

# Director Elections and the Influence of Proxy Advisors

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## **Abstract**

Using a dataset of elections involving directors at S&P 1500 companies and proxy recommendations from Institutional Shareholder Services (ISS), Proxy Governance, Glass Lewis, and Egan Jones for 2005 and 2006, we report that the four major proxy advisory firms follow significantly different factors in determining their recommendations. The four advisory firms also differ in their coverage of S&P 1500 firms. At the top end, Glass Lewis provided a recommendation for 98.0% of the directors of a S&P 1500 company in our sample; Proxy Governance, in contrast provided a recommendation for only 33.9% of the directors. We also provide evidence that the influence of the proxy advisory firms may be overstated. We report that the presence of a recommendation from ISS does not significantly affect the weight investors give to a wide variety of factors that influence the for vote outcome in a director election. Our evidence is consistent with the view that ISS, rather than providing independent information to investors, aggregates information on existing factors that investors find important in determining how to vote in director elections.

## 1. Introduction

Mutual funds, as a whole, are the largest owner of U.S. common stock. As of the end of 2006, mutual funds owned 28% of the equity of domestic companies.<sup>1</sup> As a result, they command substantial voting power.

Shareholder activists have long criticized mutual funds for failing to exercise this voting power in the interests of their beneficiaries and, instead, voting in favor of management.<sup>2</sup> Some critics claimed that mutual funds supported management in an effort to curry favor with management in order to obtain business advantages such as the management of the company's 401K plan. Others describe mutual funds as apathetic and unformed.

In 2003, responding to the concern that a variety of conflicts of interest could influence mutual fund voting, the SEC adopted Rule 30b1-4 under the Investment Company Act, requiring that funds disclose their complete voting records annually.<sup>3</sup> The SEC also required funds to develop voting policies and procedures designed to ensure that the fund's voting power is exercised in the best interests of its beneficiaries, including policies for addressing conflicts of interest. Funds were required to make these disclosures, covering the preceding 12 month period, no later than August 31, 2004.

Disclosure occurred for the first time in connection with the 2003-2004 proxy season.

The requirement that mutual funds disclose their votes and voting policies, and that mutual funds exercise their voting rights in the best interest of fund beneficiaries,

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<sup>1</sup> Flow of Funds tables. For our purposes, the term mutual funds includes open-end and closed-end funds as well as exchange traded funds.

<sup>2</sup> See e.g. Letter dated Nov. 27, 2001, from Amy Domini, Founder Domini Funds to Harvey Pett, Chair Securities & Exchange Commission avail. at [http://www.domini.com/about-domini/News/Press-Release-Archive/Proxy-Voting-Ltr-to-SEC-12-01.doc\\_cvt.htm](http://www.domini.com/about-domini/News/Press-Release-Archive/Proxy-Voting-Ltr-to-SEC-12-01.doc_cvt.htm) (urging required disclosure of mutual fund votes).

<sup>3</sup> Disclosure of Proxy Voting Policies and Proxy Voting Records By Registered Management Investment Companies, Investment Company Act Release No. 25922, 17 C.F.R. 239, 249, 270, 274 (Jan.31, 2003).

created a new and powerful demand for professional voting advisory services – services that would assist institutional investors in formulating voting guidelines, researching proxy issues, and determining how to vote their shares.<sup>4</sup> This demand was fueled by increased institutional investor activism and a growing focus on shareholder voting.

Proxy advisory firms had their start in the mid-1980s. Institutional Shareholder Services (n/k/a RiskMetrics) (ISS) was founded in 1985 and started its proxy advisory service for institutional investors in 1986.<sup>5</sup> Initially several firms competed to provide proxy advisory services.<sup>6</sup> In 2001, as the result of a series of mergers and acquisitions, Institutional Shareholder Services emerged as the proxy advisory firm to provide vote recommendations to investors.<sup>7</sup>

After the amendments to the Investment Company Act, several new proxy advisory firms entered the market. Glass Lewis (GL) and Egan-Jones (EJ) began providing voting recommendations in 2003. Two years later, in 2005, Proxy Governance (PGI) began to provide recommendations. A fifth proxy advisor, CtW Investment Group,

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<sup>4</sup> See, e.g. Proxy Governance, Proxy Governance History <http://www.proxygovernance.com/content/pgi/content/history.shtml> (describing development of proxy advisory services as “encouraged by a developing regulatory environment that would expand the market for proxy advisory and voting services”).

The Department of Labor had previously taken several steps to encourage mutual funds to vote shares in their portfolio companies responsibly. In 1988, the Department advised fund managers that it is “important that plan sponsors cast their votes in ways that benefit and/or defend the interests of plan participants.” (Avon Advisory Letter, Department of Labor 1988). The Department reinforced this position in 1990 (Monks Advisory Letter, Department of Labor 1990), and then formalized its policies in an interpretive bulletin in 1994. (Department of Labor Interpretive Bulletin, 29 CFR 2509.94-2—“Interpretive bulletin relating to writing statements of investment policy, including proxy voting guidelines, July 29, 1994). Prior to the SEC’s rule change in 2004, however, these efforts did not receive extensive attention. Clifton Petty, Gathering Strength: The Reinforcement of Fiduciary Responsibility for Proxy Voting, 4 Pension Consultants, Inc. White Paper Series, October 3, 2004.

<sup>5</sup> See RiskMetrics Group Company History, avail. at <http://www.issproxy.com/about/history.html> (last visited Feb. 7, 2008). ISS was acquired by RiskMetrics in 2007. Id.

<sup>6</sup> See, e.g., Group Acquires Stake in Proxy Monitor, Wall St. J., June 10, 1998, at A8 (reporting that two former ISS officers joined Proxy Monitor in 1996 “to challenge the industry leaders,” including ISS); Mark Thomson, Proxy Monitor Buys ISS, Sustainability Investment News, Aug. 13, 2001, avail. at <http://www.socialfunds.com/news/article.cgi/648.html> (describing proxy advisory firms and their services as of 2001).

<sup>7</sup> Thomson, supra note \_\_.

was organized in February 2006 and provides a limited number of recommendations to union pension funds.<sup>8</sup> The advisors differ along several dimensions including the number of issuers they cover, the information used in formulating their recommendations, the other services that they provide to investor clients, and the extent to which they provide consulting services to issuers.

Most institutional investors subscribe to one or more proxy advisors. ISS is the dominant player in the market with over 2700 corporate and institutional subscribers. A subscription entitles a client to the advisor's voting recommendations as well as a report detailing the underlying research and analysis on which those recommendations are based. In addition, institutional investors may also engage a proxy advisory firm to assist in the development of the institution's voting guidelines, to provide issuer-specific research and to handle the mechanical process of voting the institution's shares. Proxy advisors often announce their recommendations to the public – usually in the form of a press release – but do not typically disclose the underlying report. ISS publicly discloses its recommendations on its website.

The growth of proxy advisory firms coupled with the growing equity ownership has raised a number of questions about their operations and influence. Because most institutions subscribe to proxy advisors, and some delegate voting authority to them, many observers regard them as very powerful. ISS, in particular, has been described as exercising “tremendous clout”,<sup>33</sup> wielding “extraordinary” influence,<sup>34</sup> getting “whatever

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<sup>8</sup> CTW's primary efforts are devoted to developing initiatives to support member pension fund activism. See <http://www.ctwinvestmentgroup.com/index.php?id=1>. A few other firms provide related services. Marco Consulting Group, for examples proxy voting services to Taft-Hartley funds. It does not, however, publicly issue voting recommendations. See <http://www.marcoconsulting.com/1.2.html>.

<sup>33</sup> Advisor ISS Puts Itself on Sale Could Fetch Up to \$500 Million, WSJ, Sep. 6, 2006, at C4.

[it] wants”,<sup>41</sup> and being able to sway to 30% of the vote.<sup>39</sup> Because proxy advisors are thought of as influential, issuers and challengers devote substantial effort to meeting with them and attempting to win their support.<sup>9</sup>

Some commentators have expressed concern about this influence. In particular, questions have been raised about the possibility that because of its corporate consulting, ISS is subject to conflicts of interest that influence the objectivity of its voting recommendations. These concerns take on added importance in light of changes in the voting standards for director elections. Historically, directors in most companies were elected by a plurality of the votes cast. Since most elections for directors are uncontested, with the number of nominees equal to the number of vacancies, it took just a single vote to get elected. As late as February 2006, 84% of S&P 500 companies employed plurality voting. By November 2007, that figure had declined to 34%, with 66% employing some form of majority voting, where nominees must receive more “for” votes than “withhold” votes. Majority voting requirements for the election of directors creates the opportunity for a “withhold” vote in an election to affect who sits on the board.

Other developments further compound these concerns. Hedge fund activism has resulting in an increased number of election contests. “Say on pay” proposals are

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<sup>34</sup> Robert D. Hershey, A Little Industry with a Lot of Sway on Proxy Votes, New York Times, Jan. 18, 2006.

<sup>41</sup> <http://blogs.bnet.com/ceo/?p=1100>

<sup>39</sup> <http://blogs.bnet.com/ceo/?p=1100>

<sup>9</sup> See, e.g., HP, Compaq merger now in hands of shareholder adviser, Reuters, Dec. 11, 2001, avail. at <http://www.rediff.com/money/2001/dec/11hp.htm> (detailing efforts by both sides to obtain ISS support in HP-Compaq merger vote)

increasing investor oversight over executive compensation. And proposed new NYSE rules would eliminate the right of brokers to vote stock held in their accounts for which they had not received voting instructions in uncontested director election.<sup>10</sup> Because discretionary broker votes typically are overwhelmingly cast for the board nominees, the proposed change in the NYSE rules will eliminate a large number of automatic “for” votes for the incumbent management’s slate of directors.

Concerns about the influence of ISS and the other proxy advisory firms are particularly salient given the rising percentage of equity securities held by institutional investors and, in particular, mutual funds. The overall percentage of institutional holdings has risen from 37% in 1990 to 60% in 2006, and the percentage for just mutual funds has risen from 5% to 28%. These investors are more likely to vote, more likely to receive voting advice from proxy advisors, and we suspect more likely to cast “withhold” votes than individual investors. Moreover, the success of the “withhold” campaign at the 2004 director election at The Walt Disney Company has shown investors the power of a large withhold vote, even if it is only symbolic. In that election, 45% of the votes were “withheld” from Disney’s CEO Michael Eisner. Although Eisner was elected to the board, the company announced five month later that he would retire in 2006.

In light of these concerns, understanding the role and influence of proxy advisors is critically important. This paper explores the basis for advisor recommendations. Focusing in particular on director “withhold” recommendations, we examine the factors that affect voting recommendations on director elections by proxy advisors and how these recommendations and other factors affect the outcome of these elections. This Article

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<sup>10</sup> In 2006, the NYSE submitted a proposed rule to the SEC that would have eliminated discretionary voting for director elections. Although the proposed rule was scheduled to become effective on January 1, 2008, to date, the SEC has not taken action on it.

will address a number of questions. What factors determine the recommendations made by these advisors? Do these firms engage in copycat behavior, largely issuing similar advice, or do their recommendations differ and, if so, how? How do these factors considered by advisors compare to those that affect shareholder votes? Is ISS, the firm with the largest market share in the proxy advisory business, as powerful as is sometimes claimed? How influential are the other proxy advisory firms, both in relation to ISS and absolutely? Do proxy advisors serve as rallying forces for shareholder opposition by otherwise complacent institutional investors, or do they (possibly due to conflicts) increase the support for incumbents? Are companies more responsive to precatory shareholder resolutions in order to avoid a large “withhold” vote?

Using a dataset of elections involving directors at S&P 1500 companies and proxy recommendations from ISS, PGI, GL, and EJ for 2005 and 2006, we report that the four major proxy advisory firms follow significantly different factors in determining their recommendations. The four advisory firms also differ in their coverage of S&P 1500 firms. At the top end, GL provided a recommendation for 98.0% of the directors of a S&P 1500 company in our sample; PGI, in contrast provided a recommendation for only 33.9% of the directors. We also provide evidence that the influence of the proxy advisory firms may be overstated. We report that the presence of a recommendation from ISS does not significantly affect the weight investors give to a wide variety of factors that influence the for vote outcome in a director election. Our evidence is consistent with the view that ISS, rather than providing independent information to investors, aggregates information on existing factors that investors find important in determining how to vote in director elections.

## **2. Prior Work**

Several articles have studied mutual fund voting behavior. A number of these attempted to explore potential conflicts of interest in an effort to determine if such conflicts influence voting. Rothberg and Lilien (2005) provided an in-depth analysis of the proxy voting of the largest 10 fund families for the 2004 proxy season. Looking at shareholder proposals, they found that mutual funds more frequently vote against management on proposals dealing with takeovers and executive compensation. Funds voted against management on director elections 14% of the time. The authors found that fund families voted as a block, but despite this finding reported that stock pickers were more likely to side with management than indexed funds, and that larger funds voted with management more frequently. They reported no evidence that business conflicts affect voting behavior.

Davis and Kim (2006) examined mutual fund conflicts of interest, focusing, in particular on the extent to which mutual funds vote differently with respect to issuers with which they have a client relationship. Looking at 2004 data, they found no difference in ownership levels or voting behavior between client and non-client issuers, although mutual funds with more substantial business ties to issuers adopted more pro-management voting guidelines.

Ashraf and Jayaraman (2006) explored the factors that determined mutual fund voting on shareholder proposals during the 2004 proxy season. They found, among other things, that larger fund families are more likely to vote with management, that funds are more activist at smaller portfolio companies, and that funds with a larger stake are more

likely to vote with management.

Most recently, Cremers and Romano (2007) examined the effect of the mutual fund disclosure requirement on fund voting. Although they found that mutual fund support for management proposals has been declining, they found no evidence that the disclosure requirement affected fund support for management. Indeed, using matched pairs of firms, they found that mutual fund support for some management proposals, such as equity executive compensation plans, increased following the rule change.

Other studies have focused on the role and influence of proxy advisory firms—examining primarily ISS and not the other advisory firms. Bethel and Gillan (2002) conducted a detailed examination of shareholder voting during the 1998 proxy season. Although the market and regulatory environment has changed since the time of their study, which focused in particular on the role of broker discretionary voting, Bethel and Gillan did present evidence showing that a negative ISS recommendation was associated with 20 – 25% fewer shares voted in favor of management proposals, and that broker discretionary voting often constituted the “swing votes” that led such proposals to pass.

A more recent study by Cai et al. (2006) on director elections finds that a negative ISS recommendation leads to 18% fewer votes. They further report that directors who attend fewer than 75% of all board meetings receive 15% fewer votes.

Alexander, et al. (XXXX) explored the role of ISS recommendations in proxy contests. They found that ISS recommendations have significant explanatory power for contest outcomes. Further, they found a positive stock price effect associated with the ISS recommendation and a certification effect associated with an ISS endorsement of a dissident group.

Finally, Verdam (2006) examined the influence and transparency of proxy advisors, focusing in particular on ISS. Verdam explained the services provided by ISS to its clients and considered the basis upon which ISS formulates its recommendations and considers potential conflicts of interest. Verdam's study examined a number of high profile shareholder votes and paid particular attention to ISS's influence in the global marketplace, but contained no broad-based empirical analysis.

### **3. Analysis of Proxy Advisory Recommendations**

#### **3.1. Univariate Analysis**

We first examine the factors that affect voting recommendations in a univariate analysis. For each director in our sample of S&P 1500 companies who received a recommendation from at least one of the four proxy advisors, we collected the data from the IRRC director database on the following: (1) the director was the CEO (CEO), an non-executive chairman (Chairman Only), an employee of the company other than the CEO (Empl\_Dir), or an outside directors with certain links to the company (OutDirLink);<sup>11</sup> (2) whether the director was member or chair of the audit (AuditMbr, AuditChr) or compensation committee (CompMbr, CompChr) or a member of the nominating committee (NomMbr),<sup>12</sup> and (3) the number of other major company boards on which the director sat, whether the director attended less than 75% of the director meetings (Attendance), whether the director held at least 20% of the company's stock

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<sup>11</sup> IRRC treats as linked a director: "who is a former employee; is an employee of or is a service provider, supplier, customer; is a recipient of charitable funds; is considered an interlocking or designated director; or is a family member of a director or executive." See "Definitions for RiskMetrics' Directors Dataset" available at [http://wrds.wharton.upenn.edu/ds/riskmetrics/dir\\_doc.shtml](http://wrds.wharton.upenn.edu/ds/riskmetrics/dir_doc.shtml).

<sup>12</sup> IRRC's director database did not provide information for the S&P 1500 directors in 2005 or 2006 relating to whether the director was the Chair of the nominating committee.

(BlockDir), whether the director was an interlocking director (Interlock),<sup>13</sup> and whether the director was 75 years or older (Age75). In addition, for each company in the sample, we collected data from SEC filings, press releases, the IRRRC Governance database, the Georgeson Annual Corporate Governance Reviews, and CRSP on (1) whether the first public report of a restatement to a company's financial statement occurred within two years prior to the annual meeting (Prior Restat), the first public statement of a SEC investigation or enforcement action occurred within two years prior to the annual meeting (Prior SEC), and the company rejected an issue proposal that had received majority shareholder support in the last year (IP No); (2) whether the company had a classified board (ClassBd), a poison pill (PPill), cumulative voting (CumVote), or golden parachutes (GP); and (3) whether the company was in the top or bottom 5% of the companies ranked based on abnormal holding period return for the one-year period prior to the meeting date for the year of the recommendation (Top5AbRet, Bot5Abret);<sup>14</sup> and (4) whether the CEO for the company was in the top 5% total excess compensation (Top5AbComp).<sup>15</sup>

Table 1 provides some summary statistics about the coverage and withhold ratios for each of the four proxy advisors. Three of the proxy advisors -- ISS, Glass Lewis (GL),

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<sup>13</sup> IRRRC defines an interlocking directorship as follows: "whereby a director and executive of the company sits on a board of another company that has an executive and director who also sit[s] on the original company's board." See "Definitions for RiskMetrics' Directors Dataset" available at [http://wrds.wharton.upenn.edu/ds/riskmetrics/dir\\_doc.shtml](http://wrds.wharton.upenn.edu/ds/riskmetrics/dir_doc.shtml).

<sup>14</sup> The abnormal return is defined as the difference between the raw one-year holding period return and the expected one-year holding period return. The expected one-year holding period return is calculated using the market model (estimated for the 255 trading days ending one year and one day prior to the meeting date and using the CRSP value weighted market index return).

<sup>15</sup> We define total excess CEO compensation as the difference between the total CEO compensation for the year prior to the meeting date (as provided by the Compustat Executive Compensation database) minus the expected total CEO compensation. We calculate the expected total CEO compensation by (1) estimating an OLS model for Total CEO compensation = a + b1market\_capitalization + b2One\_Year\_Abnormal\_Holding\_Period\_Return + b3Year\_2006 + e. (2) Using the predicted Total CEO compensation based on this model as the expected Total CEO compensation.

and Egan Jones (EJ) – provide extensive coverage. They issue voting recommendations for between 86% to 98% of the directors who received a recommendation from any advisor. Interestingly, ISS, the most prominent advisor, provides coverage for fewer directors than GL (86% vs. 98%). The fourth advisor, Proxy Governance (PGI), provides substantially narrower coverage. The advisors differ substantially in the percentage of withhold recommendations they issue. ISS recommended withhold for 6.6% of the directors in the sample, PGI for 3.7%, GL for 18.8%, and EJ for 11.0%. The differences in withhold percentages for each pair of advisor are statistically significant at the <1% level.

To see how specific director and company attributes relate to the likelihood of a withhold, we tabulated in Table 2 the voting recommendations for directors along several dimensions and calculated, for each proxy advisor, whether the likelihood that a director with a certain attribute (e.g. a CEO) receives a withhold recommendation by a certain advisor (e.g. ISS) was significantly higher or lower than the average for that advisor. We divided the attributes into several categories and subcategories as follows:

audit/disclosure related attributes (audit committee member, audit committee chair, prior restatement, prior SEC investigation); compensation related attributes (compensation committee member, compensation committee chair, top5% abnormal compensation); board related attributes with the following subcategories: board effectiveness (attendance, many boards, age>75); board composition (nominating committee member), board independence (employee director, linked outside director, block director, interlock, non-executive chairman) and board responsiveness (shareholder proposal ignored); takeover related attributes (classified board, cumulative voting, poison pill, and golden parachute);

performance related attributes (bottom 5% abnormal return, top 5% abnormal return); and whether the director was the CEO.

Other than for CEO, non-executive chairman, and top 5% abnormal return, we hypothesize that each of the attributes in Table 2 is associated with an increased likelihood of a withhold recommendation. Since each advisor issues many more “for” than “withhold” recommendations, it is likely that withhold recommendations are triggered by specific problems. Directors who sit on or chair the key committees may be more likely to be held responsible for certain problems (e.g., members of audit committees may be held responsible for audit-related problems) and thus to receive a withhold recommendation), than to be “rewarded” for good performance with a “for” recommendation. Directors that may not perform their duties as effectively as other directors (due to low attendance, posts on multiple boards, or old age) may receive greater withhold recommendations. Proxy advisory firms may look negatively on directors that may lack independence or have conflicts of interest with other shareholders (including employee directors other than the CEO,<sup>16</sup> outside directors with linked affiliations with the company, directors with substantial block shareholdings, and directors that have interlocking board relationships with the company). The presence of antitakeover mechanisms may also lead proxy advisory firms to recommend against the directors.

We hypothesize that proxy advisory firms may treat the CEO with an increased (or decreased) likelihood of withhold recommendation depending on the performance of the company. Furthermore, given the more severe implications of not re-electing a CEO

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<sup>16</sup> Since it is generally accepted that CEOs should be on the board of their companies, their presence does not raise similar issues.

to the board and potential conflicts of interests if the proxy advisor has other business ties to the company, advisors may be more reluctant to issue withhold recommendations for CEOs than for other directors. We hypothesize a decreased likelihood of a withhold recommendation for non-executive chairman and for directors of companies that rank in the top 5% of abnormal return.

For each attribute, Table 2 reports the ISS recommendations for directors with the attribute as a percentage of all ISS recommendations (% ISS Total). For example, ISS made 2628 recommendations for directors who were also CEOs and 13,869 recommendations in total for a % ISS Total of 18.95%. Table 2 also reports the number of ISS withhold recommendations for directors with the attribute (ISS W/H) and the ISS withhold recommendations for directors with the attribute as a percentage of all ISS withhold recommendations where data exists for the attribute in question (% ISS W/H). For example, ISS gave 213 withhold recommendations for CEO directors which accounted for 25.63% of the total number of ISS withhold recommendations where data exists on whether the director is a CEO. Table 2 then provides the difference between % ISS W/H and % ISS Total. This difference gives a measure of whether the attribute is more (or less) influential in determining whether ISS gives a withhold recommendation. The difference is equal to 6.68 percentage points for CEOs (significant at the <1% level), indicating that CEO status has a disproportionately large impact in determining an ISS withhold recommendation. We provide similar statistics for PGI, GL, and EJ recommendations.

As Table 2 shows, director and company attributes are associated with recommendations (largely in the predicted direction), but suggests that different proxy advisors are concerned with different categories. We discuss each advisor separately:

### **3.1.1. ISS**

ISS seems to be most concerned about board related factors generally. Of the 10 board related factors (in the Board Effectiveness, Board Compensation, Board Independence, and Board Responsiveness categories), 7 are associated with a significantly higher probability of a withhold recommendation (all at the <1% level). Secondly, ISS appears also concerned about performance and compensation related factors (bottom 5% return and top 5% abnormal compensation are both significant at the 1% level). By contrast, takeover related factors do not seem important (3 of 4 are insignificant; Golden parachutes is significant, but in the wrong direction). As to audit related factors, the evidence is mixed: a prior restatement is insignificant, a prior SEC investigation significant only at the 10% level, and membership in the audit committee is associated with a reduced likelihood of a withhold recommendation (this is likely an artifact due to the fact that audit committee members are typically neither CEOs nor employee directors and are also less likely to be on the compensation or nomination committee). Notably, ISS is more likely to recommend withhold for the CEO than for other directors.

### **3.1.2. PGI**

PGI, though generally least likely to issue withhold recommendations, seems to be particularly concerned with compensation, and secondarily with board effectiveness.

Each of the three compensation-related factors is significantly at the 1% level and numerically important. Age75 and Attendance (2 of the 3 board effectiveness factors) are also highly significant (though only Age75 accounts for a material number of withhold recommendation). Non-executive chairman (Chairman Only) and issue proposal ignored (IP\_No) are significant, but numerically not very important – accounting for only 1.93% and 1.20% of the total PGI W/H recommendations (where data exists on the Chairman Only and IP\_No variables) respectively. Employee directors (as well as CEOs) are less likely to receive a withhold recommendation than average (possibly due to the fact that they do not sit on compensation committees). Performance and takeover-related factors are not associated with an increased likelihood of a PGI withhold recommendation.

### **3.1.3. Glass Lewis**

Glass Lewis gives the most withhold recommendations. GL seems to pay particular attention to audit/disclosure related factors (each of the four factors is significant at the <1% level) as well as to board-related factors (8 of 10 factors significant) and to compensation related factors (2 of 3 factors significant). GL seems to place, among board-related factors, more weight on board effectiveness and composition, and less weight on board responsiveness, than does ISS; and less weight to compensation-related factors than does PGI. Contrary to our hypothesis, high abnormal returns are associated with an increased likelihood of a withhold recommendation from GL. Takeover related factors do not seem to matter much (only 1 out of 4 factors is significant and at only the 10% level in the wrong direction).

#### **3.1.4. Egan Jones**

Egan Jones appears to place weight on factors related to compensation (each of the 3 factors significant at the <1% level), board effectiveness (2 of 3 significant at the <1% level), and board composition (NomMbr significant at the <1% level). In addition, being an outside linked director (OutDirLink) is associated with a statistically and economically significant increase in the likelihood of a withhold recommendation. Other than with linked outside directors, EJ does not seem to be concerned with board independence-related factors. BlockDir is statistically significant, but quantitatively accounts for only 1.92% of the total EJ withhold recommendations where data exists on BlockDir; employee director (Empl\_Dir) is associated with significant decrease in likelihood of a withhold recommendation but similarly accounts for only 3.35% of the total EJ withhold recommendations where data exists for Empl\_Dir. EJ also seems relatively unconcerned about audit/disclosure related factors (only SEC investigation is statistically significant), board responsiveness (insignificant), performance related factors (all insignificant), or takeover-related factors (classified boards and poison pill significant at 5%, but in the wrong direction).

#### **3.2. Base Regressions**

We next estimate a logit model for each of the proxy advisors with the recommendation by the advisor as dependent variable (withhold =1, for = 0) and the director and company attributes in Table 2 as independent variables. In addition, we control for the year in which the recommendation was made (Year06) and for the standard deviation in the company's stock return measured for the one-year period prior

to the annual meeting date for the year in which the recommendation was made (Sdret). The results of the logit models are reported in Table 3. In Table 3, we also report in brackets the marginal effect on the probability of a withhold recommendation for each factor, calculated in each case at the mean of the other factors. (E.g., for ISS, being a chairman reduces the probability of a withhold recommendation by 1.9% if each of the other factors are at their mean level.) Unless otherwise noted, all reported statistics are based on 2-sided tests.

Overall, the regression results are stronger than those of the univariate analysis. Of 90 variables for which we developed one-sided hypothesis and obtained estimates, 47 are significant in the predicted direction (compared to 40 in Table 2), and only 4 are significant in the opposite direction (compared to 10 in Table 2).

### **3.2.1 ISS**

The results for ISS are largely consistent with those from the univariate analysis. On the 10 board related factors (Attendance through Chairman Only), 9 are now significant in the predicted direction (the 10th, interlock, is significant at the 5% level, but in the opposite direction). Furthermore, as reported in Table 4, several of the board related factors have a material economic impact on the likelihood of a withhold recommendation. This is true for factors that affect relatively few directors (less than 1% of sample in each case), such as IP No (41.9 percentage point increase), Attendance (37.2 percentage point increase), and BlockDir (7.6 percentage point increase), but notably also for factors that affect an intermediate number of directors, such as Empl\_Dir (5.8% of the sample of ISS recommendations: 15.3 percentage point increase in probability),

OutDirLink (9.8% of the ISS sample: 18.1 percentage point increase in probability), and ManyBds (8.8% of the ISS sample: 4.6 percentage point increase in probability).

Among the compensation related factors, membership in the compensation committee (in addition to Top 5% abnormal CEO compensation) is now also statistically significant. (However, the reported marginal effects on likelihood indicate that, in terms of economic impact, compensation related factors are substantially less important than board related factors.) CEOs remain more likely to receive withhold recommendations; and bottom abnormal return performance retained its significance, albeit at a lower level of significance. None of the audit/disclosure related factors is significant. As to the takeover-related factors, the picture is murky: golden parachute is (as in the univariate test) associated with a significant decrease in the likelihood of a withhold recommendation (at the 1% level), and poison pills and classified boards are associated with a significant increase (each at the 5% level).

### **3.2.2. Proxy Governance**

For Proxy Governance (PGI), the regressions confirm the importance it places on compensation. Membership on the compensation committee (CompMbr) and top abnormal compensation (Top5AbComp) are highly significant and yield high coefficient estimates.<sup>17</sup> The marginal effect of CompMbr and Top5AbComp on the probability of a withhold recommendation are substantially higher than those for ISS (5.1% versus 2.5% for compensation committee members (35.9% of the PGI sample of recommendations),

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<sup>17</sup> Though chairmanship of the compensation committee is insignificant, the sum of the coefficients for membership and chairmanship is significant, meaning that compensation committee chairman are more likely to receive a withhold recommendation than the average director (though chairman and not more likely to receive one than ordinary members).

10.0% versus 3.0% for top abnormal compensation (5.8% of the PGI sample)). On the 8 board related variables for which we could obtain estimates,<sup>18</sup> the three board effectiveness variables are significant at the 10%, 5% or <1% levels, and the variable for block director is significant at the 10% level. CEO remains associated with a decreased likelihood of a withhold recommendation. The board-related variables, however, either affect only few directors and or have only a small marginal effect on the probability of a withhold recommendation. None of the audit/disclosure, takeover, or performance related factors are significant.

### **3.2.3. Glass Lewis**

For Glass Lewis (GL), all four audit/disclosure related factors are significant, as are now all 10 of the board-related factors. Membership on the compensation committee and abnormal compensation are also significant.<sup>19</sup> Moreover, some of the abnormal results disappeared: none of the takeover-related factors are significant, and top abnormal return is now only borderline significant in the wrong direction. In terms of marginal effect, board-related, audit/disclosure-related and compensation-related factors are all highly material.

### **3.2.4. Egan Jones**

The regression results for Egan Jones (EJ) confirm its focus on compensation (CompMbr and Top5AbComp are significant although CompChr is not significant). As

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<sup>18</sup> Chairmanonly = 1 (where the director is a chairman and not an employee) is perfectly correlated with a FOR recommendation by PGI and as a result was dropped from the model. Interlock = 1 also is perfectly correlated with a FOR recommendation by PGI and as a result was dropped.

<sup>19</sup> Though chairmanship of the compensation committee is insignificant, the sum of the coefficients for membership and chairmanship is significant.

to the board related attributes, the regression results indicate a focus on composition (NomMbr is significant) as well as effectiveness (2 of 3 attributes are significant, as in the univariate test). EJ also appears to focus on board independence (OutLinkDir, BlockDir and Empl\_Dir are significantly positive), though not board responsiveness (IP\_No is insignificant). In terms of marginal effect, the most important factors (considering both their impact and the number of directors affected) are OutDirLink (9.6% of the sample of EJ recommendations: 24% increase in likelihood of a withhold recommendation); ManyBds (8.7% of the EJ sample: 36% increase in likelihood) and NomMbr (35.7% of the EJ sample: 4% increase in likelihood).

As to audit/disclosure related factors, alas, the picture for EJ is murky. Being a regular member of the audit committee (AuditMbr) increases the likelihood of a withhold recommendation, but being its chairman (AuditChr) does not (the sum of the member and chairman coefficients is insignificant). While having been subject to an SEC investigation increases the likelihood of a withhold recommendation, having had a restatement *decreases* that likelihood, with the restatement coefficient being higher and significant at a greater level than the SEC coefficient. None of the performance or takeover factors are significant, and nor is CEO.

### **3.2.5. Summary**

The table below summarizes and compares the factors that affect recommendations by the four proxy advisors. Overall, other than takeovers, each of the categories of factors we identified is important for at least one proxy advisor and two categories – compensation and board effectiveness – are at least secondary factors

for each of the proxy advisors. Nevertheless, there are important differences among the advisors. ISS stands out by its attention to board-related factors, paying less relative attention to compensation-related factors than PGI and GL, and apparently no attention to audit/disclosure-related factors. PGI's focus, by contrast, is on compensation, to which it attributes greater weight than it does to other factors and than other proxy advisors (with the exception of GL) do. GL seems to be concerned with almost everything, but distinguishes itself from the other proxy advisors by the weight it places on audit/disclosure related factors. EJ is hardest to categorize. The most important factors for EJ are board-related, but, compared to ISS and GL, many fewer board-related factors are significant.

	<b>ISS</b>	<b>PGI</b>	<b>GL</b>	<b>EJ</b>
<b>Focus</b>	Board	Compensation	Audit	Eclectic
<b>CEO</b>	More withholds	Fewer withholds	Fewer withholds	No Effect
<b>Primary Factors</b>	Board generally	Compensation	Audit Board generally Compensation	Selective Board
<b>Secondary Factors</b>	Compensation Performance	Board Effectiveness Block Director		Compensation
<b>No Effect</b>	Audit	Audit Other Board Performance Takeover	Takeover	Board Responsiveness Takeover
<b>Murky Areas</b>	Takeover		Performance	Audit

### **3.3 Regressions with Interaction Variables**

To refine our base regressions, we test whether certain factors are of special (or exclusive) importance for certain types of directors by adding interaction variables.

Specifically, we test the following hypotheses:

1. Do restatements or SEC investigations affect only members (chairs) of audit committees, or do they affect such members (chairs) more strongly than other directors?
2. Does abnormally high compensation affect only members (chairs) of compensation committees, or do they affect such members (chairs) more strongly than other directors?
3. Do abnormally high or low stock returns affect only CEOs and/or employee directors, or do they affect such directors more strongly than other directors?
4. Does membership in many boards affect only CEOs and/or employee directors or only outside directors, or do they affect such directors more strongly than other directors?

As to the first three hypotheses, we conjecture that the affect is stronger or exclusively for the specified directors. As to membership in many boards, there are two opposing hypotheses. On one hand, to the extent that membership on other boards distracts directors from paying attention for this board, one would conjecture that advisors are particularly sensitive to full-time employees being distracted, and thus consider membership on many boards as a more serious problem for CEOs and employee directors than for outside directors. On the other hand, to the extent that membership on

other boards is related to one's success as CEO (or officer), and our performance variable controls for CEO success only imperfectly, CEO membership on many other boards could serve as a proxy for success and thus blunt the adverse effect otherwise associated with such membership.

### **3.3.1. Restatements and SEC Investigations and Audit Committees**

To examine the relationship between restatements or SEC investigations on one hand and audit committee membership or chairmanship on the other hand, we ran the base logit model for a withhold recommendation with the addition of variables for Prior Restat x AuditMbr and Prior Restat x AuditChr and (separately) for Prior SEC x AuditMbr and Prior SEC x AuditChair. Table 4 Panels A and B report our results for the four proxy advisory firm recommendations. In these regressions, the variable for Prior Restat estimates the average effect of a restatement on non-audit committee members; the sum of Prior Restat and Prior Restat x AuditMbr estimates the effect of a restatement on audit committee members (non chairs); and the sum of Prior Restat, Prior Restat x AuditMbr and Prior Restat x AuditChr estimates the effect of a restatement on audit committee chairs (in each case relative to having the same position but not experiencing a restatement). The sum of AuditMbr, Prior Restat and Prior Restat x AuditMbr estimates the effect of being both an audit committee member and experiencing a restatement; and the sum of AuditMbr, AuditChr, Prior Restat, Prior Restat x AuditMbr, and Prior Restat x AuditChr estimates the effect of being both an audit committee chair and experiencing a restatement (relative to being neither on the audit committee nor experiencing a restatement). The effects for Prior SEC are analogous.

i. ISS and Proxy Governance

Our base regressions provided no indications that ISS and PGI were particularly concerned with audit/disclosure related factors in making its recommendations. The regressions with interactive terms do not change this result. Restatements and SEC investigations are insignificant on their own, interacted with audit committee member/chairmanship, or in combination with audit committee member/chairmanship.

ii. Glass Lewis

In our base regressions, all audit/disclosure related factors were significant for GL. With the addition of interaction terms, the coefficient for Restatements is no longer significant. However, the sums of (1) Prior Restat and Prior Restat x AuditMbr and (2) Prior Restat, Prior Restat x AuditMbr and Prior Restat x Auditchair are each significantly different from zero at the <1% level. This suggests that for GL, restatements affect the recommendations for audit committee members and chair, but not for non-audit committee members (the coefficient on Prior Restat alone is not significantly different from zero). As to prior SEC investigations, the results indicate that they affect both audit committee members and non-members and we cannot reject the null hypothesis that there is no differential in the effect.

iii. Egan Jones

In our base regressions, a prior SEC investigation was associated with an increased likelihood of a withhold recommendation, but a restatement was associated

with a *reduced* likelihood of a withhold recommendation. The addition of interaction terms indicates that the effect of a SEC investigation is confined to members/chairs of audit committees. The coefficient for Prior SEC is no longer significant, but the sums of (1) Prior SEC and Prior SEC x AuditMbr and (2) Prior SEC, Prior SEC x AuditMbr and Prior SEC x AuditChr are each significant (each at the 10% level). As to Restatements, the results indicate that the apparent reduction in the likelihood of a withhold recommendation is confined to non-audit committee members. The coefficient for Prior Restat is significant and negative, but the sums of (1) Prior Restat and Prior Restat x AuditMbr and (2) Prior Restat, Prior Restat x AuditMbr and Prior Restat x AuditChr are not significantly different from zero -- indicating no significant reduction in the likelihood of a withhold recommendation due to a restatement for audit committee members or chairs.

### **3.3.2. Top Compensation and Compensation Committees**

To examine the relationship between top 5% abnormal compensation (Top5AbComp) and compensation committee member/chairmanship (CompMbr, CompChr), we estimated the base logit model for a withhold recommendation with the addition of interaction variables for Top5AbComp x CompMbr and Top5AbComp x CompChr. Table 4 Panel C reports our results for the four proxy advisory firm recommendations. The variable for Top5AbComp estimates the average effect of top 5% CEO compensation on non-compensation committee members; the sum of Top5AbComp and Top5AbComp x CompMbr estimates the effect on compensation committee members (non chairs); and the sum of Top5AbComp, Top5AbComp x CompMbr and

Top5AbComp x CompChr estimates the average effect on compensation committee chairs (in each case relative to having the same position but not paying top compensation).

i. ISS, Proxy Governance and Glass Lewis

In the base logit models reported in Table 3, both membership on the compensation committee (CompMbr) and paying abnormally high CEO compensation (Top5AbComp) was associated with an increased likelihood of a withhold recommendation for ISS, PGI and GL. In the logit models with interaction terms reported in Panel C of Table 4, membership on the compensation committee (CompMbr) is associated with a higher likelihood of a withhold recommendation (significant at the <1% level); in contrast high CEO compensation for non-compensation committee members (as measured by the coefficient on Top5AbComp alone) is not significantly related to a withhold recommendation. The sum of Top5AbComp and Top5AbComp x CompMbr and the sum of Top5AbComp and Top5AbComp x CompMbr and Top5AbComp x CompChr are both positive and significant (at the 5% and <1% levels respectively for ISS; at the <1% level each for PGI; at the 5% level each for GL). Higher CEO compensation is significantly related to withhold recommendation by these advisors only for members and chairs of compensation committee.

ii. Egan Jones

In the base regression reported in Table 3, both membership on the compensation committee (CompMbr) and paying abnormally high CEO compensation (Top5AbComp)

was associated with an increased likelihood of a withhold recommendation. With the addition of the interaction terms, we find Top5AbComp is associated with a significant increase in the likelihood of a withhold recommendation for non-compensation committee members (as measured by Top5AbComp) and for compensation committee chairs (as measured by Top5AbComp + Top5AbComp x CompMbr + Top5AbComp x CompChr). The estimate for regular compensation committee members is not significantly different from both 0 (as measured by Top5AbComp + Top5AbComp x CompMbr) and for the estimate for non-compensation committee members (as measured by Top5AbComp x CompMbr).

### **3.3.3. Abnormally high or low stock returns and inside directors**

To examine the effect of stock returns restatements on inside directors, we estimated the base logit models with the addition of variables for Top5AbRet x CEO and Top5AbRet x Empl\_Dir and (separately) for Bot5AbRet x CEO and Bot5AbRet x Empl\_Dir. Table 4 Panels D and E report our results. In these regressions, the variable for Top5AbRet estimates the effect of top returns on directors who are neither the CEO nor employees of the company, and the sum of Top5AbRet and Top5AbRet x CEO estimates the effect of top return on the CEO. Effects for employee directors and bottom returns are analogous.

#### **i. ISS**

As in our base logit models, the logit models with interactive terms produce no evidence that top returns affect ISS recommendations. As to bottom returns, (unlike in

the base model) the coefficient for Bot5AbRet is no longer significant (and nor is the sum of Bot5AbRet and Bot5AbRet x Empl\_Dir), but the sum of Bot5AbRet and Bot5AbRet x CEO is significant at the 5% level. This suggests that low returns have an adverse effect on recommendations for CEOs, but not for other directors.

## ii. Proxy Governance

In our base logit models, both Top5AbRet and Bot5AbRet are not significantly different from zero for Proxy Governance withhold recommendations. We are unable to estimate the logit model with interaction terms for Top5AbRet and Bot5AbRet because Top5AbRet x CEO = 1 and Top5AbRet x Empl\_Dir are perfectly correlated with a FOR recommendation by PGI and as a result are dropped from the model. Similarly, Bot5AbRet x CEO = 1 and Bot5AbRet x Empl\_Dir are perfectly correlated with a FOR recommendation by PGI and as a result are dropped from the model. Neither the presence of high (Top5AbRet) or low (Bot5AbRet) returns increases the likelihood of a PGI withhold recommendation for CEOs or employee directors (and indeed, all receive a for recommendation in these situations).

## iii. Glass Lewis

The logit models with interaction terms produce no evidence that top returns affect GL recommendations.<sup>20</sup> As to bottom returns, the coefficient for Bot5AbRet and the sum of Bot5AbRet and Bot5AbRet x Empl\_Dir are not significant. The sum of Bot5AbRet and Bot5AbRet x CEO is negative and significant at the 10% level

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<sup>20</sup> The counter-intuitive result in the base regressions, that top returns increase the likelihood of a withhold recommendations, thus could not be reproduced for either CEO, employee directors, or other directors.

(suggesting that low returns *reduce* the likelihood of a withhold recommendations for CEO, but not for other directors).

iv. Egan Jones

Neither the base regressions nor the regressions with interactive term generate evidence that our performance measures affect EJ recommendations.

### 3.3.4. Many Board Seats and Inside Directors

To examine the effect of many boards on inside directors, we estimated the base logit models with the addition of interaction variables for ManyBds x CEO and ManyBds x Empl\_Dir. Table 4 Panel F reports our results. In these models, the variable for ManyBds estimates the effect of many board seats on directors who are neither the CEO nor employees of the company and the sum of ManyBds and ManyBds x CEO estimates the total effect of many board seats on the CEO. Effects for employee directors are analogous.

i. ISS

In the base logit models reported in Table 3, sitting on multiple boards increased the likelihood of a withhold recommendation for ISS. In the logit models with interaction terms reported in Panel F of Table 4, sitting on multiple boards is not associated with a higher likelihood of a withhold recommendation for non-CEOs (as measured by the coefficient on ManyBds alone). The sum of ManyBds and ManyBds x

CEO, however, is both positive and significant (at the <1% level). Sitting on multiple boards is significantly related to withhold recommendation by ISS only for CEOs.

We are unable to estimate the logit model with an interaction term between ManyBds and Empl\_Dir because  $\text{ManyBds} \times \text{Empl\_Dir} = 1$  is perfectly correlated with a FOR recommendation by ISS and as a result are dropped from the model. Sitting on multiple boards does not correlate with an increased likelihood of an ISS withhold recommendation for employee directors (and indeed, all receive a for recommendation in these situations in our sample).

#### ii. Proxy Governance

In the base logit models reported in Table 3, sitting on multiple boards increased the likelihood of a withhold recommendation for PGI (at only the 10% level though). In the logit models with interaction terms reported in Panel F of Table 4, sitting on multiple boards is associated with a higher likelihood of a withhold recommendation for non-CEOs (at the 5% level as measured by the coefficient on ManyBds alone). The sum of ManyBds and  $\text{ManyBds} \times \text{CEO}$ , however, is not significantly different from zero. Sitting on multiple boards is not significantly related to a withhold recommendation by PGI for CEOs.

We are unable to estimate the logit model with an interaction term between ManyBds and Empl\_Dir because  $\text{ManyBds} \times \text{Empl\_Dir} = 1$  is perfectly correlated with a FOR recommendation by PGI and as a result are dropped from the model. Sitting on multiple boards does not correlate with an increased likelihood of an PGI withhold

recommendation for employee directors (and indeed, all receive a for recommendation in these situations in our sample).

iii. Glass Lewis

In the base logit models reported in Table 3, sitting on multiple boards increased the likelihood of a withhold recommendation for GL. In the logit models with interaction terms reported in Panel F of Table 4, sitting on multiple boards is associated with a higher likelihood of a withhold recommendation for non-CEOs (at the <1% level as measured by the coefficient on ManyBds alone). The sum of ManyBds and ManyBds x CEO is also positive and significantly different from zero (at the <1% level); moreover the coefficient on ManyBds x CEO alone is positive and significant at the 10% level. Sitting on multiple boards is (a) significantly related to a withhold recommendation by PGI for non-CEOs and (b) significantly related to an even greater likelihood of a withhold recommendation by PGI for CEOs.

In contrast, the sum of ManyBds + ManyBds x Empl\_Dir is not significantly different from zero. Sitting on multiple boards does not correlate with an increased likelihood of a GL withhold recommendation for employee directors.

iv. Egan Jones

In the base logit models reported in Table 3, sitting on multiple boards increased the likelihood of a withhold recommendation for EJ. In the logit models with interaction terms reported in Panel F of Table 4, sitting on multiple boards is associated with a higher likelihood of a withhold recommendation for non-CEOs (at the <1% level as

measured by the coefficient on ManyBds alone). The sum of ManyBds and ManyBds x CEO is also positive (although smaller in magnitude than for ManyBds alone) and significantly different from zero (at the <1% level); the coefficient on ManyBds x CEO alone is negative and significant at the 5% level. Similarly, the sum of ManyBds + ManyBds x Empl\_Dir is positive (although smaller in magnitude than for ManyBds alone) and significantly different from zero (at the <1% level); the coefficient on ManyBds x Empl\_Dir is negative and significant at the 10% level.

Sitting on multiple boards is (a) significantly related to a withhold recommendation by EJ for non-CEO/non-employee directors, (b) significantly related to a positive but lower likelihood of a withhold recommendation by EJ for CEOs, and (c) significantly related to a positive but lower likelihood of a withhold recommendation by EJ for employee directors.

### **3.3.5. Summary**

Overall, the set of regressions with interaction variables indicate that, at least in the case of some advisors, members of the relevant committee has are particularly responsible for problems that relate to that committee jurisdiction. Thus, we find that, for ISS, PGI and GL, the adverse effects of high compensation may be confined to compensation committee members; that for GL, the adverse effects of a restatement may be confined to audit committee members; and that for EJ, the adverse effects of a SEC investigation may be confined to audit committee members. Similarly, for ISS, we found that the adverse effect of low performance may be confined to the CEO.

The different advisors take varied approaches to directors who sit on many boards. ISS and GL treat many boards as more negative for CEOs than for regular directors, presumably because the concern that membership on other boards is a stronger distraction for CEOs. For PGI and EJ, ManyBds has either no effect on CEOs or a lesser effect than for other board members, suggesting that membership on other boards for these proxy advisors may be a proxy for CEO quality that serves as a counter-balance to any distraction concerns.

#### **4. Analysis of Voting Results**

##### **4.1. Univariate Analysis**

We now turn to examining the relation between the recommendation by proxy advisors, other factors, and the outcome of the shareholder vote on directors. We focus our analysis on the for vote outcome, defined as the number of for votes for a director election divided by the sum of for and withhold votes. Table 5, Panel A, contains summary statistics on the outcome of election for the whole sample and for subsets where one of the proxy advisors issued a withhold recommendation. For each advisor and each vote range, we report the following figures: the number of withhold recommendations issued for the range (e.g., ISS WH is the number of ISS withhold recommendations); the percentage of the withhold recommendations for that vote range relative to the total number of withhold recommendations issued by that advisor (e.g., ISS Col %); and the percentage of the withhold recommendations for that vote range relative to the total number of recommendations by that advisor for that range (e.g., ISS Row %).

The column percentage for an advisor represents the probability of the vote falling within the requisite range conditional on the advisor having issued a withhold recommendation. For example, for the Vote > 95% range, the ISS Col % is equal to 12.12%, indicating that the probability of a director receiving a for vote of greater than 95% given that ISS recommended a withhold vote is only 12.12% (compared with the unconditional probability of a director receiving a for vote of over 95% equal to 71.71%).

The row percentage for an advisor represents the conditional probability of a withhold recommendation conditional on the vote falling within the range and the advisor having issued a vote recommendation. For example, for the Vote > 95% range, the ISS Row % is equal to 1.12%, indicating that the probability of receiving a withhold recommendation given that the director received a for vote of greater than 95% is only equal to 1.12%.

Overall, for each of the proxy advisors, the lower for vote ranges (for example, Vote < 75%) are associated with an increased incidence of a withhold recommendation. Generally, the row percentage for each advisor – which represents the likelihood of a withhold recommendation conditional on the “for” vote falling in the requisite range and the advisor having made *any* recommendation – is rising as the vote range is falling. This pattern is particularly stark for ISS. For example, ISS issued a withhold recommendation in 90.8% of the director elections where the for vote outcome was less than 80%, but only in 2.9% of the contests where the for vote outcome was 80% or greater. While these figures indicate the withhold percentage is rarely above 20% when ISS recommended a for vote, the reverse is not true. In 43% of the cases where ISS issued a withhold

recommendation, for votes exceeded 80%; and in 18% of cases with an ISS withhold recommendation, the for vote outcome exceeded 90%.

Table 5, Panel B, gives the coverage rates by each advisor for each voting range. Note from Panel B that no discernable coverage pattern exists for the advisors across the different vote ranges. For example, ISS covers 86.5% of the directors in to  $\text{Vote} \geq 80\%$  range and 85.6% of the directors in the  $\text{Vote} < 80\%$  range.

The relationship between withhold recommendations and a reduced for vote outcome can be explained by two (non-mutually exclusive) hypotheses. First, some set of underlying factors could determine both the vote outcome and the recommendation. According to this hypothesis, to which we refer as the “proxy hypothesis”, the recommendation has no independent effect on the outcome, but serves only as a proxy of the underlying factors. Second, the recommendation affects the vote outcome directly (and independently of the underlying factors that determine the recommendation). We refer to this second hypothesis as the direct effect hypothesis.<sup>21</sup> The hypotheses are not mutually exclusive in as much as either may explain the vote by different groups of shareholders or as some shareholders may base their vote both the recommendation itself and the underlying factors. In the next section, we will try to separate these two effects. This task is obviously difficult because we do not know all the underlying factors that affect recommendations and because both effects may be at play for different shareholders.

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<sup>21</sup> Even where shareholders have delegated voting authority to the proxy advisor (as some institutional investors do), the first causal mechanism may be at play in as much as the delegation reflects an ex ante assessment that the advisor will make recommendation based on the factors that the shareholder would have used had it made the assessment itself. Indeed, some institutions instruct ISS to vote in shares in accordance with policies specified by the institution, and then grant ISS voting authority.

Table 5, Panel C, presents a simple test for the direct effect hypothesis. According to the proxy hypothesis, the presence of a recommendation by an advisor should have no effect on the vote outcome. But according to the direct effect hypothesis, we would expect the distribution of votes to differ systematically between elections where the advisor has made *any* recommendation (for or withhold) and elections where the advisor has made *no* recommendation. Specifically, as “for” recommendations increase the number of “for” votes and withhold recommendation the number of “withhold” votes, we would expect that elections where the advisor has made any recommendation exhibit relatively more bipolar voting results (than results for elections where the advisor has made no recommendation. (In the extreme, if an advisor’s recommendations are completely determinative, we would expect to see a completely bipolar distribution for such elections, with either 100% or 0% for votes depending on the recommendation.)<sup>22</sup>

Panel C of Table 5 shows, for each vote outcome range, the percentage of elections in the range relative to the whole sample (denoted as Sample %), and for each advisor the percentage in the range where the advisor has made any recommendation relative to all elections where the advisor has made a recommendation (e.g., ISS%) and where the advisor has made no recommendation relative to all elections where the advisor has made no recommendation (e.g., Non-ISS %). If ISS recommendations mattered we would expect to see a more bipolar distribution shown by significantly higher ISS % compared with Non-ISS % numbers in the highest and lowest voting ranges

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<sup>22</sup> Where the direct effect hypothesis is only correct for a subset of shareholders, we would expect a more bipolar distribution as long as the recommendation is not negatively correlated with the votes cast by shareholders who do not follow the recommendation.

– indicating that ISS recommendations shifted shareholders to make decision (whether a “for” or “withhold” vote decision).

Panel C produces little support for such a bipolar distribution. In t-tests for the more extreme ranges of the distribution (more than 90% or 95% “for” votes, less than 80% or 75% “for” votes), we find no evidence that elections where ISS or PGI have issued a recommendation are overrepresented in these ranges (to the contrary, ISS is significantly underrepresented in the >95% range) and ambiguous evidence regarding EJ (EJ is significantly overrepresented in the >90% and in the >95% range, but significantly underrepresented in the <80% range). Only the results for GL (which is significantly overrepresented in the <80% and in the <75% ranges) produce modest support of a bipolar distribution.

Panel D of Table 5 provides summary statistics on the distribution of the director and company attributes across each voting range.

#### **4.2. Base Regressions**

We next run a regression with a log odds transformation of the for vote outcome as a dependent variable<sup>23</sup> and, as independent variables, the variables we used in the base recommendation regressions with the following modifications: we added interaction variables for Prior Restat x AuditMbr, Prior SEC x AuditMbr, Top5AbComp x CompMbr, Bot5AbRet x CEO, Top5AbRet x CEO, and ManyBds x CEO; we dropped the separate variables for AuditChr and CompChr; we added variables for the percentage of shares held by institutional investors and the number of institutional investors; and we

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<sup>23</sup> For the dependent variable we started with the for vote fraction and subtracted 0.001 from the fraction (to avoid division by zero problems when the for vote fraction is equal to 1) (term this transformed variable VOTE). We then used the  $\log(\text{VOTE}/(1-\text{VOTE}))$  as the dependent variable.

replaced the dummy variable for BlockDir with a variable (TotDirShs) for the percentage of the vote held by all board members (Table 6, Model 1).

In Model 1, 7 (out of 9) board related variables are significant in the predicted direction. The variable for membership on the compensation committee is significantly negative, as is the sum of the variables for Top5AbComp and Top5AbComp x CompMbr (meaning that top compensation is associated with a lower vote for compensation committee members). As to the audit/disclosure-related variables, membership on the audit committee (AuditMbr) and Prior SEC are significantly negative, as is the sum of Prior Restat and Prior Restat x AuditMbr (meaning that restatements are associated with a lower vote for audit committee members). CEO is significant and negative. Top5AbRet and Bottom5AbRet are insignificant. The sum of Top5AbRet and Top5AbRet x CEO is positive and significant at the 10% level; while Top5AbRet x CEO is not significantly different from zero. This suggests that CEOs whose performance is not in the top 5% receive fewer “for” votes. Top abnormal returns results in more “for” votes for CEOs (though not for non-CEOs) and we cannot reject the null hypothesis that CEOs who earn such returns receive the same for votes as non-CEOs. The interaction variable ManyBds x CEO and the sum of ManyBds and ManyBds x CEO are significantly negative, indicating that sitting on many boards has a negative impact on CEOs. Of the four takeover variables, only one – the dummy for classified boards – is significant. The variable for the percentage of shares held by the board is significant and positive. The variable for the percentage of shares held by institutions is insignificant, but the variable for the number of institutions is significant and negative.<sup>24</sup> These results

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<sup>24</sup> To control for possible multicollinearity between INSTHOLD and NUMINST we re-estimated the base model with the inclusion of only INSTHOLD and only NUMINST. In the re-estimated models,

present strong evidence that board-, compensation-, and audit/disclosure-related attributes affect the results of director elections, but leave open the question of whether they do so directly or whether they affect recommendations by proxy advisors which independently affect the election results.

### **4.3. Recommendation Dummies**

As a next step, we estimated the base regression adding separately, for each advisor, a dummy variable for a withhold recommendation by that advisor. Having both attribute and recommendation variables permits us, to some extent, to separate the effects of the two types of variables on the election results. In particular, the direct effects hypothesis would predict that, if one controls for the recommendation by the proxy advisor, the recommendation should be significant and the attributes should have no impact on the percentage of “for” votes. The proxy hypothesis in theory would predict that, if one controls for all the underlying factors that determine both the vote and the recommendation of the proxy advisor, the underlying factors should be significant and the recommendation should have no impact on the percentage of “for” votes. If both hypotheses are correct, both the recommendation and the underlying factors should be significant. Note, however, that since the company and director attributes that we control for do not fully capture all the underlying factors that may determine both the vote outcome and the recommendation, the proxy hypothesis has no clear implication for the recommendation dummy in our regression.<sup>25</sup>

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INSTHOLD was again not significantly different from zero. NUMINST again was negative and significantly different from zero.

<sup>25</sup> In fact, several of the attributes (such as membership on a key committee) relate to the likelihood of being held responsible for certain problems should they arise, rather than to the likelihood of such a

a. ISS

The dummy variable for the ISS recommendation is statistically significant. Its coefficient value is in an order of magnitude above any other dummy variable, indicating a strong relation between the ISS recommendation and the election results. As discussed before, however, the ISS dummy captures not only any direct influence of the recommendation but also any factor (not otherwise controlled for) that independently affects the recommendation and the vote.

The addition of the dummy variable for the ISS recommendation has almost no qualitative impact on the other variables. Virtually all the variables that were significant in the base regression (including several that had no statistical impact on the ISS recommendation, such as membership on the audit committee and prior SEC investigation) remain significant, usually at the same level. The coefficients and significance of the interaction terms are also qualitatively similar with the base model: the sum of Prior Restat plus Prior Restat x AuditMbr remains significant; the sum of Top5Abret and Top5Abret x CEO is significant; the sum of CEO and Top5Abret x CEO is insignificant.

These continuing significance of the attributes even with the addition of the dummy variable for a ISS withhold recommendation suggests that shareholders (i) either give independent weight to these attributes (ii) or that they give weight to recommendations by other advisors that in turn consider these attributes and give them more weight than does ISS. We did not find any variable that was (i) associated with an

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problem being present. Though we also try to control for certain specific problems (such as restatements), we may miss other problems with either the corporation or a specific director that affect the for vote outcome.

increased (reduced) likelihood of a withhold recommendation and (ii) associated with a reduced (increased) “for” vote (whether or not we control for the ISS recommendation). The absence of any such variables suggests that ISS is “in sync” with the sentiments of shareholders, i.e. that ISS generally gives the same directional weight to company and director attributes in making its voting recommendation as to shareholders in deciding how to vote.

b. PGI, GL ,and EJ

The results for the separate regressions involving the other proxy advisors follow the same basic pattern as the results for ISS. Specifically, for each advisor, the dummy variable for a withhold recommendation is significant and negative; and most attribute variables that were significant in the base regression remain so. The coefficients associated with the recommendation dummy variables, however, are not beyond the range of the coefficient for other dummy variables.

On the other hand, the results suggest that these advisors are less “in sync” with shareholders than ISS. Specifically, PGI and GL were less likely to issue a withhold recommendations to CEOs than to other directors (see results in Table 3), while shareholders are more likely to vote “withhold” for CEOs (as reported in Models 3 and 4 of Table 6). Another factor that seems to concern shareholders, but that may not be sufficiently reflected in the recommendations of these advisors, is board responsiveness to shareholder resolutions that had gained majority support (as measured by IP\_No). We found evidence that this factor affects recommendations only for ISS and GL (see Table

3). But in the for vote regressions of Table 6, the coefficient for IP\_No is significantly negative and large in magnitude in each regression.

c. Recommendations by All Advisors

In Model 6, we added four separate dummy variables, one for the recommendation by each advisor. This regression should be interpreted cautiously for two reasons. First, the number of observations is much lower than in the earlier regressions because we often lack recommendations for one of the advisors. Second, including both the attributes that affect recommendations and the recommendations by each of the four advisors generates a potential problem of multicollinearity. With this caveat, the regression largely confirms the results we obtained above. Many of the attributes (and, in particular, CEO and IP\_No) remain significant even if one controls for all recommendations. The recommendations themselves are also significant, with ISS having the highest impact, followed by Glass Lewis, and then by PGI and EJ. The one particularity is that Chairman Only is now associated with a *reduced* for-vote suggesting that the aggregate (positive) weight given to this factor by all proxy advisors may exceed the weight shareholders deem proper.

#### **4.4. Recommendation Exists Regressions**

We next run a set of regressions designed to test the joint hypothesis that (i) the direct effects hypothesis is correct for a certain proxy advisor and (ii) the weight the proxy advisor places on a director or company attribute differs systematically from the weight shareholders would independently (i.e., absent a recommendation) place on that

factor. The correspondingly null hypothesis is that either the direct effects hypothesis is not correct or that the weight the proxy advisor places on an attribute does not differ systematically from the weight shareholders would independently place on it. This set of regressions is of particular interest for ISS, given that ISS is regarded as the most influential proxy advisor and that the earlier regressions indicate the highest potential direct effect of an ISS recommendation.

Assume, for example, that (i) shareholders follow ISS's recommendation, (ii) ISS is more likely to issue a withhold recommendation for CEO than for non-CEOs, but (iii) shareholders (on their own) would not be more likely to withhold votes from CEOs than from non-CEOs. In this case, we would expect CEO to garner fewer votes in elections where ISS has issued *any* recommendation (for or withhold) than in elections where ISS has issued no recommendation.

We accordingly run regressions where each of the variables used in the base regression is interacted both with ISS (which takes the value of 1 if an ISS recommendation exists and is 0 otherwise) and with No\_ISS (which takes the value of 1 if no ISS recommendation exists and is 0 otherwise). The constant term is replaced by two dummies (ISSexist and ISSnotexist) which take, respectively, the value of 1 if an ISS recommendation exists or if it does not exist. Equivalent regressions are run for the other proxy advisors.

a. ISS

In Table 7, we report the results for the ISS regressions. For ease of exposition, we report the coefficient estimates for each set of interactions (ISS and No\_ISS) in

parallel columns. The coefficient estimates measure the effect of the variable, respectively, in election where ISS made or did not make any recommendation. We the next column, we report F test for whether the coefficients are significantly different from each other.

The results for ISS do not provide support for the null hypothesis. Of 28 variable pairs involving one of the underlying factors (or an interaction term of the factors), differences are significant in only 2 pairs (Age76 and ManyBds), both at the 10% level. In addition, we compared the significance of the sums of Prior SEC + Prior SEC x AuditMbr; Prior Restat + Prior Restat x AuditMbr; Top5AbComp + Top5AbComp x CompMbr; ManyBds + ManyBds x CEO; Top5AbRet + Top5AbRet x CEO, Bot5AbRet + Bot5AbRet x CEO; CEO + Top5AbRet x CEO; and CEO + Bot5AbRet x CEO. Only the sum of Prior Restat + Prior Restat x AuditMbr is significantly different (at the <1% level) between the ISS and No\_ISS groups. Voters appear to place greater negative weight on a prior restatement for audit committee members where ISS has made a recommendation compared where there is no ISS recommendation.

Our results are generally consistent with the proxy hypothesis for ISS. On the other hand, our results are also consistent with the joint hypothesis that an ISS recommendation has a direct effect on the vote outcome and that the weight ISS places on a director or company attribute does not differ systematically from the weight shareholders would independently (i.e., absent a recommendation) place on that attribute.

According to that latter hypothesis, ISS may serve two functions. First, the recommendation by ISS may reduce the costs to its subscribers of performing their own analysis (which would be beneficial to them if they ultimately arrived at the same

conclusion as does ISS). Second, the recommendation by ISS may provide a more refined evaluation of the significance of the attributes than the evaluation that its subscribers would generate on their own. Either possibility suggests that ISS functions more as a supplier of information that investors find valuable than as an independent power center.

The regression also permits us to assess whether a proxy advisor has a pro- or anti-director bias that affects the election results because shareholders give weight to the recommendation and do not correct for that bias. If such a bias exists, directors should receive more (fewer) “for” votes in elections where the advisor issued a recommendation than in those where it did not. For ISS, we find no evidence of bias. At the mean level of all the other independent variables (including the mean level of institutional holding), the presence of an ISS recommendation results in a predicted “for” vote fraction of 97.50%. In contrast, the absence of an ISS recommendation results in slightly higher predicted “for” vote fraction of 97.93%.

b. PGI, GL ,and EJ

Results for PGI are qualitatively similar to those for ISS. They provide no support for the joint hypothesis that PGI recommendation matter and that PGI places systematically different weight on the underlying factors than shareholders would independently. [TO BE COMPLETED LATER]

## 5. Conclusion

[TO BE COMPLETED LATER]

## References

## APPENDIX Variable Definitions

Variable	Definition
Logforvote	We started with the for vote fraction and subtracted 0.001 from the fraction (to avoid division by zero problems when the for vote fraction is equal to 1) (term this transformed variable VOTE). We then used the $\log(VOTE/(1-VOTE))$ as the dependent variable (termed “Logforvote”).
VoteISS	Indicator variable equal to 1 if ISS recommends a Withhold vote for the director in question and 0 otherwise.
VotePGI	Indicator variable equal to 1 if PGI recommends a Withhold vote for the director in question and 0 otherwise.
VoteGL	Indicator variable equal to 1 if GL recommends a Withhold vote for the director in question and 0 otherwise.
VoteEJ	Indicator variable equal to 1 if EJ recommends a Withhold vote for the director in question and 0 otherwise.
Chairman Only	Indicator variable equal to 1 if the director is the chairman of the board of the company in question but not an employee and 0 otherwise.
CEO	Indicator variable equal to 1 if the director is the CEO of the company in question and 0 otherwise.
Empl_Dir	Indicator variable equal to 1 if the director is an employee of the company in question (but not the CEO) and 0 otherwise.
OutDirLink	Indicator variable equal to 1 if the director is an outside director of the company in question with affiliated links with the company and 0 otherwise. IRRC treats as linked a director: “who is a former employee; is an employee of or is a service provider, supplier, customer; is a recipient of charitable funds; is considered an interlocking or designated director; or is a family member of a director or executive.” See “Definitions for RiskMetrics’ Directors Dataset” available at <a href="http://wrds.wharton.upenn.edu/ds/riskmetrics/dir_doc.shtml">http://wrds.wharton.upenn.edu/ds/riskmetrics/dir_doc.shtml</a> .
BlockDir	Indicator variable equal to 1 if the director owns more than 20% of the outstanding shares of the company in question and 0 otherwise.
Tot_Dir_Sh	Total fraction of outstanding shares in hands of all directors of a company
NomMbr	Indicator variable equal to 1 if the director is a member of the nominating committee and 0 otherwise.
AuditMbr	Indicator variable equal to 1 if the director is a member of the audit

	committee and 0 otherwise.
AuditChr	Indicator variable equal to 1 if the director is the chair of the audit committee and 0 otherwise.
CompMbr	Indicator variable equal to 1 if the director is a member of the compensation committee and 0 otherwise.
CompChr	Indicator variable equal to 1 if the director is the chair of the compensation committee and 0 otherwise.
Attendance	Indicator Variable equal to 1 if director attended less than 75% of the meetings and 0 otherwise (as tracked by IRRC for the year prior to the annual meeting date).
Interlock	Indicator Variable equal to 1 if director met the IRRC criteria for an interlocking director in the year prior to the annual meeting date and 0 otherwise. IRRC defines an interlocking directorship as follows: “whereby a director and executive of the company sits on a board of another company that has an executive and director who also sit[s] on the original company’s board.” See “Definitions for RiskMetrics’ Directors Dataset” available at <a href="http://wrds.wharton.upenn.edu/ds/riskmetrics/dir_doc.shtml">http://wrds.wharton.upenn.edu/ds/riskmetrics/dir_doc.shtml</a> .
ManyBds	Indicator variable equal to 1 if the director is a member of at least three other “major” company boards (as followed by IRRC for the year prior to the annual meeting date) and 0 otherwise.
Age75	Indicator variable equal to 1 if the director is 75 years or older and 0 otherwise.
Top5AbComp	Indicator variable equal to 1 if the total excess compensation for the CEO for the company in question is in the top 5% of the sample and 0 otherwise. We define total excess CEO compensation as the difference between the total CEO compensation for the year prior to the meeting date (as provided by the Compustat Executive Compensation database) minus the expected total CEO compensation. We calculate the expected total CEO compensation by (1) estimating an OLS model for Total CEO compensation = a + b1market_capitalization + b2One_Year_Abnormal_Holding_Period_Return + b3Year_2006 + e. (2) Using the predicted Total CEO compensation based on this model as the expected Total CEO compensation.
Top5AbRet	Indicator variable equal to 1 if the abnormal one-year holding period return for the one-year period prior to the annual meeting date for company is in the top 5% of the sample and 0 otherwise. The abnormal return is defined as the difference between the raw one-year holding period return and the expected one-year holding period return. The expected one-year holding period return is calculated using the market model (estimated for the 255 trading days ending one year and one day prior to the meeting date and using the CRSP value weighted market index return).

Bot5AbRet	Indicator variable equal to 1 if the abnormal one-year holding period return for the one-year period prior to the annual meeting date for company is in the bottom 5% of the sample and 0 otherwise. The abnormal return is defined as the difference between the raw one-year holding period return and the expected one-year holding period return. The expected one-year holding period return is calculated using the market model (estimated for the 255 trading days ending one year and one day prior to the meeting date and using the CRSP value weighted market index return).
Sdret	Standard deviation of returns for the company in question for the one-year period prior to the annual meeting date.
ClassBd	Indicator variable equal to 1 if the director sits on a classified board for the company in question (as measured by IRRC for the year prior to the annual meeting date) and 0 otherwise.
PPill	Indicator variable equal to 1 if a poison pill exists for the company in question (as measured by IRRC for the year prior to the annual meeting date) and 0 otherwise.
CumVote	Indicator variable equal to 1 if the company in question uses cumulative voting to elect directors (as measured by IRRC for the year prior to the annual meeting date) and 0 otherwise
GP	Indicator variable equal to 1 if the company in question uses golden parachute agreements (as measured by IRRC for the year prior to the annual meeting date) and 0 otherwise.
IP No	Indicator variable equal to 1 if the company in question faced a proxy issue proposal that received a majority for vote and declined to implement the recommendations of the proxy issue proposal and 0 otherwise.
Prior Restat	Indicator variable equal to 1 if news relating to a financial restatement was first made public within 2 years prior to the meeting date (either in a SEC filing or through a public press release) and 0 otherwise.
Prior SEC	Indicator variable equal to 1 if news relating to a SEC investigation or enforcement action was first made public within 2 years prior to the meeting date (either in a SEC filing or through a public press release) and 0 otherwise.
InstHold	Fraction of outstanding shares of the company in question in the hands of institutional investors (measured using Form 13-F data obtained from Thomson Financial for the time period immediately prior to the annual meeting date).
NumInst	Number of institutional investors that hold stock in the company in question (measured using Form 13-F data obtained from Thomson Financial for the time period immediately prior to the annual meeting date).
Year06	Indicator variable equal to 1 if the director recommendation is for 2006 and 0 otherwise (for 2005).

**Table 1**

	<b>N</b>	<b>Coverage Rate</b>	<b>Number of Withhold Recs</b>	<b>Number of For Recs.</b>	<b>Withhold Rate</b>	<b>t-statistic: Withhold Rate = ISS Withhold Rate</b>	<b>t-statistic: Withhold Rate = PGI Withhold Rate</b>	<b>t-statistic: Withhold Rate = GL Withhold Rate</b>
All	16038	1.00						
ISS	13869	0.86	916	12953	0.066			
PGI	5437	0.34	202	5235	0.037	-8.7**		
GL	15722	0.98	2956	12766	0.188	32.4**	37.4**	
EJ	14147	0.88	1551	12596	0.110	12.9**	19.7**	-19.2**

<sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$

**Table 2**

	<b>Factor Category</b>	<b>Predicted Effect on Withhold Rec.</b>	<b>ISS Tot. Recs.</b>	<b>% ISS Total</b>	<b>ISS W/H</b>	<b>% ISS W/H</b>	<b>Diff. between % ISS W/H and % ISS Total</b>	<b>PGI Tot. Recs.</b>	<b>% PGI Total</b>	<b>PGI W/H</b>	<b>% PGI W/H</b>	<b>Diff. between % PGI W/H and % PGI Total</b>
All Directors	General	N/A	13869	100.00	916	100.00	N/A	5437	100.00	202	100.00	N/A
CEOs	General	?	2628	18.95	213	25.63	6.68**	1054	19.39	19	10.44	-8.95**
AuditMbr	Audit	+	5105	36.81	233	28.04	-8.77**	2014	37.04	74	40.66	3.62
AuditChr	Audit	+	1236	8.91	46	5.54	-3.37**	489	8.99	20	10.99	2.00
Prior Restat	Audit	+	1671	12.05	102	11.14	-0.91	655	12.05	11	5.45	-6.60**
Prior SEC	Audit	+	1005	7.25	81	8.48	1.23 <sup>+</sup>	324	5.96	16	7.92	1.96
CompMbr	Compensation	+	4919	35.47	351	42.24	6.77	1949	35.85	150	82.42	46.57**
CompChr	Compensation	+	1225	8.83	85	10.23	1.40	483	8.88	39	21.43	12.55**
Top5AbComp	Compensation	+	642	4.63	69	8.00	3.37**	314	5.78	47	24.48	18.70**
Attendance	Board Effect.	+	81	0.58	36	4.33	3.75**	40	0.74	6	3.30	2.56**
ManyBds	Board Effect.	+	1221	8.80	120	15.06	6.26**	470	8.64	23	12.78	4.14
Age75	Board Effect.	+	1473	10.62	132	14.41	3.79**	558	10.26	35	17.33	7.07**
NomMbr	Board Comp.	+	5042	36.35	349	42.00	5.65	2003	36.84	87	47.80	10.96
Empl_Dir	Board Indep.	+	801	5.78	87	10.47	4.69**	300	5.52	2	1.10	-4.42**
OutDirLink	Board Indep.	+	1358	9.79	268	32.25	22.46**	525	9.66	18	9.89	0.23
BlockDir	Board Indep.	+	107	0.77	28	3.37	2.60**	52	0.96	4	2.20	1.24
Interlock	Board Indep.	+	33	0.24	3	0.36	0.12	10	0.18	0	0.00	-0.18
Chairman Only	Board Indep.	-	330	2.38	24	2.89	0.51	105	1.93	0	0.00	-1.93*
IP_No	Board Resp.	+	135	0.97	67	7.31	6.34**	65	1.20	6	2.97	1.77*
ClassBd	Takeover	+	5104	36.80	365	40.20	3.40	1932	35.53	66	34.20	-1.33
PPill	Takeover	+	7014	50.57	436	48.02	-2.55	2929	53.87	108	55.96	2.09
CumVote	Takeover	+	1526	11.00	116	12.78	1.78	634	11.66	27	13.99	2.33
GP	Takeover	+	10238	73.82	569	62.67	-11.15**	4008	73.72	153	79.27	5.55
Top5AbRet	Performance	-	680	4.90	77	8.50	3.60**	264	4.86	14	7.00	2.14
Bot5AbRet	Performance[-]	+	655	4.72	50	5.52	0.80	287	5.28	12	6.00	0.72

**Table 2**

	<b>Factor Category</b>	<b>Predicted Effect on Withhold Rec.</b>	<b>GL Tot. Recs.</b>	<b>% GL Total</b>	<b>GL W/H</b>	<b>% GL W/H</b>	<b>Diff. between % GL W/H and %GL Tot.</b>	<b>EJ Tot. Recs.</b>	<b>% EJ Total</b>	<b>EJ W/H</b>	<b>% EJ W/H</b>	<b>Diff. between % EJ W/H and %EJ Tot.</b>
All Directors	General	N/A	15722	100.00	2956	100.00	N/A	14147	100.00	1541	100.00	N/A
CEOs	General	?	2958	18.81	316	11.87	-6.94**	2643	18.68	208	14.80	-3.88**
AuditMbr	Audit	+	5765	36.67	1223	45.94	9.27**	5108	36.11	551	39.22	3.11
AuditChr	Audit	+	1417	9.01	470	17.66	8.65**	1236	8.74	129	9.18	0.44
Prior Restat	Audit	+	1914	12.17	499	16.88	4.71**	1614	11.41	157	10.12	-1.29
Prior SEC	Audit	+	1115	7.09	254	8.59	1.50**	1070	7.56	139	8.96	1.40*
CompMbr	Compensation	+	5558	35.35	1249	46.92	11.57**	4909	34.70	642	45.69	10.99**
CompChr	Compensation	+	1386	8.82	279	10.48	1.66	1221	8.63	177	12.60	3.97**
Top5AbComp	Compensation	+	723	4.60	160	5.76	1.16*	727	5.14	116	7.72	2.58**
Attendance	Board Effect.	+	98	0.62	73	2.74	2.12**	84	0.59	47	3.35	2.76**
ManyBds	Board Effect.	+	1302	8.28	344	13.61	5.33**	1235	8.73	537	39.43	30.70**
Age75	Board Effect.	+	1770	11.26	424	14.34	3.08**	1683	11.90	201	12.96	1.06
NomMbr	Board Comp.	+	5665	36.03	1299	48.80	12.77**	5047	35.68	698	49.68	14.00**
Empl_Dir	Board Indep.	+	920	5.85	180	6.76	0.91	817	5.78	47	3.35	-2.43**
OutDirLink	Board Indep.	+	1523	9.69	587	22.05	12.36**	1359	9.61	377	26.83	17.22**
BlockDir	Board Indep.	+	123	0.78	29	1.09	0.31	98	0.69	27	1.92	1.23**
Interlock	Board Indep.	+	36	0.23	27	1.01	0.78**	33	0.23	4	0.28	0.05
Chairman Only	Board Indep.	-	380	2.42	42	1.58	-0.84**	341	2.41	33	2.35	-0.06
IP_No	Board Resp.	+	146	0.93	44	1.49	0.56**	133	0.94	15	0.97	0.03
ClassBd	Takeover	+	5607	35.66	1007	35.05	-0.61	5006	35.39	495	32.44	-2.95*
PPill	Takeover	+	7902	50.26	1426	49.63	-0.63	7098	50.17	715	46.85	-3.32*
CumVote	Takeover	+	1683	10.70	291	10.13	-0.57	1514	10.70	147	9.63	-1.07
GP	Takeover	+	11530	73.34	2072	72.12	-1.22 <sup>+</sup>	10455	73.90	1119	73.33	-0.57
Top5AbRet	Performance	-	786	5.00	145	4.94	-0.06	650	4.59	57	3.68	-0.91
Bot5AbRet	Performance[-]	+	797	5.07	190	6.47	1.40**	612	4.33	73	4.72	0.39

% ISS W/H is defined as the ratio of ISS Withhold recommendations for the specific category (e.g., CEO) over the total number of ISS Withhold Recommendations (where data exists for the specific category variable). Similar definition for % PGI W/H, % GL W/H, and % EJ W/H.

<sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ : From a  $\chi^2$  test of the null hypothesis that there is no difference between the number of ISS withhold recommendation for the a specific subset (i.e., CEO) and the number of ISS withhold recommendations for the entire sample and between the number of for recommendations for the specific subset and the total number of ISS for recommendations.

**Table 3**  
**Base Recommendation Model**

	<b>Factor</b>	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
CEO	General	0.928** (7.46) [0.046]	-0.579* (-2.25) [-0.008]	-0.331** (-3.89) [-0.040]	-0.057 (-0.54) [-0.004]
AuditMbr	Audit	0.006 (0.06) [0.000]	0.090 (0.43) [0.002]	0.310** (4.39) [0.041]	0.238** (2.66) [0.016]
AuditChr	Audit	-0.241 (-1.37) [-0.008]	0.260 (0.94) [0.005]	0.930** (10.79) [0.154]	-0.119 (-0.94) [-0.008]
Prior Restat	Audit	-0.284 (-1.25) [-0.010]	-0.811 (-1.38) [-0.010]	0.400** (3.94) [0.058]	-0.402** (-2.76) [-0.024]
Prior SEC	Audit	0.171 (0.60) [0.007]	0.769 (1.55) [0.018]	0.310* (2.31) [0.044]	0.296+ (1.82) [0.022]
CompMbr	Compensation	0.621** (5.54) [0.025]	2.141** (4.86) [0.051]	0.605** (9.03) [0.083]	0.367** (4.14) [0.026]
CompChr	Compensation	-0.179 (-1.28) [-0.006]	0.122 (0.73) [0.002]	-0.085 (-1.08) [-0.011]	0.202+ (1.72) [0.015]
Top5AbComp	Compensation	0.618+ (1.94) [0.030]	2.179** (4.80) [0.100]	0.269+ (1.88) [0.038]	0.450** (2.90) [0.036]
Attendance	Board Effect.	2.851** (9.51) [0.372]	1.758** (3.24) [0.071]	2.729** (9.71) [0.581]	3.054** (11.28) [0.549]
ManyBds	Board Effect.	0.866** (6.17) [0.046]	0.492+ (1.73) [0.010]	0.566** (6.85) [0.086]	2.485** (25.90) [0.366]
Age75	Board Effect.	0.346+ (1.77) [0.015]	0.948* (2.51) [0.024]	0.332** (2.67) [0.048]	-0.010 (-0.06) [-0.001]
NomMbr	Board Comp.	0.442** (4.38) [0.018]	-0.166 (-0.93) [-0.003]	0.477** (8.25) [0.064]	0.575** (7.45) [0.041]
Empl_Dir	Board Indep.	1.845** (8.39) [0.153]	-0.063 (-0.07) [-0.001]	1.242** (9.76) [0.224]	0.539* (2.11) [0.045]
OutDirLink	Board Indep.	2.110** (15.15)	0.251 (0.48)	1.619** (17.95)	1.926** (17.06)

		[0.181]	[0.004]	[0.303]	[0.245]
BlockDir	Board Indep.	1.164** (3.29) [0.076]	2.307+ (1.96) [0.125]	0.604* (2.06) [0.095]	1.454** (3.56) [0.178]
Interlock	Board Indep.	-1.434* (-2.37) [-0.030]	-- --	1.918** (4.47) [0.399]	-1.061 (-1.21) [-0.047]
Chairman Only	Board Indep.	-0.658* (-2.34) [-0.019]	-- --	-0.966** (-4.41) [-0.091]	-0.315 (-1.17) [-0.019]
IP No	Board Resp.	3.054** (6.14) [0.419]	1.361 (1.49) [0.044]	0.801** (2.85) [0.134]	-0.504 (-1.11) [-0.028]
ClassBd	Takeover	0.358* (2.35) [0.014]	0.001 (0.00) [0.000]	-0.001 (-0.01) [0.000]	-0.064 (-0.70) [-0.004]
PPill	Takeover	-0.067 (-0.43) [-0.003]	-0.145 (-0.39) [-0.002]	-0.013 (-0.18) [-0.002]	-0.0764 (-0.82) [-0.005]
CumVote	Takeover	0.455* (2.24) [0.020]	0.277 (0.73) [0.005]	-0.093 (-0.78) [-0.012]	-0.032 (-0.25) [-0.002]
GP	Takeover	-0.586** (-3.35) [-0.026]	0.500 (1.30) [0.007]	-0.096 (-1.19) [-0.013]	-0.076 (-0.74) [-0.005]
Top5AbRet	Performance	-0.006 (-0.02) [0.000]	0.330 (0.60) [0.006]	0.256+ (1.83) [0.036]	0.155 (0.88) [0.011]
Bot5AbRet	Perf. [-]	0.538* (2.18) [0.026]	-0.228 (-0.33) [-0.003]	-0.192 (-1.16) [-0.024]	0.188 (0.81) [0.014]
Sdret		43.34** (3.69) [1.639**]	16.88 (0.72) [0.271]	20.81** (3.94) [2.706]	-11.50 (-1.47) [-0.778]
Year06		-0.281* (-2.19) [-0.011]	0.104 (0.48) [0.002]	0.068 (1.15) [0.009]	-0.223** (-3.33) [-0.015]
Constant		-4.582** (-13.35)	-5.742** (-10.65)	-2.979** (-20.95)	-3.076** (-17.13)
<i>N</i>		11804	4706	12947	11796
pseudo <i>R</i> <sup>2</sup>		0.167	0.189	0.102	0.205

*t* statistics in parentheses; marginal probability (calculated with all other variables set at their mean) in brackets. Marginal probabilities calculated using Stata's mfx command.

+  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$

**Table 4**  
**Panel A: Interaction Between Prior Restat and Audit Committee Variables**

	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
AuditMbr	-0.0264 (-0.23)	0.0565 (0.26)	0.225** (3.08)	0.165+ (1.78)
AuditChr	-0.195 (-1.08)	0.364 (1.33)	0.956** (10.15)	-0.0370 (-0.28)
Prior Restat	-0.359 (-1.36)	-0.866 (-1.40)	0.149 (1.08)	-0.659** (-3.76)
Prior Restat x AuditMbr	0.319 (0.95)	0.492 (0.97)	0.588** (2.91)	0.775** (2.96)
Prior Restat x AuditChr	-0.441 (-0.60)	--	-0.125 (-0.55)	-0.886+ (-1.67)
Year06	-0.279* (-2.18)	0.107 (0.49)	0.0701 (1.18)	-0.221** (-3.32)
Constant	-4.577** (-13.35)	-5.758** (-10.66)	-2.955** (-20.78)	-3.062** (-16.99)
<i>N</i>	11804	4658	12947	11796
pseudo <i>R</i> <sup>2</sup>	0.167	0.189	0.103	0.207

**Select F-Tests**

Prior Restat + Prior Restat x AuditMbr	0.8967	0.5593	0.0000	0.6052
Prior Restat + AuditMbr + Prior Restat x AuditMbr	0.8249	0.6233	0.0000	0.2147
Prior Restat + Prior Restat x AuditMbr + Prior Restat x AuditChr	0.4880	--	0.0049	0.1200
Prior Restat + AuditMbr + AuditChr + Prior Restat x AuditMbr + Prior Restat x AuditChr	0.2996	--	0.0000	0.1850

*t* statistics in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . F-tests are of the null hypothesis that the sum of the coefficients = 0.

Prior Restat x AuditChr = 1 is perfectly correlated with a FOR recommendation by PGI and as a result was dropped from the model.

**Table 4**  
**Panel B: Interaction Between Prior SEC and Audit Committee Variables**

	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
AuditMbr	-0.0128 (-0.11)	0.135 (0.65)	0.300** (4.13)	0.215* (2.35)
AuditChr	-0.253 (-1.39)	0.311 (1.09)	0.958** (10.75)	-0.123 (-0.91)
Prior SEC	0.0948 (0.27)	1.011 <sup>+</sup> (1.65)	0.306 <sup>+</sup> (1.88)	0.187 (0.82)
Prior SEC x AuditMbr	0.238 (0.54)	-0.593 (-0.73)	0.137 (0.62)	0.281 (0.83)
Prior SEC x AuditChair	0.136 (0.21)	-0.851 (-1.51)	-0.423 (-1.32)	0.0449 (0.12)
Year06	-0.281* (-2.19)	0.106 (0.49)	0.0688 (1.16)	-0.223** (-3.33)
Constant	-4.578** (-13.35)	-5.779** (-10.75)	-2.980** (-20.93)	-3.068** (-17.13)
<i>N</i>	11804	4706	12947	11796
pseudo <i>R</i> <sup>2</sup>	0.167	0.190	0.102	0.206
<b>Select F-Tests</b>				
Prior SEC + Prior SEC x AuditMbr	0.3685	0.4802	0.0266	0.0638
Prior SEC + AuditMbr + Prior SEC x AuditMbr	0.3864	0.3490	0.0002	0.0068
Prior SEC + Prior SEC x AuditMbr + Prior SEC x AuditChr	0.4022	0.4730	0.9431	0.0742
Prior SEC + AuditMbr + AuditChr + Prior SEC x AuditMbr + Prior SEC x AuditChr	0.7078	0.9820	0.0000	0.0252

*t* statistics in parentheses: <sup>+</sup>  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . F-tests are of the null hypothesis that the sum of the coefficients = 0.

**Table 4**  
**Panel C: Interaction Between Top5AbComp and Compensation Committee Variables**

	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
CompMbr	0.567** (5.08)	1.694** (4.03)	0.573** (8.60)	0.391** (4.30)
CompChr	-0.227 (-1.51)	0.0479 (0.23)	-0.0933 (-1.14)	0.143 (1.16)
Top5AbComp	0.258 (0.55)	-0.578 (-0.51)	-0.00283 (-0.02)	0.494* (2.15)
Top5AbComp x CompMbr	0.698 (1.31)	3.190** (2.71)	0.594+ (1.91)	-0.364 (-1.07)
Top5AbComp x CompChr	0.548 (1.63)	0.447 (1.13)	0.143 (0.52)	0.884* (2.38)
Year06	-0.281* (-2.20)	0.103 (0.46)	0.0676 (1.14)	-0.223** (-3.34)
Constant	-4.574** (-13.32)	-5.434** (-10.23)	-2.969** (-20.89)	-3.080** (-17.12)
<i>N</i>	11804	4706	12947	11796
pseudo <i>R</i> <sup>2</sup>	0.168	0.205	0.103	0.206
<b>Select F-Tests</b>				
Top5AbComp + Top5AbComp x CompMbr	0.0115	0.0000	0.0303	0.5923
Top5AbComp + CompMbr + Top5AbComp x CompMbr	0.0001	0.0000	0.0000	0.0341
Top5AbComp + Top5AbComp x CompMbr + Top5AbComp x CompChr	0.0003	0.0000	0.0152	0.0012
Top5AbComp + CompMbr + CompChr + Top5AbComp x CompMbr + Top5AbComp x CompChr	0.0000	0.0000	0.0001	0.0000

*t* statistics in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . F-tests are of the null hypothesis that the sum of the coefficients = 0.

**Table 4**  
**Panel D: Interaction Between Top5AbRet and CEO and Employee Director**

	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
CEO	0.916** (7.26)	-0.519* (-2.01)	-0.339** (-3.90)	-0.0407 (-0.38)
Empl_Dir	1.824** (8.06)	0.00313 (0.00)	1.247** (9.63)	0.537* (2.04)
Top5AbRet	-0.108 (-0.34)	0.460 (0.82)	0.244 (1.55)	0.209 (1.10)
Top5AbRet x CEO	0.242 (0.52)	--	0.127 (0.43)	-0.412 (-0.84)
Top5AbRet x Empl Dir	0.379 (0.60)	--	-0.0866 (-0.21)	-0.00221 (-0.00)
Year06	-0.280* (-2.18)	0.105 (0.48)	0.0679 (1.14)	-0.223** (-3.34)
Constant	-4.578** (-13.34)	-5.733** (-10.64)	-2.979** (-20.97)	-3.077** (-17.13)
<i>N</i>	11804	4643	12947	11796
pseudo <i>R</i> <sup>2</sup>	0.167	0.188	0.102	0.206
<b>Select F-Tests</b>				
Top5AbRet + Top5AbRet x CEO	0.7173	--	0.1826	0.6551
Top5AbRet + CEO + Top5AbRet x CEO	0.0053	--	0.9081	0.5847
Top5AbRet + Top5AbRet x Empl_Dir	0.6637	--	0.6806	0.8023
Top5AbRet + Empl_Dir + Top5AbRet x Empl_Dir	0.0007	--	0.0002	0.3458

*t* statistics in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . F-tests are of the null hypothesis that the sum of the coefficients = 0.

top5ret x CEO = 1 is perfectly correlated with a FOR recommendation by PGI and as a result was dropped from the model. top5ret x employeedir = 1 is perfectly correlated with a FOR recommendation by PGI and as a result was dropped from the model.

**Table 4**  
**Panel E: Interaction Between Bot5AbRet and CEO and Employee Director**

	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
CEO	0.901** (7.03)	-0.530* (-2.05)	-0.304** (-3.51)	-0.0560 (-0.53)
Empl_Dir	1.834** (8.16)	-0.00796 (-0.01)	1.264** (9.88)	0.488+ (1.94)
Bot 5AbRet	0.425 (1.44)	-0.0885 (-0.13)	-0.0810 (-0.46)	0.135 (0.61)
Bot 5AbRet x CEO	0.350 (1.06)	--	-0.659+ (-1.75)	-0.0214 (-0.05)
Bot5AbRet x Empl Dir	0.183 (0.30)	--	-0.547 (-1.21)	0.830 (1.13)
Year06	-0.280* (-2.17)	0.104 (0.48)	0.0686 (1.16)	-0.224** (-3.36)
Constant	-4.579** (-13.36)	-5.747** (-10.67)	-2.985** (-20.98)	-3.072** (-17.15)
<i>N</i>	11804	4646	12947	11796
pseudo <i>R</i> <sup>2</sup>	0.167	0.188	0.102	0.206
<b>Select F-Tests</b>				
Bot5AbRet + Bot5AbRet x CEO	0.0118	--	0.0510	0.8012
Bot5AbRet + CEO + Bot5AbRet x CEO	0.0000	--	0.0053	0.8973
Bot5AbRet + Bot5AbRet x Empl_Dir	0.2713	--	0.1502	0.1874
Bot5AbRet + Empl_Dir + Bot5AbRet x Empl_Dir	0.0000	--	0.1528	0.0544

*t* statistics in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . F-tests are of the null hypothesis that the sum of the coefficients = 0.

bot5ret x CEO = 1 is perfectly correlated with a FOR recommendation by PGI and as a result was dropped from the model. bot5ret x employeedir = 1 is perfectly correlated with a FOR recommendation by PGI and as a result was dropped from the model.

**Table 4**  
**Panel F: Interaction Between ManyBds and CEO and Employee Director**

	<b>VoteISS</b>	<b>VotePGI</b>	<b>VoteGL</b>	<b>VoteEJ</b>
CEO	0.573** (4.52)	-0.488+ (-1.88)	-0.390** (-4.37)	0.102 (0.88)
Empl_Dir	1.724** (7.91)	-0.0432 (-0.05)	1.232** (9.68)	0.637* (2.47)
ManyBds	0.256 (1.59)	0.572* (1.98)	0.513** (5.71)	2.589** (24.58)
ManyBds x CEO	1.993** (7.23)	-1.079 (-0.90)	0.424+ (1.75)	-0.585* (-2.54)
ManyBds x Empl_Dir.	--	--	-0.335 (-0.34)	-1.262+ (-1.69)
Year06	-0.295* (-2.28)	0.104 (0.48)	0.0677 (1.14)	-0.222** (-3.30)
Constant	-4.473** (-12.98)	-5.770** (-10.72)	-2.966** (-20.82)	-3.118** (-17.23)
<i>N</i>	11796	4705	12947	11796
pseudo <i>R</i> <sup>2</sup>	0.178	0.190	0.103	0.207
<b>Select F-Tests</b>				
ManyBds + ManyBds x CEO	0.0000	0.6644	0.0000	0.0000
ManyBds + CEO + ManyBds x CEO	0.0000	0.3903	0.0109	0.0000
ManyBds + ManyBds x Empl_Dir	--	--	0.8543	0.0705
ManyBds + Empl_Dir + ManyBds x Empl_Dir	--	--	0.1495	0.0062

*t* statistics in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . F-tests are of the null hypothesis that the sum of the coefficients = 0.

ManyBds x Empl\_Dir = 1 is perfectly correlated with a FOR recommendation by ISS and PGI and as a result was dropped from these models.

**Table 5**

**Panel A**

	Sample	Col %	ISS WH	ISS Col %	ISS Row %	PGI WH	PGI Col %	PGI Row %	GL WH	GL Col %	GL Row %	EJ WH	EJ Col %	EJ Row %
All	16038	100.00	916	100.00	6.60	202	100.00	3.72	2956	100.00	18.80	1551	100.00	10.96
Vote>95%	11501	71.71	111	12.12	1.12**	107	52.97	2.72**	1069	36.16	9.49**	830	53.51	8.06**
Vote 90<x<95	2837	17.69	55	6.00	2.18**	47	23.27	5.06*	1084	36.67	38.92**	346	22.31	14.19**
Vote 85<x<90	742	4.63	95	10.37	14.87**	20	9.90	7.46**	316	10.69	43.71**	112	7.22	18.18**
Vote 80<x<85	283	1.76	130	14.19	51.59**	6	2.97	6.82	121	4.09	43.37**	50	3.22	22.62**
Vote 75<x<80	218	1.36	160	17.47	84.21**	10	4.95	13.70**	94	3.18	43.93**	49	3.16	27.07**
Vote <75	457	2.85	365	39.85	94.07**	12	5.94	8.45**	272	9.20	59.78**	164	10.57	41.41**
Vote < 80	675	4.21	525	57.31	90.83	22	10.89	10.23	366	12.38	54.71	213	13.73	36.92
Vote > 80	15363	95.79	391	42.69	2.94	180	89.11	3.45	2590	87.62	17.21	1338	86.27	9.86
Vote < 90	1700	10.6	750	81.88	51.06	48	23.76	8.41	803	27.17	48.06	375	24.18	26.52
Vote > 90	14338	89.4	166	18.12	1.34	154	76.24	3.16	2153	72.83	15.32	1176	75.82	9.24

Col % represents the number of directors in the category in question (i.e., Vote>95%) over the total number of directors (All). Row% represents the number of directors in the category in question with a Withhold recommendation (from ISS, PGI, GL, or EJ respectively) over the number of directors that received any recommendation from the proxy advisor in question. ISS WH is the number of ISS withhold recommendations (similar definition for other advisors).

+  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ : From a  $\chi^2$  test of the null hypothesis that there is no difference between the number of for and withhold recommendation for the entire sample of directors where a recommendation exists (for ISS, PGI, GL, or EJ respectively) compared with the specific subset in question (i.e., for Vote>95%).

**Table 5****Panel B: Coverage Rates**

	<b>ISS</b>	<b>PGI</b>	<b>GL</b>	<b>EJ</b>
All	0.865	0.339	0.980	0.882
Vote>95%	0.859	0.342	0.980	0.895
Vote 90<x<95	0.888	0.327	0.982	0.860
Vote 85<x<90	0.861	0.361	0.974	0.830
Vote 80<x<85	0.890	0.311	0.986	0.781
Vote 75<x<80	0.872	0.335	0.982	0.830
Vote <75	0.849	0.311	0.996	0.867
Vote < 80	0.856	0.319	0.991	0.855
Vote > 80	0.865	0.340	0.980	0.883
Vote < 90	0.864	0.336	0.983	0.832
Vote > 90	0.865	0.339	0.980	0.888

**Table 5****Panel C**

	Sample %	ISS %	Non-ISS %	t-stat	PGI %	NonPG I %	t-stat	GL %	NonGL %	t-stat	EJ %	NonEJ %	t-stat
All	1.000	1.000	1.000		1.000	1.000		1.000	1.000		1.000	1.000	
Vote>95%	0.717	0.713	0.746	-3.360	0.724	0.714	1.410	0.717	0.744	-1.092	0.728	0.638	7.660
Vote 90<x<95	0.177	0.182	0.147		0.171	0.180		0.177	0.165		0.172	0.210	
Vote 85<x<90	0.046	0.046	0.047		0.049	0.045		0.046	0.060		0.044	0.067	
Vote 80<x<85	0.018	0.018	0.014		0.016	0.018		0.018	0.013		0.016	0.033	
Vote 75<x<80	0.014	0.014	0.013		0.013	0.014		0.014	0.013		0.013	0.020	
Vote <75	0.028	0.028	0.032	-0.950	0.026	0.030	-1.296	0.029	0.006	4.855	0.028	0.032	-0.994
Vote < 80	0.042	0.042	0.045	-0.640	0.040	0.043	-1.149	0.043	0.019	3.004	0.041	0.052	-2.059
Vote > 80	0.958	0.958	0.955		0.960	0.957		0.957	0.981		0.959	0.948	
Vote < 90	0.106	0.106	0.107		0.105	0.106		0.106	0.092		0.100	0.151	
Vote > 90	0.894	0.894	0.893	0.082	0.895	0.894	0.288	0.894	0.908	-0.883	0.900	0.849	5.953

ISS% is the number of directors in the specified sub-sample (i.e., Vote>95%) with an ISS recommendation divided by the total number of directors in the sample with an ISS recommendation. Non-ISS% is the number of directors in the specified sub-sample (i.e., Vote>95%) without an ISS recommendation divided by the total number of directors in the sample without an ISS recommendation. Both ISS% and Non-ISS% are set equal to 1.000 by construction for the entire sample (All). The t-statistic is for a two-sided t-test of the difference between ISS% and Non-ISS%. Equivalent statistics appear in the table for PGI, GL, and EJ.

**Table 5**  
**Panel D**

	Sample	v>95%	Row %	Col %	90%<v<95%	Row%	Col%	85%<v<90%	Row%	Col%
Whole sample	16038	11501	0.72	NA	2837	0.18	NA	742	0.046	NA
Chairman only	385	271	0.70	0.03	70	0.18	0.027	19	0.049	0.028
CEO	2978	2186	0.73	0.21	489	0.16	0.188	127	0.043	0.186
Empl_Dir	929	625	0.67	0.06	194	0.21	0.075	48	0.052	0.070
OutDirLink	1533	739	0.48	0.07	394	0.26	0.152	126	0.082	0.185
NomMbr	5703	3917	0.69	0.38	1082	0.19	0.416	317	0.056	0.465
AuditMbr	5796	4118	0.71	0.40	1106	0.19	0.425	284	0.049	0.416
AuditChr	1422	953	0.67	0.09	317	0.22	0.122	84	0.059	0.123
CompMbr	5602	3716	0.66	0.36	1152	0.21	0.443	340	0.061	0.499
CompChr	1397	913	0.65	0.09	287	0.21	0.110	99	0.071	0.145
Attendance	98	24	0.24	0.00	13	0.13	0.005	18	0.184	0.026
Interlock	37	15	0.41	0.00	14	0.38	0.005	5	0.135	0.007
ManyBds	1315	877	0.67	0.09	250	0.19	0.101	76	0.058	0.119
Age75	1977	1415	0.72	0.12	341	0.17	0.120	93	0.047	0.125
Top5AbComp	749	475	0.63	0.04	179	0.24	0.067	32	0.043	0.046
Top5AbRet	803	577	0.72	0.05	135	0.17	0.048	52	0.065	0.070
Bot5AbRet	807	500	0.62	0.04	200	0.25	0.071	41	0.051	0.055
ClassBd	5755	4031	0.70	0.36	1058	0.18	0.381	288	0.050	0.397
PPill	8025	5651	0.70	0.50	1458	0.18	0.525	394	0.049	0.543
CumVote	1729	1277	0.74	0.11	263	0.15	0.095	74	0.043	0.102
GP	11725	8377	0.71	0.74	2140	0.18	0.771	546	0.047	0.752
IP No	146	46	0.32	0.00	22	0.15	0.008	4	0.027	0.005
Prior Restat	1998	1374	0.69	0.12	377	0.19	0.133	110	0.055	0.148
Prior SEC	1132	768	0.68	0.07	233	0.21	0.082	54	0.048	0.073
Year06	8069	5970	0.74	0.52	1306	0.16	0.460	372	0.046	0.501

v represents the for vote percentage of a specific director. Row% is the number of directors that meet the “v>95%” criteria divided by all directors for the row in question (i.e., “Chairman Only” row). Col% is the number of directors that meet the “v>95%” criteria for a particular row (i.e., “Chairman Only” row) divided by all the directors that meet the “v>95%” criteria. Equivalent Row% and Col% statistics appear in the table for the other vote threshold criteria in the table.

**Table 5****Panel D Continued**

	<b>Sample</b>	<b>80%&lt;v&lt;85%</b>	<b>Row %</b>	<b>Col %</b>	<b>75%&lt;v&lt;80%</b>	<b>Row%</b>	<b>Col%</b>	<b>v&lt;75%</b>	<b>Row%</b>	<b>Col%</b>
Whole sample	16038	283	0.018	NA	218	0.014	NA	457	0.028	NA
Chairman only	385	7	0.018	0.027	3	0.008	0.015	15	0.039	0.037
CEO	2978	67	0.022	0.258	45	0.015	0.225	64	0.021	0.156
Empl_Dir	929	22	0.024	0.085	17	0.018	0.085	23	0.025	0.056
OutDirLink	1533	62	0.040	0.238	58	0.038	0.290	154	0.100	0.377
NomMbr	5703	113	0.020	0.435	74	0.013	0.370	200	0.035	0.489
AuditMbr	5796	95	0.016	0.365	64	0.011	0.320	129	0.022	0.315
AuditChr	1422	22	0.015	0.085	15	0.011	0.075	31	0.022	0.076
CompMbr	5602	113	0.020	0.435	97	0.017	0.485	184	0.033	0.450
CompChr	1397	26	0.019	0.100	25	0.018	0.125	47	0.034	0.115
Attendance	98	5	0.051	0.019	6	0.061	0.030	32	0.327	0.078
Interlock	37	1	0.027	0.004	1	0.027	0.005	1	0.027	0.002
ManyBds	1315	40	0.030	0.159	21	0.016	0.110	51	0.039	0.131
Age75	1977	32	0.016	0.113	32	0.016	0.147	64	0.032	0.140
Top5AbComp	749	12	0.016	0.048	17	0.023	0.081	34	0.045	0.078
Top5AbRet	803	13	0.016	0.046	10	0.012	0.046	16	0.020	0.036
Bot5AbRet	807	15	0.019	0.053	24	0.030	0.110	27	0.033	0.060
ClassBd	5755	88	0.015	0.313	84	0.015	0.396	206	0.036	0.461
PPill	8025	153	0.019	0.544	94	0.012	0.443	275	0.034	0.615
CumVote	1729	21	0.012	0.075	44	0.025	0.208	50	0.029	0.112
GP	11725	198	0.017	0.705	130	0.011	0.613	334	0.028	0.747
IP No	146	0	0.000	0.000	20	0.137	0.092	54	0.370	0.118
Prior Restat	1998	47	0.024	0.166	28	0.014	0.128	62	0.031	0.136
Prior SEC	1132	16	0.014	0.057	13	0.011	0.060	48	0.042	0.105
Year06	8069	131	0.016	0.463	77	0.010	0.353	213	0.026	0.466

**Table 6: For Vote Outcome**

Variable	Factor	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
CEO	General	-0.209** (-6.72)	-0.159** (-5.45)	-0.188** (-4.31)	-0.234** (-7.85)	-0.195** (-6.14)	-0.191** (-4.49)
AuditMbr	Audit	-0.122** (-4.36)	-0.139** (-5.07)	-0.049 (-1.12)	-0.060* (-2.34)	-0.089** (-3.21)	-0.010 (-0.27)
Prior Restat	Audit	-0.093 (-0.98)	-0.098 (-1.10)	-0.127 (-1.01)	-0.075 (-0.83)	-0.123 (-1.24)	-0.082 (-0.71)
Prior SEC	Audit	-0.215** (-2.63)	-0.185* (-2.34)	0.041 (0.32)	-0.174* (-2.35)	-0.227** (-2.73)	0.123 (1.06)
Prior Restat x AuditMbr		-0.162* (-2.10)	-0.089 (-1.17)	-0.086 (-0.87)	-0.063 (-0.93)	-0.179* (-2.28)	-0.0527 (-0.64)
Prior SEC x AuditMbr		-0.067 (-0.90)	-0.054 (-0.90)	-0.288* (-2.02)	-0.073 (-1.11)	-0.053 (-0.73)	-0.247* (-2.16)
CompMbr	Compensation	-0.270** (-10.08)	-0.224** (-8.53)	-0.198** (-4.82)	-0.208** (-8.18)	-0.246** (-8.81)	-0.135** (-3.38)
Top5AbComp	Compensation	-0.091 (-0.86)	-0.044 (-0.48)	-0.065 (-0.42)	-0.092 (-0.86)	-0.073 (-0.69)	0.073 (0.50)
Top5AbComp x CompMbr		-0.447** (-3.89)	-0.324** (-4.23)	-0.328 (-1.47)	-0.313* (-2.54)	-0.442** (-3.84)	-0.212 (-1.10)
Attendance	Board Effect.	-1.630** (-9.96)	-0.974** (-8.38)	-1.585** (-7.35)	-1.069** (-7.94)	-1.308** (-7.81)	-0.562** (-4.11)
ManyBds	Board Effect.	-0.247** (-6.21)	-0.199** (-5.58)	-0.201** (-3.23)	-0.157** (-4.10)	-0.044 (-1.00)	-0.048 (-0.81)
ManyBds x CEO		-0.342** (-3.47)	0.181* (2.34)	-0.261 (-1.64)	-0.331** (-3.46)	-0.412** (-4.14)	0.114 (0.90)

Age75	Board Effect.	-0.270** (-3.54)	-0.234** (-2.98)	-0.231+ (-1.69)	-0.220** (-3.03)	-0.279** (-3.48)	-0.054 (-0.37)
NomMbr	Board Comp.	-0.118** (-5.02)	-0.072** (-3.22)	-0.081* (-2.25)	-0.054* (-2.42)	-0.090** (-3.71)	0.020 (0.58)
Empl_Dir	Board Indep.	-0.702** (-11.91)	-0.543** (-10.26)	-0.723** (-7.57)	-0.559** (-9.93)	-0.652** (-10.76)	-0.494** (-5.82)
OutDirLink	Board Indep.	-1.019** (-21.62)	-0.707** (-17.25)	-1.039** (-12.33)	-0.757** (-17.16)	-0.900** (-18.48)	-0.509** (-7.40)
Tot_Dir_Shs		0.688** (2.74)	0.901** (3.03)	1.313** (2.87)	0.723** (2.83)	0.726** (2.76)	1.603** (2.78)
Interlock	Board Indep.	0.112 (0.79)	-0.157 (-1.10)	0.150 (0.70)	0.524** (3.85)	0.117 (0.88)	0.022 (0.07)
Chairman Only	Board Indep.	0.037 (0.51)	-0.002 (-0.03)	-0.0577 (-0.46)	-0.066 (-0.99)	0.0198 (0.27)	-0.218* (-2.07)
IP No	Board Indep.	-1.340** (-5.03)	-0.522** (-3.90)	-1.652** (-11.03)	-1.213** (-5.05)	-1.255** (-4.64)	-0.690** (-3.42)
ClassBd	Takeover	-0.164** (-3.25)	-0.108* (-2.27)	-0.111 (-1.36)	-0.159** (-3.25)	-0.178** (-3.38)	-0.071 (-0.85)
PPill	Takeover	-0.032 (-0.58)	-0.020 (-0.39)	-0.105 (-1.16)	-0.036 (-0.67)	-0.048 (-0.84)	-0.052 (-0.58)
CumVote	Takeover	-0.068 (-0.83)	0.006 (0.07)	0.081 (0.69)	-0.078 (-0.98)	-0.0549 (-0.62)	0.086 (0.67)
GP	Takeover	-0.037 (-0.57)	-0.097 (-1.62)	-0.036 (-0.33)	-0.044 (-0.71)	-0.030 (-0.44)	-0.055 (-0.50)
Top5AbRet	Perf.	0.152 (1.31)	0.150 (1.27)	0.111 (0.57)	0.187+ (1.65)	0.170 (1.35)	0.152 (0.73)

Bot5AbRet	Perf. [-]	0.009 (0.08)	0.103 (0.84)	-0.029 (-0.15)	-0.006 (-0.05)	0.040 (0.27)	-0.091 (-0.41)
Top5AbRet x CEO		0.140 (0.96)	0.198 (1.41)	0.276 (1.17)	0.117 (0.85)	0.022 (0.14)	0.079 (0.33)
Bot5AbRet x CEO		-0.142 (-1.07)	-0.026 (-0.21)	-0.218 (-1.15)	-0.180 (-1.34)	-0.057 (-0.36)	0.030 (0.14)
Sdret		-27.930** (-5.93)	-23.930** (-5.21)	-19.230** (-2.82)	-24.950** (-5.56)	-27.800** (-5.53)	-21.150** (-2.62)
InstHold		0.075 (0.47)	-0.036 (-0.23)	0.249 (1.00)	0.076 (0.48)	0.061 (0.36)	0.120 (0.45)
NumInst		-0.000** (-3.86)	-0.000** (-4.58)	-0.000* (-2.41)	-0.000** (-4.21)	-0.000** (-3.74)	-0.001** (-3.13)
Year06		0.117** (3.18)	0.092* (2.56)	0.112* (2.01)	0.125** (3.46)	0.097* (2.50)	0.156** (2.61)
VoteISS			-2.086** (-30.82)				-1.898** (-19.78)
VotePGI				-0.513** (-3.60)			-0.245+ (-1.74)
VoteGL					-1.029** (-27.82)		-0.950** (-17.65)
VoteEJ						-0.524** (-10.92)	-0.126* (-2.13)
Constant		4.631** (26.44)	4.681** (27.08)	4.251** (16.36)	4.638** (26.73)	4.648** (25.22)	4.425** (18.01)
N		12623	11585	4618	12542	11429	3751
adj. R-sq		0.132	0.281	0.156	0.223	0.147	0.363

t statistics in parentheses: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$

**Table 7: Recommendation Exists Model**

<b>Independent Variables</b>	<b>Model</b>	<b>Independent Variables</b>	<b>Model Cont.</b>	<b>F-test</b>
ISS_CEO	-0.213** (-6.66)	No_ISS_CEO	-0.154 (-1.23)	0.6464
ISS_AuditMbr	-0.133** (-4.58)	No_ISS_AuditMbr	-0.006 (-0.07)	0.1811
ISS_Prior Restat	-0.048 (-0.51)	No_ISS_Prior Restat	-0.656+ (-1.65)	0.1341
ISS_Prior SEC	-0.213* (-2.49)	No_ISS_Prior SEC	-0.325 (-1.23)	0.6845
ISS_Prior Restat x AuditMbr	-0.137+ (-1.67)	No_ISS_Prior Restat x AuditMbr	-0.311 (-1.45)	0.4500
ISS_Prior SEC x AuditMbr	-0.048 (-0.65)	No_ISS_Prior SEC x AuditMbr	-0.363 (-1.01)	0.3889
ISS_CompMbr	-0.277** (-9.96)	No_ISS_CompMbr	-0.183* (-2.11)	0.2966
ISS_Top5AbComp	-0.083 (-0.71)	No_ISS_Top5AbComp	-0.053 (-0.31)	0.8850
ISS_Top5AbComp x CompMbr	-0.461** (-3.90)	No_ISS_Top5AbComp x CompMbr	-0.340 (-0.93)	0.7466
ISS_Attendance	-1.711** (-9.65)	No_ISS_Attendance	-1.075* (-2.47)	0.1775
ISS_ManyBds	-0.225** (-5.65)	No_ISS_ManyBds	-0.563** (-3.28)	0.0520
ISS_ManyBds x CEO	-0.342** (-3.40)	No_ISS_ManyBds x CEO	-0.626 (-1.51)	0.5082
ISS_Age75	-0.249** (-3.06)	No_ISS_Age75	-0.557** (-3.37)	0.0896
ISS_NomMbr	-0.120** (-4.88)	No_ISS_NomMbr	-0.081 (-1.05)	0.6264
ISS_Empl_Dir	-0.724** (-11.92)	No_ISS_Empl_Dir	-0.397+ (-1.95)	0.1217
ISS_OutDirLink	-1.036** (-21.40)	No_ISS_OutDirLink	-0.833** (-4.49)	0.2831
ISS_Tot_Dir_ShS	0.682* (2.54)	No_ISS_Tot_Dir_ShS	0.604 (1.33)	0.8807

ISS_Interlock	0.079 (0.53)	No_ISS_Interlock	0.484 (0.83)	0.5017
ISS_Chairman Only	0.046 (0.64)	No_ISS_Chairman Only	-0.081 (-0.30)	0.6459
ISS_IP No	-1.322** (-4.70)	No_ISS_IP No	-1.644** (-6.31)	0.3949
ISS_ClassBd	-0.165** (-3.20)	No_ISS_ClassBd	-0.191 (-1.17)	0.8793
ISS_PPill	-0.009 (-0.16)	No_ISS_PPill	-0.241 (-1.23)	0.2438
ISS_CumVote	-0.059 (-0.66)	No_ISS_CumVote	-0.203 (-0.86)	0.5685
ISS_GP	-0.032 (-0.47)	No_ISS_GP	-0.071 (-0.33)	0.8593
ISS_Top5AbRet	0.166 (1.34)	No_ISS_Top5AbRet	0.085 (0.27)	0.8092
ISS_Bot5AbRet	0.033 (0.26)	No_ISS_Bot5AbRet	-0.280 (-0.61)	0.5116
ISS_Top5AbRet x CEO	0.141 (0.91)	No_ISS_Top5AbRet x CEO	0.037 (0.12)	0.7705
ISS_Bot5AbRet x CEO	-0.118 (-0.85)	No_ISS_Bot5AbRet x CEO	-0.351 (-1.25)	0.4576
ISS_Sdret	-29.010** (-5.76)	No_ISS_Sdret	-11.220 (-0.92)	0.1743
ISS_InstHold	-0.004 (-0.03)	No_ISS_InstHold	0.721+ (1.89)	0.0742
ISS_NumInst	-0.000** (-3.99)	No_ISS_NumInst	-0.000 (-0.78)	0.5262
ISS_Year06	0.125** (3.24)	No_ISS_Year06	0.143 (1.06)	0.8954
ISSexist	4.701** (25.82)	ISSnotexist	3.874** (9.60)	0.0514
		N	12623	
		adj. R-sq	0.906	

ISSexist=1 only where a ISS recommendation exists and ISSnotexist=1 only where a ISS recommendation does not exist. ISS\_variable represents ISSexist=1 x variable. No\_ISS\_variable represents ISSnotexist=1 x variable. F-test is for the difference between the coefficients for the ISS\_variable and the corresponding No\_ISS\_variable.