table 7 shows that shareholder voting is an important governance mechanism in countries with both weak and strong investor protections.

5. Additional Analyses

5.1. Fund Holdings

Our analysis does not control for the holdings that each of the U.S. institutional investors have in our sample firms. Holdings may be important if these investors spend more effort collecting information and opposing management when they have a larger stake in a particular firm. However, given that these investors already have a mandatory fiduciary duty (SEC final rule 33-8188) to vote shares they hold in the best interest of their clients, they should be fulfilling these duties regardless of the amount they hold in a particular firm.

In this section, we assess, to the best of our ability, whether the size of a fund's holdings in a firm might play a role in voting patterns. One database that collects fund holdings is the Thomson-Reuters Institutional Holdings (13F) Database. Unfortunately, this

database collects holdings only if the funds report a portfolio firm's CUSIP number, which would only be available for foreign firms that at some point were traded in the U.S. Given that only a small proportion of non-U.S. equities trade on U.S. exchanges either as ADRs or directly listed shares, the Thomson database does not help us identify the institutional holdings of our sample firms.

An alternative data source is the CRSP Mutual Fund database. This dataset covers mutual fund holdings in foreign firms with and without CUSIP numbers beginning in the year 2009. While this dataset includes both U.S.- and foreign-listed securities, it is only available for one year of our sample. Using this limited sample based on the CRSP Mutual Fund database, we test whether U.S. mutual fund holdings affect the way mutual funds vote in foreign firms' elections. Consistent with the notion that funds have a fiduciary duty towards their investors, we do not find evidence that a fund's holdings is significantly related to how the fund votes its shares in a foreign firm. Given the small subset of data we have, this result should not be considered conclusive.

5.2. Other Voting Categories

As noted earlier, we study director election votes because they are by far the biggest and most important voting category and much research has been done on director elections for U.S. firms which allows us to benchmark our results against such studies. However, the ISS Voting Analytics database compiles shareholder votes for all agenda items at a firm's shareholder meetings, not just those relating to directors. As such, it may be informative to assess the importance of these other types of votes. To do so, we create a similarly constructed variable that measures the percentage of all votes that go against the

management's recommendations, excluding the votes for director elections we have used in previous tests. As with director votes, we measure *Voting Against* as the sum of "Against", "Withhold", and "Abstain" votes divided by all "For", "Against", "Withhold", and "Abstain" votes.[21] In total, there are 21,414 firm-year observations of which on average 13.3% votes are cast against management's recommendations.

Using the same regression models as before, we find that on the country level, shareholders also vote more against management on other agenda items when legal institutions are weak. This holds for 3 of the 6 country-level investor protection measures: civil-law dummy, the shareholder suits index, and the efficiency of a country's legal system. On the firm level, we find that *Insider Control* is significantly positively associated with voting against management's recommendations while Gov_{41} has a significant and negative association. Also, as before, when we split our observations into samples of high and low investor protection countries, we find that the coefficients on *Insider Control* (Gov_{41}) are positively (negatively) related to *Voting Against* in each investor protection subsample and that there is no overall difference in these coefficients across subsamples.[22]

This additional voting measure confirms our findings for director elections. Shareholders exercise their right to vote in a meaningful way and challenge management more often when country investor protection is low and when agency costs at the firm level are expected to be high.

[21] Our results do not change if we include shareholder proposals (0.9% of the votes).

[22] These results are robust to the exclusion of votes on routine business items, which account for 44.5% of all non-director votes.

5.3. Two-tier Board Structures

Instead of the traditional U.S.-style board of directors, some international firms, especially firms from countries relying on German corporate law, have a two-tier board structure. That is, these firms have two boards of directors, a management board as well as a supervisory board. To ensure that our results are not driven by such firms with a two-tier board structure, we run the following additional robustness checks. First, we exclude firms from countries for which more than 50% of director election votes are cast on agenda items that ISS classifies as pertaining to either a "management board" or a "supervisory board." By doing so, we exclude the following countries: Austria, Bulgaria, Czech Republic, Germany, Poland, Portugal, and Slovenia. Excluding these countries does not change our results. Specifically, poor country-level investor protection and greater managerial entrenchment are each related to greater voting against directors; further voting against management in director elections is positively and significantly related to director turnover. As a second test, we exclude all votes cast on management board and supervisory board agenda items, and again, our results are confirmed.[23]

6. Conclusion

This study examines the votes cast by U.S. institutional investors for director elections, as well as subsequent director turnover, in 7,975 companies across 42 countries over the years 2003-2009. We investigate two questions that are fundamental to the exercise of corporate governance through the shareholder voting process: (1) Do outside shareholders

[23] In fact, even when we investigate only the firms with votes on management board and supervisor board agenda items, which reduces our sample to 1,167 firm-year observations, we find a positive and marginally significant relation between voting against directors and director turnover.

vote as though they are exercising governance?, and (2) Do the votes they cast have a governance-related outcome?

Our results on the first question show that both the firm- and country-level investor protection environment influences the voting patterns of outside shareholders. At the country level, weak legal institutions (civil law legal origin countries), low levels of corporate disclosure, and weak shareholder protection laws and enforcement result in significantly higher levels of votes cast against directors. At the firm level, proxies for managerial entrenchment also influence the likelihood that investors vote against directors. Moreover, we find that the relation between managerial entrenchment and voting against directors is prevalent in both strong and weak investor protection countries. These results suggest that outside shareholders vote as though they are exercising governance.

Our results on the second question show that greater voting against directors is associated with a significantly higher number of directors that exit the board over the following year. Further, this result obtains even after we use several methods to control for prior poor performance of a firm. These findings suggest that the votes outside shareholders cast actually have a governance-related outcome.

Taken together, we find clear and compelling evidence that a large and important bloc of equity investors does indeed find voting to be a fruitful mechanism for exercising corporate governance in the non-U.S. firms that they hold. Our results thus have implications for stock exchanges and regulators around the world. Specifically, institutional reforms that enhance the ability of shareholders to vote should be welcome, and are likely to be value enhancing. Such reforms could include mechanisms that disallow, or make more difficult, the issuance or retention of non-voting equity shares in firms' capital structures, or agreements that

standardize the voting process so that global investors can avoid confusion and inefficiency when casting their votes.

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Table 1
Country Distribution

The table reports descriptive statistics by countries. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The variable is calculated as the sum of "Against", "Withhold", and "Abstain" votes divided by the sum of "For", "Against", "Withhold", and "Abstain" votes. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX.

Country	Number of Observations	Number of Firms	Average of Voting Against
Argentina	15	11	4.3%
Australia	1,241	497	13.5%
Austria	148	49	9.5%
Belgium	127	47	11.4%
Brazil	242	134	12.5%
Canada	1,313	549	8.8%
Chile	77	44	12.2%
China	535	246	12.1%
Czech Republic	21	6	17.4%
Denmark	163	47	8.3%
Egypt	21	10	20.4%
Finland	151	63	4.2%
France	453	219	19.6%
Germany	697	234	5.5%
Greece	75	36	17.6%
Hong Kong	1,369	475	18.0%
Hungary	27	7	13.8%
India	927	425	7.0%
Indonesia	214	78	13.1%
Ireland	166	53	6.1%
Israel	208	86	15.6%
Italy	150	86	16.7%
Japan	5,365	1,491	9.2%
Luxembourg	26	12	11.4%
Malaysia	629	256	7.7%
Mexico	48	38	8.5%
Netherlands	297	99	8.8%
New Zealand	150	51	4.5%
Norway	184	65	8.0%
Philippines	152	51	8.3%
Poland	115	41	8.2%
Portugal	61	20	17.3%
Russia	49	29	31.2%
Singapore	527	207	13.3%
South Africa	315	140	9.2%
South Korea	805	327	8.6%
Spain	393	120	9.4%
Sweden	394	118	5.4%
Switzerland	272	101	7.7%
Taiwan	476	319	15.2%
Thailand	388	136	12.8%
United Kingdom	2,646	952	4.9%
Total	21,632	7,975	7.6%

Table 2
Summary Statistics

The table reports summary statistics. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The variable is calculated as the sum of "Against", "Withhold", and "Abstain" votes divided by the sum of "For", "Against", "Withhold", and "Abstain" votes. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database compiled from SEC Form N-PX. *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. The governance index (Gov_{41}) includes 41 governance attributes for the categories board, audit, anti-takeover provisions, compensation, and ownership. It ranges from 0 to 1, with higher values indicating better governance. The index is obtained from Aggarwal, Erel, Ferreira, and Matos (2011) and is available for a subsample of our firms for the years 2004-2008. Data for the remaining firm-level variables are from Worldscope. *Market Capitalization* is the market capitalization of equity in billions of US$. *Total Assets* is measured in billions of US$. *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. *Civil Law* is a dummy variable that equals one for countries with civil law legal origin, and zero otherwise. *French/Socialist Legal Origin* is a dummy variable equal to one if the firm is domiciled in a country with French or Socialist legal origin, and zero otherwise. *Legal* is the product of anti-director rights index and rule of law (Doidge, Karolyi, and Stulz (2007), Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Disclosure* measures average firm-level disclosures concerning research and development expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods (Bushman, Piotrowski, and Smith (2004)). *Shareholder Suits Index* is a measure of the powers of shareholders to challenge self-dealing transactions, with higher values indicating greater shareholder power to challenge related-party transactions (Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Efficiency of Judicial System* is an assessment of the "efficiency and integrity of the legal environment as it affects business" produce by the country risk rating agency Business International Corp. It "may be taken to represent investors' assessment of conditions in the country of questions" (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)). The sample consists of 7,975 distinct international firms. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period.

Variables	Mean	SD	N
Voting Against	7.597	19.530	21,632
Market Capitalization	6.880	1.639	21,632
Total Assets	7.283	1.913	21,632
Leverage	0.216	0.183	21,632
Market-to-book	2.478	2.539	21,632
Profitability	0.056	0.106	21,632
Cross-list	0.077	0.267	21,632
Insider Control	0.388	0.237	21,632
Gov_{41}	0.455	0.105	5,881
Civil Law	0.251	0.434	21,632
French/Socialist Legal Origin	0.143	0.350	21,632
Legal	3.201	0.798	19,127
Disclosure	92.555	13.369	20,645
Shareholder Suits Index	7.087	1.458	21,627
Efficiency of Judicial System	9.018	1.694	20,859

Table 3
Voting Against Management's Proposals and Country-level Investor Protection

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year (*Voting Against*). 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 over the 2002 to 2009 period. *Civil Law* is a dummy variable that equals one for countries with civil law legal origin, and zero otherwise. *French/Socialist Legal Origin* is a dummy variable equal to one if the firm is domiciled in a country with French or Socialist legal origin, and zero otherwise. *Legal* is the product of an anti-director rights index and a rule of law index (Doidge, Karolyi, and Stulz (2007), Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Disclosure* measures average firm-level disclosures concerning research and development expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods (Bushman, Piotrowski, and Smith (2004)). *Shareholder Suits Index* is a measure of the powers of shareholders to challenge self-dealing transactions, with higher values indicating greater shareholder power to challenge related-party transactions (Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Efficiency of Judicial System* is an assessment of the "efficiency and integrity of the legal environment as it affects business" produce by the country risk rating agency Business International Corp. It "may be taken to represent investors' assessment of conditions in the country of questions" (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)). All other variables are described in Table 2. All time-varying independent variables are measured at the end of the fiscal year preceding the shareholder meeting. Indicator variables for years and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *t*-test of equality with zero is reported in parentheses.

	Voting Against					
	(1)	(2)	(3)	(4)	(5)	(6)
Civil Law	6.726					
	(0.00)					
French/Socialist Legal Origin		7.446				
		(0.00)				
Legal			-2.718			
			(0.00)			
Disclosure				-0.101		
				(0.00)		
Shareholder Suits Index					-1.577	
					(0.00)	
Efficiency of Judicial System						-1.098
						(0.00)
Log (Market capitalization)	-0.598	-0.479	-0.350	-0.245	-0.429	-0.221
	(0.00)	(0.00)	(0.08)	(0.18)	(0.01)	(0.23)
Leverage	1.323	1.781	1.974	2.647	1.705	2.034
	(0.23)	(0.11)	(0.14)	(0.04)	(0.13)	(0.09)
Market-to-book	-0.060	-0.062	-0.020	-0.043	-0.111	-0.055
	(0.42)	(0.42)	(0.80)	(0.59)	(0.14)	(0.49)
Profitability	2.003	2.039	-0.389	0.350	2.113	0.434
	(0.18)	(0.19)	(0.84)	(0.83)	(0.19)	(0.80)
Cross-list	-0.369	-0.781	-0.500	-0.043	-0.393	-0.235
	(0.61)	(0.30)	(0.52)	(0.96)	(0.59)	(0.75)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.04	0.04	0.03	0.03	0.04	0.03
Observations	21,632	21,632	19,127	20,645	21,627	20,859

Table 4
Voting Against Management's Proposals and Firm-level Managerial Entrenchment

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year (*Voting Against*). 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 over the 2002 to 2009 period. *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. The governance index (Gov_{41}) includes 41 governance attributes for the categories board, audit, anti-takeover provisions, compensation, and ownership. It ranges from 0 to 1, with higher values indicating better governance. The index is obtained from Aggarwal, Erel, Ferreira, and Matos (2011) and is available for a subsample of our firms for the years 2004-2008. All other variables are described in Table 2. All time-varying independent variables are measured at the end of the fiscal year preceding the shareholder meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *t*-test of equality with zero is reported in parentheses.

	Voting Against	
	(1)	(2)
Insider Control	5.720	
	(0.00)	
Gov_{41}		-30.765
		(0.00)
Log (Market Capitalization)	-0.227	-0.513
	(0.19)	(0.06)
Leverage	0.985	2.352
	(0.32)	(0.14)
Market-to-book	-0.180	-0.178
	(0.01)	(0.08)
Profitability	0.226	4.357
	(0.89)	(0.21)
Cross-list	-0.040	-0.949
	(0.95)	(0.21)
Year Dummies	Yes	Yes
Country Dummies	Yes	Yes
Industry Dummies	Yes	Yes
Adjusted R^2	0.10	0.13
Observations	21,632	5,881

Table 5
Voting Against Management's Proposals and Interaction of Firm-level Managerial Entrenchment and Country-level Investor Protection

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year (*Voting Against*). 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 over the 2002 to 2009 period. Panels A and B reports results for subsamples based on our six country-level investor protection measures. The weak investor protection subsamples (Panel A) are *Civil Law* or *French/Socialist Legal Origin* countries, or those that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, or *Efficiency of Judicial System*. Strong investor protection subsample results are reported in Panel B. All other variables are described in Table 2. 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. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *t*-test of equality with zero is reported in parentheses.

Panel A: Weak Investor Protection

	Voting Against					
	Civil Law	French/Socialist Legal Origin	Legal	Disclosure	Shareholder Suits Index	Efficiency of Judicial System
	(1)	(2)	(3)	(4)	(5)	(6)
Insider Control	5.939	6.398	8.614	3.900	6.758	7.423
	(0.00)	(0.04)	(0.00)	(0.10)	(0.00)	(0.00)
Log (Market Cap)	-0.285	-0.068	0.195	0.306	-0.440	-0.100
	(0.45)	(0.89)	(0.67)	(0.38)	(0.27)	(0.82)
Leverage	2.643	5.057	-1.186	1.066	3.577	1.285
	(0.20)	(0.12)	(0.62)	(0.66)	(0.12)	(0.65)
Market-to-book	-0.131	-0.340	-0.263	-0.268	-0.080	-0.240
	(0.29)	(0.04)	(0.08)	(0.05)	(0.52)	(0.07)
Profitability	1.488	11.919	0.551	0.894	0.278	1.097
	(0.72)	(0.07)	(0.94)	(0.83)	(0.95)	(0.85)
Cross-list	1.058	0.430	0.746	1.181	1.550	0.244
	(0.44)	(0.82)	(0.70)	(0.52)	(0.31)	(0.90)
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	0.14	0.13	0.12	0.08	0.14	0.12
Observations	5,431	3,098	4,467	5,394	4,522	4,978

Panel B: Strong Investor Protection

	Voting Against					
	Civil Law	French/Socialist Legal Origin	Legal	Disclosure	Shareholder Suits Index	Efficiency of Judicial System
	(1)	(2)	(3)	(4)	(5)	(6)
Insider Control	5.396	5.408	5.793	6.508	5.402	5.479
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Log (Market Cap)	-0.225	-0.242	-0.391	-0.405	-0.166	-0.226
	(0.25)	(0.19)	(0.07)	(0.05)	(0.39)	(0.24)
Leverage	0.210	0.443	1.626	1.614	0.196	0.973
	(0.85)	(0.66)	(0.16)	(0.15)	(0.86)	(0.33)
Market-to-book	-0.178	-0.162	-0.161	-0.156	-0.182	-0.153
	(0.02)	(0.02)	(0.04)	(0.04)	(0.02)	(0.04)
Profitability	0.097	-0.565	-0.203	0.110	0.103	-0.488
	(0.96)	(0.75)	(0.92)	(0.95)	(0.95)	(0.79)
Cross-list	-0.410	-0.071	-0.323	-0.268	-0.516	0.057
	(0.53)	(0.90)	(0.61)	(0.69)	(0.42)	(0.92)
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	0.05	0.07	0.08	0.11	0.07	0.06
Observations	16,201	18,534	14,660	15,251	17,105	15,881

Table 6
Director Turnover and Voting Against Management's Proposals for Director Elections

The table reports Poisson regression estimates of director turnover on the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The dependent variable, *Director Turnover*, is the number of directors that leave the board of directors from one annual meeting to the next annual meeting. The director data are from Thomson Reuters ONE Banker. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections 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. *Residuals of Voting Against* are the residuals of a regression of *Voting Against* on industry-adjusted *Profitability* and *Excess Stock Return*, as well as industry, country, and year dummies. *Excess Stock Return* is the difference between a firm's annual stock return and the annual return on the stock market index of its country. All other variables are described in Table 2. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years over the 2002 to 2009 period. 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. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *z*-test of equality with zero is reported in parentheses.

	Director Turnover					
	(1)	(2)	(3)	(4)	(5)	(6)
Voting Against	0.196	0.227	0.203			
	(0.00)	(0.00)	(0.09)			
Residuals of Voting Against				0.210	0.227	0.203
				(0.00)	(0.00)	(0.09)
Insider Control		0.032			0.032	
		(0.54)			(0.54)	
Gov_{41}			-0.311			-0.311
			(0.35)			(0.35)
Log (Market Capitalization)		0.119	0.083		0.119	0.083
		(0.00)	(0.00)		(0.00)	(0.00)
Profitability		-1.204	-1.431		-1.205	-1.433
		(0.00)	(0.00)		(0.00)	(0.00)
Excess Stock Return		-0.123	-0.104		-0.122	-0.103
		(0.00)	(0.02)		(0.00)	(0.02)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Log Pseudolikelihood	-29,799	-27,727	-8,567	-28,108	-27,727	-8,567
Observations	19,692	18,413	5,356	18,413	18,413	5,356

Table 7
Director Turnover and Voting Against Management's Proposals for Director Elections: Country Splits

The table reports Poisson regression estimates of director turnover on the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The dependent variable, *Director Turnover*, is the number of directors that leave the board of directors from one annual meeting to the next annual meeting. The director data are from Thomson Reuters ONE Banker. Panels A and B reports results for subsamples based on our six country-level investor protection measures. The weak investor protection subsamples (Panel A) are *Civil Law* or *French/Socialist Legal Origin* countries, or those that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, or *Efficiency of Judicial System*. Strong investor protection subsample results are reported in Panel B. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections 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. *Excess Stock Return* is the difference between a firm's annual stock return and the annual return on the stock market index of its country. All other variables are described in Table 2. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years over the 2002 to 2009 period. 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. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *z*-test of equality with zero is reported in parentheses.

Panel A: Weak Investor Protection

	Director Turnover					
	Civil Law	French/ Socialist Legal Origin	Legal	Disclosure	Shareholder Suits Index	Efficiency of Judicial System
	(1)	(2)	(3)	(4)	(5)	(6)
Voting Against	0.228	0.205	0.311	0.301	0.267	0.290
	(0.00)	(0.05)	(0.00)	(0.01)	(0.00)	(0.00)
Insider Control	0.045	-0.112	0.213	0.127	0.115	0.116
	(0.64)	(0.43)	(0.09)	(0.27)	(0.29)	(0.31)
Log (Market Cap)	0.097	0.111	0.128	0.118	0.120	0.133
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Profitability	-1.158	-1.305	-1.368	-1.553	-1.464	-1.210
	(0.00)	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)
Excess Stock Return	-0.044	-0.050	-0.111	-0.090	-0.064	-0.092
	(0.32)	(0.41)	(0.01)	(0.02)	(0.20)	(0.02)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Log Pseudolikelihood	-6,143	-3,513	-5,723	-6,922	-5,099	-6,689
Observations	3,726	2,176	3,543	4,637	3,127	4,132

Panel B: Strong Investor Protection

	Director Turnover					
	Civil Law	French/ Socialist Legal Origin	Legal	Disclosure	Shareholder Suits Index	Efficiency of Judicial System
	(1)	(2)	(3)	(4)	(5)	(6)
Voting Against	0.142	0.219	0.174	0.189	0.151	0.137
	(0.17)	(0.01)	(0.02)	(0.01)	(0.11)	(0.06)
Insider Control	0.040	0.066	-0.040	-0.025	0.015	-0.031
	(0.51)	(0.23)	(0.50)	(0.68)	(0.80)	(0.59)
Log (Market Cap)	0.126	0.121	0.114	0.112	0.118	0.107
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Profitability	-1.240	-1.208	-1.015	-1.011	-1.165	-1.097
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Excess Stock Return	-0.148	-0.135	-0.153	-0.154	-0.138	-0.141
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Country Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Log Pseudolikelihood	-21,466	-24,160	-19,027	-19,538	-22,574	-20,056
Observations	14,687	16,237	12,702	13,077	15,286	13,745