THE JOURNAL OF FINANCE • VOL. LXIV, NO. 5 • OCTOBER 2009

Electing Directors

JIE CAI, JACQUELINE L. GARNER, and RALPH A. WALKLING*

ABSTRACT

Using a large sample of director elections, we document that shareholder votes are significantly related to firm performance, governance, director performance, and voting mechanisms. However, most variables, except meeting attendance and ISS recommendations, have little economic impact on shareholder votes—even poorly performing directors and firms typically receive over 90% of votes cast. Nevertheless, fewer votes lead to lower "abnormal" CEO compensation and a higher probability of removing poison pills, classified boards, and CEOs. Meanwhile, director votes have little impact on election outcomes, firm performance, or director reputation. These results provide important benchmarks for the current debate on election reforms.

A FUNDAMENTAL COMPONENT OF corporate governance is shareholder representation by the board of directors. A great deal of research has focused on the role, size, composition, and impact of the board on firm performance, yet we know little about uncontested director elections. The subject is particularly important in today's environment. Congress, stock exchanges, and individual firms have instituted dramatic governance changes. Moreover, shareholders, activist organizations, the New York Stock Exchange (NYSE), and the Securities and Exchange Commission (SEC) have proposed and debated additional changes to the method by which directors are elected.

Apart from directors, shareholders do not have representation in the companies they own. If shareholder impact on director elections is weak, so is the link between owners and managers. Anecdotal and academic evidence document egregious, although ostensibly legal, managerial actions that significantly impact firm value (e.g., Jensen (1986)). For example, in recent work, Moeller, Schlingemann, and Stulz (2005) document massive wealth losses from acquisitions. Yermack (2006) reports a negative link between CEO perquisite

*All authors can be reached at the LeBow College of Business, Drexel University, Philadelphia. The authors appreciate comments from David Becher, Jennifer Bethel, Kenneth Borokhovich, Ann Bradenton, Naveen Daniel, Diane Del Guercio, Ming Dong, Daniel Dorn, Eliezer Fich, Stuart Gillan, Kathleen Kahle, Felix Meschke, Frederik Schlingemann, Anil Shivdasani, Randall Thomas, David Yermack, and seminar participants at Drexel University and the 2007 Western Finance Association meetings. We thank Brian Bushee for sharing his classification system for type of institutional ownership. We thank Cornerstone Research and Stanford Law School for providing us with data on litigation. This paper expresses the views of the authors and does not represent in any way the views of Cornerstone Research or Stanford Law School. We also appreciate research assistance from Ezgi Hallioglu, Billy Hsu, Esra Karahan, Anastasios Kritikos, Adi Mordel, David Pedersen, Anh Tran, Tamika Washington, and Dazhi Zheng. We thank the LeBow College of Business Center for Corporate Governance for financial support.

consumption and stock returns, and Graham, Harvey, and Rajgopal (2005) indicate that CEOs routinely sacrifice long-term value in an effort to "hit" short-term earnings targets. The board represents shareholders' direct internal control of such actions.

Previous research on director elections has focused on proxy contests (see, e.g., Dodd and Warner (1983), Pound (1988), DeAngelo and DeAngelo (1989), and Mulherin and Poulsen (1998), among others). However, as Schwartz (1983) and Bebchuk (2003) document, the vast majority of director elections are uncontested. Bebchuk (2003, p. 1) asserts that "incumbents do not currently face any meaningful risks of being replaced via the ballot box. . . ." Further, Bebchuk (2007) documents that during 1996 to 2005, there were only 118 contested elections, and in two-thirds of these cases the rivals were unsuccessful. Consistent with these assertions, in 2,484 out of 2,488 shareholder elections in our sample, the number of directors to be elected equals the number of seats.

In our sample period, the majority of public firms in the United States have plurality voting rules; directors receiving the largest number of votes are elected.[1] Plurality voting weakens the power of shareholders in uncontested elections. While shareholders can withhold votes, under a plurality system these votes lack legal significance, as a director in an uncontested election can be elected with a single vote. The prospect of shareholders having an effective voice in electing or removing chosen representatives seems limited.

Nevertheless, shareholders may express their dissatisfaction with companies by withholding votes for the directors. Proxy advisors (e.g., Glass, Lewis and Institutional Shareholder Services (ISS)) suggest that withheld votes in uncontested elections are meaningful and can serve as a disciplining device. Grundfest (2003) notes that even symbolic votes can have consequences through negative publicity and embarrassment. Del Guercio, Seery, and Woidtke (2008) find that vote-no campaigns in director elections are associated with increased CEO turnover and improved operating performance. Arena and Ferris (2007) report that director appointments (in private offerings) without the symbolic shareholder vote are associated with managerial entrenchment and poor firm performance.

The objective of this paper is to examine uncontested director elections on a large sample of firms in the post-Sarbanes Oxley Act (SOX) era.[2] We test several hypotheses relating performance at both the firm and director levels to the votes directors receive. We also examine the efficacy of the election process. That is, we examine whether votes matter to subsequent performance, compensation, or governance. This article, together with Fischer et al. (2008), is among the first academic studies to document the distribution of director votes in uncontested elections.

To understand the link between shareholder votes and director elections, we start by documenting current practices. Next, we examine the determinants

[1] Many firms have switched to majority voting in 2006 and 2007. For an analysis of this issue, see Cai, Garner, and Walkling (2007).

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

and efficacy of shareholder votes. For example, are shareholder votes linked to firm-specific and/or director-specific characteristics? More importantly, do shareholder votes matter? Are there fundamental changes in the financial or operating performance of firms subsequent to director elections? Do firms alter governance characteristics in response to the level of votes that directors receive? Are directors who receive low votes disciplined by their firms, and do they suffer a loss in reputational capital? Understanding the answers to these questions is essential for informed debate on reforms in the proxy process and director elections.

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

The issues we examine are timely. For example, since 2003, the SEC has considered various proposals related to shareholder access to the proxy. In late 2007, the SEC voted to amend Rule 14a-8(i)(8) to specifically allow firms the ability to exclude (from the proxy) shareholder proposals regarding director elections. After the rule amendment, SEC Commissioner Christopher Cox made assurances that he would review shareholder access to the proxy again.[3] In addition, in June 2006, the Proxy Working Group of the NYSE recommended the elimination of the broker vote.[4] Our analysis indicates that elimination of these broker votes (which typically side with management) is unlikely to affect the outcome of most uncontested director elections, but the lower votes that would result may significantly affect CEO compensation and corporate governance at some companies. Further, we find a significant link between performance and votes. At least some shareholders vote as if performance matters. An optimistic view of the reforms is that they would increase shareholder belief in the efficacy of the election process, which would translate into more meaningful changes in the economic impact of votes.

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

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

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

I. Background and Hypotheses

A. The Director Elections Process

Director elections are influenced by many factors, including the structure of the board (classified versus nonclassified), the nomination process, the existence of cumulative and confidential voting, the distribution of voting power (e.g., dual class shares), and the method of counting votes. First, in the case of classified (or staggered) boards, only a portion (often a third) of the board is elected each year. Second, absent dissident slates, nominees are generally those proposed by a board committee.[5] Third, Pozen (2003) reports that a small fraction of firms (9.2%) allows cumulative voting. Fourth, the existence of dual class shares (often held by management) can influence voting power. Fifth, some firms allow confidential voting; most do not. A sixth issue concerns whether directors will be elected by a plurality or majority of votes. Section 2.16 (1) of the Delaware General Corporation Law requires that in absence of alternate provisions in the charter or bylaws, directors shall be elected by a plurality of the votes. Thus, if three directors are to be elected and only three are running, directors could be elected with a single vote.[6]

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

[5] Under NYSE rules after SOX, the nomination committee, comprised entirely of outside directors, is charged with identifying qualified board candidates. It is possible that this committee is influenced by members of management. In theory, shareholders can influence this process through their nominations, but the effectiveness of this procedure is questioned frequently in the press by shareholder advocates. Shivdasani and Yermack (1999) document the dramatic influence of the CEO in this process. Reforms aimed at providing shareholder access to the proxy were proposed by the SEC, but in late 2007, the SEC further limited shareholder access to the proxy (see footnote 3). Even apart from the nomination of directors, the ability of shareholders to *remove* their own representatives is limited. For additional discussion of shareholder access to the proxy see Bebchuk (2003).

[6] See Cai et al. (2007) for an analysis of majority versus plurality elections.

B. Related Literature

The issues related to uncontested director elections are largely undocumented. However, a considerable literature examines cumulative voting, shareholder activism, and shareholder voting on stock option plans. While space constraints preclude a complete review of this work, the following research is illustrative of some of the general themes. (See Internet Appendix A for additional literature.)[7] Bhagat and Brickley (1984) find that the elimination of cumulative voting for 52 firms from the 1962 to 1982 period reduces shareholder wealth. Hermalin and Weisbach (1988) report that the probability of adding independent directors increases following poor firm performance. In addition, board independence is negatively related to CEO tenure. Mulherin and Poulsen (1998) find that proxy contests for board seats create wealth. Most of the wealth is associated with firms subsequently acquired or cases where there is managerial turnover. Bebchuk and Hart (2001) argue that proxy contests combined with takeover bids dominate either strategy alone for changing management or obtaining control.

Karpoff, Malatesta, and Walkling (1996) find that shareholder sponsored proxy proposals target poorly performing firms. The proposals, however, appear to have little impact on announcement returns or firm performance.[8] Gillan and Starks (1998) note that until the mid-1980s most proposals were used by individual shareholders, religious groups, or political groups. Since that time, shareholder proposals aimed at governance reforms have increased dramatically. Morgan and Poulsen (2001) report that compensation proposals receive less support when the plans have negative features such as high dilution levels. Thomas and Martin (2000) find that shareholders are more likely to approve stock option plans at poorly performing firms, which they interpret as an attempt to align owners and managers. Thomas and Cotter (2007) indicate that in the post-Enron era, boards implement more actions following highly supported shareholder sponsored proposals, but show that the price reaction is still insignificant. With a few exceptions, the general conclusion of this literature is that shareholder activism has little impact on a firm's stock price. This lack of impact could be because the proposals receive low votes, because they are precatory in nature, or because they would have little impact on the firm, even if implemented.

C. Hypotheses

The remaining sections of this paper address two issues. First, we consider what determines director votes. Here, we test three hypotheses: the *poorly performing firm hypothesis,* the *governance hypothesis,* and the *poorly performing*

[7] An Internet Appendix for this article is available online in the "Supplements and Data Sets" section at http:www.afajof.org/supplements.asp.

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

director hypothesis. Second, we examine whether votes matter by testing the *efficacy hypothesis,* that is, we test whether low votes result in changes to directors, performance, compensation, or governance.

C.1. What Determines Director Votes?

C.1.1. The Poorly Performing Firm Hypothesis. The poorly performing firm hypothesis asserts that directors of firms that underperform relative to the stock market or industry operating performance benchmarks will receive significantly fewer votes for election. The literature has established poor performance as a factor in CEO replacement. Farrell and Whidbee (2003) find an inverse relation between CEO turnover and analyst forecast errors. Their results suggest that a CEO is accountable for actual performance levels and that the board uses the expectations about earnings in their decision to replace a CEO. Huson, Malatesta, and Parrino (2004) find that accounting measures decline prior to CEO turnover. If directors are also held accountable for the performance of the firm, we expect that their votes will be lower following poor performance. These arguments lead to our first hypothesis:

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

C.1.2. The Governance Hypothesis. Firms that are poorly governed may elicit low votes for their directors. While governance includes a broad array of principles, we focus on shareholder rights, management entrenchment, board characteristics, stock ownership, and CEO compensation policies. The governance index of Gompers, Ishii, and Metrick (GIM, 2003), the entrenchment index of Bebchuk, Cohen, and Ferrell (2005), and board independence are measures of the degree of management entrenchment of a firm. Since shareholders of "dictator" firms have less control over management, and managers of these firms have more protection from corporate control changes, the director nominees could be less shareholder-friendly and receive fewer votes. These directors may also provide higher excess compensation to their CEOs. The governance hypothesis thus asserts:

H2: Directors in firms with weaker governance (higher GIM index, higher excess CEO compensation, fewer independent directors, etc.) will receive significantly fewer votes for election.

C.1.3. The Poorly Performing Director Hypothesis. Apart from firm performance and governance, directors may receive significantly more withheld votes because of their own behavior. This would imply meaningful cross-sectional dispersion within a firm based on the performance of the individual directors. Two individual indications of director performance are attendance at meetings of the director's own firm and seats on boards of other firms facing shareholder litigation.

H3: Poorly performing directors will receive significantly fewer votes for election.

The implicit alternative to the first three hypotheses is the "apathy hypothesis," which suggests no relation between performance and votes because shareholders know that voting is a futile exercise. Moreover, shareholders also have the alternative of selling their shares.[9]

C.2. Does the Vote Matter? The Efficacy Hypotheses

The first three hypotheses examine how votes for directors are related to firms' performance, corporate governance, and directors' performance. However, the presence (or absence) of a significant relation between these variables and director votes does not address the potential impact of the vote. Fewer votes could have meaning in at least five situations. First, a director who receives fewer votes might not be elected. However, under plurality voting in uncontested elections, a single vote ensures election. Second, a low vote may result in the removal of or the voluntary resignation of a director. Third, changes in performance may occur when a firm or director receives lower shareholder support. Fourth, the board could change various corporate governance mechanisms in response to low votes, including changes to the levels of executive compensation. Finally, directors could be disciplined through settling up in the external labor market (Fama (1980)). Thus, the number of additional board seats that directors hold could change in response to their voting outcome in one particular election. This leads to our efficacy hypothesis, which is stated in two parts:

H4a: Firms with directors receiving fewer votes for election will experience a greater degree of performance and governance improvements than will firms receiving a higher level of votes.

H4b: Directors receiving fewer votes are more likely to lose board positions in their own firms and in other firms.

II. Data and Methodology

A. Sample Selection

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

We test our hypotheses using additional data from the Center in Research for Security Prices (CRSP), Compustat, Thomson Financial's Institutional

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

Holdings (13F), ExecuComp, and Investor Responsibility Research Center's (IRRC) Governance and Director databases. This reduces our sample to 3,138 shareholder meetings.[10] Because of the different nature of regulated businesses and their financial data, we exclude 650 shareholder meetings at financial and utility firms. In the remaining 2,488 shareholder meetings, we match the names of directors from the ISS Voting Analytics database to the IRRC Director database. Director names follow different formats in the ISS and IRRC databases. We use a complex procedure to match director names across the two data sets. The net result is a sample of 13,384 director elections at 2,488 different shareholder meetings.

B. Voting Measures

Three basic categories of voting exist in director elections. Under plurality vote rules, shares can be voted for a director, withheld for a director, or not voted. Thus, shareholders do not have the option of voting "against." Shares voted "for" are from two sources. First, shareholders can actively vote their shares. Second, unless they receive prior instruction, brokers can vote shares held in street name. Dixon and Thomas (1998) show that an average firm in 1997 has 70% to 80% of its shares held under brokers' names and that brokers always vote with management, that is, cast "for" votes for directors.

Shares "withheld" from a director candidate involve cases where a shareholder explicitly returns a proxy card marked "withhold" for a particular director. Shares "not voted" are those held directly in a shareholder's name where the shareholder does not return the proxy card. Thus, shareholders have three options: vote "for," mark their ballot to "withhold" votes, or fail to return their ballot.[11]

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

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

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

Table I
Summary Statistics

The table presents summary statistics for percentage votes, performance, and governance variables using a sample of director elections from 2003 to 2005. Details of the sample are discussed in Section II.A. All variables are defined in the Appendix. The number of observations for vote range is 2,483 because five companies only report the average votes.

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

board since several years will pass before the director is considered for reelection. When examining determinants of individual director elections, we use the level of "excess" votes defined as the votes a director receives minus the average votes for all directors simultaneously considered for election at that firm.

C. Performance Measures

We measure prior firm performance using both operation-based and market-based measures. Our operation performance measure is the industry-adjusted

prior-year EBITDA normalized by total assets. Our market-based performance measure is the stock return of the firm minus that of the market for the 12-month period prior to the annual meeting. The poorly performing firm hypothesis asserts that poor firm performance will be negatively related to director votes.

We test whether director votes are related to the governance structure of the firm using the governance index of Gompers et al. (2003), the entrenchment index of Bebchuk et al. (2005), and the combination of a poison pill and a classified board described in Bebchuk and Cohen (2005). Higher levels of the governance index and the entrenchment index are indicative of firms that favor management, rather than shareholders; the combination of a classified board and poison pill make discipline from the corporate control market more difficult. The typical firm in our sample has a governance index of 9.44 and an entrenchment index of 1.66. Over 40% of the firms have both a poison pill and a classified board. We also gather data on board size, the percent of the board comprising outsiders, and amounts of shares held by institutions and board members. The median board in our sample has nine members, comprises 70% outsiders, and holds approximately 8.5% of the shares. Institutional investors hold almost three-quarters of the shares. This figure seems highly relative to findings in the extant literature. However, in sensitivity tests, we confirm an increased level of institutional holdings during 2003 to 2005.[12]

Increased levels of board holdings can be either an entrenchment or alignment device. Traditional agency theory suggests alignment of owners and managers as managerial (and board) holdings increase. Nevertheless, Denis, Denis, and Sarin (1997) show that management has a significantly lower probability of external market discipline at quite low levels of managerial ownership. Thus, the relation between ownership and votes for directors is an empirical issue. The literature on board independence and its relation to firm value and managerial actions is extensive. For two recent examples see Shivdasani and Yermack (1999) and Huson et al. (2004).

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

Observable, individual measures of director performance are difficult to find. One exception is a director's record of meeting attendance. Some institutional investors report using director attendance as one of their criteria for voting on directors.[13] To the extent that truant directors are ineffective, the poorly performing director hypothesis predicts that they will receive fewer votes. Also,

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

[13] The 2008 Council of Institutional Investors Corporate Governance Policies suggests that directors who have attended fewer than 75% of meetings for 2 years should not be renominated.

Fich and Shivdasani (2007) suggest that directors of firms facing shareholder lawsuits lose reputation and outside board seats. Following their methodology, we measure the effectiveness of director monitoring by identifying directors serving on the board of other firms facing lawsuits.

We also expect that individual characteristics may lead investors to believe directors are more "management friendly" or more "shareholder friendly." These include whether directors are independent, whether they are incumbents, the directors' tenure with the firm, and the stock holdings of the directors. Also, following Yermack (2004), we include age as a control. To the extent that older, incumbent directors characterized by a long tenure are perceived as entrenched, the poorly performing director hypothesis predicts fewer votes. Correspondingly, an independent director should be more aligned with shareholders and receive higher votes.

III. Results

A. The Relation between Performance, Governance, and Voting

Our first multivariate regression results are shown in Table II. Directors of firms with poor operating performance receive significantly fewer votes, but the average coefficient suggests that votes are reduced by only 0.37% for a one-standard deviation decrease in the industry-adjusted EBITDA to assets ratio. Market return measures are not associated with director votes. As shown in Internet Appendix C, we also use 2- and 3-year excess returns and the regression intercept from Fama and French (1997) three- and four-factor models. The results are largely similar.[14]

Consistent with the governance hypothesis, we find that all three measures of entrenchment are significantly negatively associated with director votes. A one-standard deviation increase in the governance index reduces votes by 0.43%; similarly, a one-standard deviation increase in the entrenchment index reduces votes by 0.40%. While statistically significant, the level of change in votes is minor. Higher abnormal CEO compensation also leads to significantly fewer votes in all five regressions. Using the average coefficient, we estimate that a one-standard deviation increase in abnormal CEO compensation reduces director votes by 0.19%. We also find that firms facing shareholder lawsuits receive slightly more than 1% fewer votes for their directors, and three of the five coefficients for this variable are statistically significant at the 10% level or better.

Director votes are also related to board characteristics. Larger boards, boards comprised of more outsiders, and boards whose members have higher shareholdings are associated with more votes. However, the positive coefficient of board holdings is driven by directors voting for themselves. If we remove these precommitted shares from the votes, the impact of board holdings becomes

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

Table II

Firm-Level Determinants of Director Election Results

The dependent variable in all OLS regressions is the average percent "for" votes of all directors being elected in a company. The average ISS recommendation is a function of firm performance as well as governance characteristics that are already included in the regressions. Therefore, we estimate a regression model of the average ISS recommendation based on our performance and governance characteristics (see footnote 15 for details) and use the residuals from this model as our ISS variable. All other variables are defined in the Appendix. Industry dummies and year dummies are included in all regressions. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

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

(*continued*)

Table II—*Continued*

Independent Variables and Statistics	Dependent Variable = Average Percent "for" Votes				
	(1)	(2)	(3)	(4)	(5)
Blockholder dummy	0.11				0.07
	(0.36)				(0.23)
Holdings by quasi-indexer		−1.95			
		(−2.46)**			
Holdings by dedicated institutions			−2.23		
			(−1.71)*		
Holdings by transient institutions				−2.79	
				(−3.01)***	
Calendar year dummy	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.617	0.613	0.611	0.614	0.613
N	2,488	2,488	2,488	2,488	2,488

significantly negative, consistent with entrenchment. In sensitivity tests, we find that CEO holdings and executive holdings play a similar role as board holdings.

The average ISS recommendation is a function of firm performance as well as governance characteristics that are already included in the regressions. Therefore, we estimate a regression model of the average ISS recommendation based on our performance and governance characteristics and use the residuals from this model as our ISS variable.[15] The remaining unexplained portion of a negative ISS recommendation still reduces the average director votes of a firm by 20.7%. Choi, Fisch, and Kahan (2008), using a sample from 2005 and 2006, find that the overall "direct influence" of an ISS withhold recommendation on the vote is 14.4%. We also find that the election results are related to voting mechanisms. Directors at firms with unequal voting (dual class shares) receive higher votes, possibly from management. Directors at firms with confidential voting receive fewer votes, suggesting shareholders are more willing to vote against directors when their identities are protected. Majority voting may be a sign of good corporate governance, and shareholders reward the directors with more votes. Consistent with Del Guercio et al. (2008), we find firms targeted by vote-no campaigns receive fewer votes for their directors.

Although higher levels of institutional holdings reduce director votes, the concentration (Herfindahl index and blockholder dummy) of institutional holdings

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

is significantly positive in one regression and insignificant in the others.[16] In addition, when we classify the institutional holdings by institution types (Bushee (2001)), we find that dedicated institutions and quasi-indexers are less likely to withhold director votes than are the transient institutions. This result suggests that long-term institutions and those that cannot easily unwind their positions are unwilling to vote against the managers.

Shareholders might only care about a firm's governance in cases of poor performance. To test this conjecture, we create a poor performance dummy, which equals 1 if the industry-adjusted EBITDA is negative and equals 0 otherwise. We next combine the poor performance dummy with our governance variables: the governance index, the entrenchment index, the classified board and poison pill dummy, abnormal CEO compensation, the percent of outside directors, and board holdings. As shown in Internet Appendix D, we find that the interaction term is insignificant in all but one case (board holdings). At the same time, most governance variables remain significant. We conclude that governance is significantly related to voting regardless of firm performance.[17]

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

B. The Poorly Performing Director Hypothesis

In order to test the poorly performing director hypothesis, we examine the impact of director characteristics on individual director votes. In Panel A of Table III, we present summary statistics on the variables of interest. Just over 70% of directors are classified as independent, over 90% are incumbents, and nearly 90% receive a positive ISS recommendation. The typical director is male, is 59 years old, attends more than 75% of board meetings, owns about 1% of the firm's common stock, and sits on one outside board.

In Panel B, we compare the percentage of "for" votes across director characteristics. Consistent with the firm-level results, independent directors and those who receive ISS support amass significantly more votes than do their

[16] The Herfindahl index and the blockholder dummy are positively correlated. In sensitivity tests, we include the two variables separately in models (1) and (5) and find similar results.

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

Table III
Director Characteristics and Election Results

Details of the sample are discussed in Section II.A. All variables are defined in the Appendix. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Summary Statistics

	N	Mean	Median	Min	Max	Standard Deviation
Percent "for" votes	13,384	94.27	97	30	100	7.68
Independence dummy	13,384	0.71	1			
Incumbent director dummy	13,382	0.93	1			
ISS recommendation dummy	13,380	0.89	1			
Director stock ownership (%)	13,384	0.96	0.05	0	59.68	3.68
Age	13,384	59.41	60	28	94	8.57
Attend less 75% meetings	12,463	0.01	0			
Gender (female = 1)	13,384	0.11	0			
Number of outside board seats	13,384	0.90	0	0	9	1.20

Panel B: Mean Percent "for" votes

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

Panel C: Mean Excess Percent "for" Votes

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

counterparts. Incumbents receive significantly fewer votes, which is consistent with the perception that they are entrenched. The result that directors with higher stock ownership receive fewer votes is also evidence of entrenchment. This result becomes stronger if we remove the precommitted shares.

It appears that voters rebuke poorly performing directors; directors who attend less than 75% of board meetings receive 14% fewer votes.[18] Nevertheless, the representative truant director still manages to garner over 80% of the votes. In addition, a negative ISS recommendation is associated with 19% fewer votes. Finally, female candidates receive slightly more votes than male candidates.

To control for firm-level effects, we also examine director votes relative to the average vote within the firm. The variable "excess percent for" vote equals the percent "for" of a director less the company average. Tests repeated using this measure produce similar conclusions and are shown in Panel C.[19]

A multivariate analysis of director-level characteristics and voting outcomes is presented in Table IV. To control for the vote variation associated with firm performance and governance, the dependent variable of director vote is measured as the excess of the director vote over the company average as in Panel C of Table III. In model (1), we examine director characteristics without various committee memberships and executive positions. In models (2) and (3), we include these memberships and positions as independent variables. As reported earlier, we estimate a logistic model to predict the likelihood of the ISS recommendation and use the residuals from this model as our ISS variable.[20]

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

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

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

[20] Using the raw value of ISS recommendation induces multicollinearity. The independent variables in the logit model of ISS recommendation include: the prior-year industry-adjusted EBITDA, the governance index, the percent of outside directors, board size, board holdings, confidential voting dummy, unequal voting dummy, majority voting dummy, vote-no campaign dummy, dummy variables for independent, incumbent, and truant directors, director stock ownership, incumbent director ownership, director tenure, director age, and industry and calendar year dummies. The majority of these variables are statistically significant, and the regression has a pseudo R^2 of 19%.

Table IV

Director-Level Determinants of Director Election Results

The dependent variable in all OLS regressions is the excess percent "for" votes. Since the ISS recommendation dummy is also a function of other director and firm characteristics included in the regression, we estimate a logistic regression explaining the recommendation using the variables in the table (see footnote 20 for details) and then use the residual in the regressions reported here. Since this table focuses on director-level votes, the vote-no dummy here equals 1 if a director receives a vote-no campaign in the year prior to the shareholder meeting, and 0 otherwise. All other variables are defined in the Appendix. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Independent Variables and Statistics	Dependent Variable = Excess% "for" Votes		
	(1)	(2)	(3)
Intercept	0.96	−0.05	−0.05
	(3.90)***	(−0.18)	(−0.21)
Independence dummy	1.53	3.21	3.21
	(18.47)***	(29.47)***	(29.48)***
Incumbent director	−1.53	−0.77	−0.76
	(−10.78)***	(−5.31)***	(−5.27)***
Attend less than 75% of meetings	−11.63	−11.61	−11.63
	(−33.17)***	(−33.78)***	(−33.85)***
Residual of ISS recommendation	8.74	8.44	8.43
	(73.68)***	(72.15)***	(72.05)***
Stock ownership (%)	0.05	0.02	0.02
	(4.61)***	(2.33)**	(2.26)**
Director tenure	−0.03	−0.03	−0.03
	(−6.33)***	(−5.10)***	(−5.14)***
Gender (female = 1)	−0.17	−0.15	−0.14
	(−1.56)	(−1.33)	(−1.26)
Number of outside board seats held	−0.17	−0.16	−0.16
	(−5.78)***	(−5.65)***	(−5.55)***
Age is above 65	−0.52	−0.32	−0.32
	(−6.12)***	(−3.79)***	(−3.77)***
Vote-no dummy	−1.27	−1.13	−1.08
	(−2.69)***	(−2.43)**	(−2.34)**
Dummy for sitting on the board of a firm with a litigation in prior year	−0.49	−0.49	−0.48
	(−1.79)*	(−1.84)*	(−1.79)*
Compensation committee chair		−1.26	−1.29
		(−9.88)***	(−10.08)***
Compensation committee chair ∗ excess CEO compensation			−0.05
			(−2.79)***
Nonchair member of compensation committee		−1.08	−1.09
		(−12.88)***	(−13.02)***
Nonchair member of compensation committee ∗ excess CEO compensation			−0.03
			(−2.37)**
Audit committee chair		−1.18	−1.21
		(−9.43)***	(−9.46)***

(*continued*)

Table IV—*Continued*

Independent Variables and Statistics	Dependent Variable = Excess% "for" Votes		
	(1)	(2)	(3)
Audit committee chair ∗ accounting restatement in prior year			0.31 (0.64)
Nonchair member of audit committee		−0.88 (−10.55)***	−0.91 (−10.68)***
Non-chair member of audit committee ∗ accounting restatement in prior year			0.36 (1.42)
Corporate governance committee member		−0.74 (−9.60)***	−0.52 (−2.34)**
Corporate governance committee member ∗ GIM index			−0.02 (−1.06)
CEO dummy		1.38 (10.39)***	1.38 (10.23)***
High CEO compensation dummy ∗ prior-year industry-adjusted EBITDA			−3.78 (−2.31)**
Low CEO compensation dummy ∗ prior-year industry-adjusted EBITDA			−0.82 (−0.70)
High CEO compensation dummy ∗ prior-year excess return			0.39 (0.91)
Low CEO compensation dummy ∗ prior-year excess return			0.06 (0.21)
Non-CEO chairman		0.16 (0.84)	0.15 (0.79)
Calendar year dummy	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Adjusted R^2	0.355	0.381	0.383
N	13,378	13,378	13,378

The regression results show that independence of a director and his/her "unexplained" certification by ISS increases the percent of "for" votes.[21] In fact, a

[21] We classify the "linked" and "employee" directors as insiders. These are directors who provide (or whose employer provides) professional services to the company or are major customers. These classifications also include directors who were former employees, recipients of charitable funds, interlocks, and family members of a director or executive. In a sensitivity test, we separate the linked directors from the employee directors. We find that the linked directors receive even fewer votes than the employee directors. When we separate the family member and interlocking directors from the insiders, we find that the family member directors receive significantly fewer votes but not the interlocking directors. In another sensitivity test, we include a dummy variable that equals 1 if a director is also a CFO (of the firm or other firms). The coefficient of the CFO dummy is positive and statistically significant in two regressions, suggesting that shareholders value financial expertise.

positive ISS recommendation increases the within firm-excess votes by about 8.5%. Incumbent directors and directors with longer tenure receive significantly lower votes, consistent with entrenchment. Contrary to the univariate results in Table III, we find that higher levels of stock ownership are associated with higher votes in all three models. Presumably, directors vote the shares they own for themselves. As for director performance, truancy is significantly and substantially penalized by shareholders. Attending less than 75% of the meetings reduces director votes by an average of about 12%. Directors serving on the board of other companies that face shareholder lawsuits receive about 0.5% fewer votes than do their peers, and the coefficients are statistically significant at the 10% level. We also document that busier directors, that is, those who hold more outside board seats, receive fewer votes than do their more focused colleagues in the same company. If being busy is associated with a poorly performing director, this finding is consistent with the work of Fich and Shivdasani (2006), who document a negative relation between firm performance and busy directors where busy is defined as holding three or more board seats.

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

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

C. The Efficacy Hypothesis

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

C.1. Change in CEO Compensation

In recent years, corporate governance experts and the popular press have criticized the large pay packages that many corporate executives receive. The results presented in the sections above indicate that these shareholders express their dissatisfaction by withholding votes for directors, especially directors serving on the compensation committee.

Chhaochharia and Grinstein (2006) show that boards play a more active role in reducing CEO pay after the enactment of SOX. In this section, we examine whether directors who receive fewer votes listen to shareholders and reduce abnormal CEO compensation. We focus on a subsample of firms with positive abnormal CEO compensation and examine whether director votes affect the change in abnormal CEO compensation in the following year.[22]

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

Since the compensation committee of a board determines CEO compensation, we next examine the votes that compensation committee members receive.

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

Table V

Do Director Election Votes Affect CEO Compensation?

In the following OLS regressions, we include all firms whose current-year abnormal CEO compensation is positive. We then examine whether the director votes affect the change of abnormal CEO compensation prior to the next shareholder meeting. The abnormal CEO compensation is the residual from a compensation regression using all ExecuComp companies during our sample period as the benchmark. The dependent variable of the compensation regression is total CEO compensation including option grants, and the independent variables include 3-year stock return, log market value of equity, Fama–French 48 industry classification, and year dummies. To control for firm performance, we estimate a regression of director election votes on prior-year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. To control for compensation change due to CEO turnover, we include a CEO turnover dummy that equals 1 if the current and the next CEO compensation are paid to two different persons and 0 if they are paid to the same person. In a sensitivity test, we exclude the observations where the CEO turns over, and the results are unchanged. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

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

Model (3) shows that a 1% decrease in the average vote for a compensation committee member reduces unexplained CEO compensation by $143,000 in the next year, and the coefficient is statistically significant at the 5% level. We find similar results after controlling for shareholder proposals and CEO turnover in model (4). The votes of the compensation committee chair have an even larger effect on CEO compensation. Models (5) and (6) show that a 1% decrease in the compensation committee chair votes is associated with a reduction in unexplained CEO compensation by approximately $220,000 in the following year. The coefficients in both regressions are statistically significant at the 1% level. In sharp contrast, models (7) and (8) show that the votes of directors who do not serve on the compensation committee have no impact on subsequent CEO compensation. These results suggest that only shareholder votes for the compensation committee directors impact the directors' decision regarding CEO compensation. In a sensitivity test, we exclude the observations where the CEO turns over, and the results are unchanged.

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

C.2. CEO Turnover

We now examine whether votes for directors actually affect CEO turnover. Since one of the duties of a board is to hire and monitor the CEO, the level of votes in a director election may reflect shareholders' dissatisfaction with the CEO. Fischer et al. (2008) find that the probability of forced turnovers is inversely related to votes for directors in uncontested elections. Using a logistic analysis, we estimate whether the probability of subsequent CEO turnover is related to director votes. We measure director vote by the average unexplained vote as previously described. Yermack (2004) and others find that the probability of CEO turnover increases following poor stock and operating performance. As shown earlier, firm performance also affects director votes. To control for the endogeneity of votes, we use a two-stage approach where we include firm performance measures in our first-stage regression explaining director votes and use the residual from this regression to explain CEO turnover. We also include other CEO characteristics that may be associated with CEO turnover such as CEO age, tenure with the firm, whether the CEO is chairman, the CEO's ownership, and the CEO's excess compensation level. Finally, we include firm characteristics such as measures of firm size, the size of board, the percent of outside directors of a board, a governance index, and the change in institutional ownership.

The results are shown in Table VI. We find that when independent directors receive lower votes, CEO turnover is more likely. Based on model (1), we find that a one-standard deviation decrease in independent director votes increases the odds of CEO turnover by 1.21 times. However, votes on the inside directors

have no effect on CEO turnover. This result suggests that inside directors are less likely to listen to shareholder dissatisfaction and replace their boss. Similarly, as shown in Internet Appendix H, the CEO's own vote has no effect on the probability of her replacement. When the votes of independent and insider directors are pooled together (model (3) of Table VI), we find a negative but insignificant relation between director votes and the probability of future CEO turnover. Also, consistent with the literature, CEOs above 65 are more likely to experience turnover. In addition, CEOs with positive abnormal compensation are less likely to exhibit turnover. High compensation may indicate ability, and better CEOs are less likely to leave. Alternatively, excessive compensation may indicate entrenchment, which could also be related to low CEO turnover. Prior-year stock performance is negatively related to CEO turnover, although the coefficient is statistically significant in only one out of the three specifications. Parrino, Sias, and Starks (2003) report a significant decline in institutional ownership prior to CEO turnover. We find a negative, although statistically insignificant, relation between the change in institutional ownership and the probability of CEO turnover.

C.3. Change in Corporate Governance

We next examine whether voting outcomes result in changes in governance characteristics. Poison pills and classified boards are arguably the two most powerful takeover protections, particularly when used together (Bebchuk and Cohen (2005)). Moreover, shareholders often criticize these characteristics since they insulate entrenched managers from market discipline. Thus, we first examine whether fewer director votes are related to a higher probability of removing a poison pill or a classified board.

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

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

Table VI

Does the Level of Director Votes Affect CEO Turnover?

The dependent variable is the CEO turnover dummy. Since, in this table, we examine whether director votes have an impact on CEO turnover, we define the turnover dummy to be equal to 1 if the CEO departs between the current and the next shareholder meetings and 0 otherwise. To control for firm performance, we estimate a regression of director election votes on prior-year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable. For companies with staggered board, there may be no independent (or insider) directors up for election at some shareholder meetings. Thus, the number of available observations differs in different specifications. All other variables are defined in the Appendix. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

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

Table VII

Do Director Election Votes Affect Corporate Governance?

The sample includes all firms with a poison pill or classified board in the current-year IRRC governance report. Using logistic regressions, we examine whether the subsequent director election votes affect a firm's decision to keep or remove the poison pill or classified board before the next IRRC report. The dependent variable in Panel A equals 1 if the poison pill is removed, and 0 otherwise. The dependent variable in Panel B equals 1 if the classified board is removed and 0 otherwise. If there is more than one director election between two IRRC reports, we take the average value of vote variables of the elections. Industry and calendar year dummies are included in the regressions but not reported. To control for firm performance, we estimate a regression of director election votes on prior-year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. All other variables are defined in the Appendix. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Dependent Variable = Removal of Poison Pill

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

Panel B: Dependent Variable = Removal of Classified Board

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	−7.90	−10.16	−7.69	−9.97	−7.15	−9.37	−7.14	−9.25
	(−0.29)	(−0.36)	(−0.30)	(−0.35)	(−0.30)	(−0.41)	(−0.30)	(−0.40)
Range of all director residual votes	0.037	0.045						
	(2.32)**	(2.68)***						
Standard deviation of all directors' residual votes			0.042	0.057				
			(1.46)	(1.88)**				
Range of governance committee member residual votes					0.047	0.049		
					(2.19)**	(2.19)**		
Standard deviation of governance committee member residual votes							0.055	0.056
							(1.78)*	(1.76)*

(*continued*)

Table VII—*Continued*

Panel B: Dependent Variable = Removal of Classified Board								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dummy of a shareholder proposal on the classified board		1.24 (2.36)**		1.25 (2.39)**		1.23 (2.28)**		1.27 (2.36)**
Prior-year stock return		−0.62 (−1.03)		−0.59 (−0.99)		−0.68 (−1.07)		−0.67 (−1.05)
Percent of outside directors		3.06 (2.07)**		2.92 (1.99)**		2.88 (1.86)*		2.73 (1.77)*
Board holdings		−0.08 (−0.04)		−0.16 (−0.07)		1.15 (0.47)		1.18 (0.48)
Pseudo R^2	0.199	0.237	0.191	0.228	0.187	0.222	0.182	0.217
N (dependent variable = 1)	46	46	46	46	42	42	42	42
N	1,054	1,054	1,054	1,054	811	811	811	811

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

C.4. Other Efficacy Tests

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

As discussed above, the "withhold" votes a director receives measure shareholder dissatisfaction with this director and her company. Shareholders could

also voice their displeasure through other channels, for example, by submitting a shareholder proposal or privately contacting the directors. These actions can also lead to the reforms we document. We attempt to control for these effects by including dummy variables for shareholder proposals in Tables V and VII. Obviously, however, we cannot know if shareholders privately contacted some firms.[23] Thus, the possibility remains that the documented efficacy of votes may be caused by some unobserved omitted variable. Regardless, our evidence suggests that shareholder dissatisfaction, as recorded in withheld votes for directors, is often associated with governance reforms.

D. Broker Votes

As discussed earlier, brokers can vote shares held in street name in uncontested elections unless a shareholder has given explicit voting instructions. Historically, these votes have sided with management (Bethel and Gillan (2002)). This has become a controversial issue recently, and the NYSE has committed to eliminating broker votes effective for all director elections on or after January 1, 2008, subject to SEC approval.[24] However, as of the end of December 2007, the SEC had yet to act on the NYSE proposal.[25] To explore this issue, we examine the impact of removing broker votes in calculating election outcomes.

We are able to estimate the broker votes for 917 out of the 2,488 meetings.[26] Our results appear in Table VIII. Consistent with Bethel and Gillan (2002), we find that broker votes are substantial, averaging 13.1% of outstanding shares.[27] Since broker votes enter both the numerator (number of "for" votes) and the denominator (sum of "for" and "withhold" votes), we estimate that in our sample excluding the broker votes reduces the percent of "for" votes by an average of 2.5%. Although the average swing in votes of 2.5% may appear small, the impact can be substantial due to the effect on compensation and governance. Using the regression coefficients from Tables V and VII, we estimate that this change in

[23] Using a private data set of correspondence that TIAA-CREF had with 45 firms on corporate governance issues from 1992 to 1996, Carleton, Nelson, and Weisbach (1998) analyze the private negotiations between shareholders and companies. They find that 95% of the time, TIAA-CREF and the firm come to an agreement.

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

[25] *Pensions and Investments*, 2007, The looming proxy season, December 10, available at http://www.pionline.com/apps/pbcs.dll/article?AID=/20071210/PRINTSUB/71207003/1020/EDITORIAL (accessed January 8, 2008).

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

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

Table VIII
Broker Votes

For a subsample of 917 shareholder meetings, we are able to estimate the number of broker votes and their impact on director elections. Many shares are registered under a broker's name (street name) instead of the beneficial owner's name. If the beneficial shareholder does not return a proxy card, the brokers can vote these shares in routine proposals. Under current rules, this includes uncontested director elections. Bethel and Gillan (2002) document that brokers always vote for the management. Since brokers cannot vote on nonroutine proposals, we estimate the broker votes as the difference between the total votes cast in routine proposals minus total votes cast in nonroutine proposals. We then recalculate the percent of "for" votes excluding broker votes from both the numerator and the denominator. The impact of broker votes equals the percent of "for" votes including broker votes minus the percent of "for" votes excluding broker votes. *** denotes statistical significance at the 1% level. Note: In 34 cases, the impact of broker votes is greater than 10%.

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

reported votes may reduce unexplained CEO compensation by up to $600,000, increase the odds of CEO turnover by 1.07 times, and increase the odds of removing a poison pill by 1.08 times. Further, it is important to remember that a small change in votes could still change outcomes at a particular election. We find that in 34 out of 917 elections, the impact of the broker votes affects the voting outcome by more than 10%.

IV. Conclusions

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

We document that directors on average receive a very high level of votes. Our results also provide some support to the firm performance, director performance, and governance hypotheses. The level of votes for directors is significantly positively linked to the operating performance but not the excess stock return of a firm. Directors in firms with weaker governance receive significantly fewer votes. Two factors matter both economically and statistically: Directors

attending less than 75% of board meetings or receiving a negative recommendation from Institutional Shareholder Services receive 14% and 19% fewer votes, respectively. The economic impact of other variables on votes is limited.

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

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

The overwhelming evidence points to the fact that if a director is slated, she is elected. Perhaps reform in the election nomination process is warranted. The SEC has suggested allowing shareholders the ability to add candidates to the director ballot. Whether this will have any impact on firm value is unclear. Many arguments have been made both for and against greater shareholder access to the proxy. The possibility remains that if shareholders become aware of a link between their votes and actual outcomes, the significant relation between performance and votes could translate to more economically meaningful changes. The results documented here provide an important benchmark for informed debate.

Appendix: Variable Definitions

Abnormal CEO compensation is the residual from a compensation regression where the dependent variable is the total CEO compensation and the independent variable include log assets, prior-year stock return, industry and year dummies, estimated with all ExecuComp firms during our sample period. The **high CEO compensation dummy** equals 1 if the director is the CEO and his abnormal compensation is positive, and 0 otherwise. The **low CEO compensation dummy** equals 1 if the director is the CEO and his abnormal compensation is negative, and 0 otherwise.

The **accounting restatement dummy** in prior year equals 1 if the firm had a restatement as defined by the GAO Restatement Database.

Board size equals the number of directors on a board.

Board holdings equal the aggregate percent of outstanding shares of a company held by the board of directors.

CEO is chairman dummy equals 1 if the CEO also serves as chairman of the board, and 0 otherwise.

CEO tenure is the number of years that the CEO has served in the position.

Confidential voting dummy equals one if firm policy prevents management from knowing how shareholders vote their proxy cards.

Cumulative voting dummy equals 1 if the firm has a voting system whereby shareholders can cumulate votes for a single candidate.

Director tenure is the number of years that the director has served on the board.

EBITDA to assets equals earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997).

Entrenchment index is the sum of six antitakeover provisions following Bebchuk et al. (2005).

The **excess percent "for" votes** equals a director's percent of "for" votes minus the company average percent of "for" votes.

Governance (GIM) index equals the sum of 24 antitakeover provisions following Gompers et al. (2003).

Have outside board seats is a dummy variable set equal to 1 if a director sits on any additional boards.

The director **independence dummy** equals 1 if a director is classified as "Independent" by IRRC, and 0 if classified as "employee" or "linked."

The **incumbent director dummy** equals 1 if a director is on the board in the previous year, and 0 otherwise.

Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The **Herfindahl index** is the sum of squared individual institutional holdings divided by total institutional holdings. The institutional **blockholder dummy** equals 1 if the firm has at least one institutional shareholder with more than 5% stock ownership, and 0 otherwise. **Holdings by quasi-indexer, dedicated institutions, and transient institutions** follow the classification system by Bushee (2001).

The **ISS recommendation dummy** equals 1 if ISS recommends voting "for" a director, and 0 if ISS recommends "withhold." **Average ISS recommendation** equals the fraction of directors who receive a positive ISS recommendation at a shareholder meeting.

Litigation dummy at director level equals 1 if a director serves on the board of another firm that faces shareholder litigation in the year prior to the shareholder meeting.

Litigation dummy at firm level equals 1 if a firm is involved in shareholder litigation in the year prior to the shareholder meeting, and 0 otherwise. Following Fich and Shivdasani (2007), we exclude litigations related to insider trading.

Majority voting dummy equals 1 if the firm's directors are elected only if they receive more than 50% of the votes.

The **percent "for" votes** equals a director's "for" votes divided by the sum of "for" and "withhold" votes. We report statistics averaged at the firm (shareholder meeting) and director levels.

Percent of outside directors equals the number of outside directors divided by the total number of directors.

The **range of "for" votes** equals the difference between the highest and lowest director "for" votes within a firm's shareholder meeting. The vote range is not available for five shareholder meetings because the firm reports only the average director votes.

The **staggered board and poison pill** dummy equals 1 if a company has both, and 0 otherwise.

Stock ownership equals the number of shares held by the director divided by the number of shares outstanding. The **high stock ownership dummy** equals 1 if a director's stock ownership is above the median director stock ownership of the overall sample, and 0 otherwise, where stock ownership equals the number of shares held by the director divided by the number of shares outstanding. **CEO Ownership** is the percent of outstanding shares owned by the CEO.

Unequal voting dummy equals 1 if the firm has two or more classes of shares with unequal voting power, and 0 otherwise.

Vote-no dummy equals 1 if a director at a firm receives a vote-no campaign in the year prior to the shareholder meeting, and 0 otherwise.

REFERENCES

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

Bebchuk, Lucian A., 2003, The case for shareholder access to the ballot, Harvard Law and Economics Discussion Paper No. 428 (subsequently published in *Business Lawyer* 59, 43–66).

Bebchuk, Lucian A., 2007, The myth of the shareholder franchise, *Virginia Law Review* 93, 675–732.

Bebchuk, Lucian A, and Cohen, Alma, 2005, The costs of entrenched boards, *Journal of Financial Economics* 78, 409–433.

Bebchuk, Lucian A., Alma Cohen, and Allen Ferrell, 2005, What matters in corporate governance? John M. Olin Center Discussion Paper no. 491, Harvard University Law School.

Bebchuk, Lucian A., and Oliver D. Hart, 2001, Takeover bids vs. proxy fights in contests for corporate control, Harvard Law and Economics Discussion Paper no. 336 and ECGI—Finance Working Paper no. 04/2002.

Bethel, Jennifer E., and Stuart L. Gillan, 2002, The impact of the institutional and regulatory environment on shareholder voting, *Financial Management* 31, 29–54.

Bhagat, Sanjai, and James A. Brickley, 1984, Cumulative voting: The value of minority shareholder voting rights, *Journal of Law and Economics* 27, 339–365.

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

Cai, Jie, Jacqueline L. Garner, and Ralph A. Walkling, 2007, Democracy of disruption: Majority versus plurality voting, Working paper, Center for Corporate Governance, Drexel University.

Carleton, Willard T., James M. Nelson, and Michael S. Weisbach, 1998, The influence of institutions on corporate governance through private negotiations: Evidence from TIAA-CREF, *Journal of Finance* 53, 1335–1362.

Chhaochharia, Vidhi, and Yaniv Grinstein, 2006, CEO compensation and board structure, Working paper, Cornell University.

Choi, Stephen J., Jill E. Fisch, and Marcel Kahan, 2008, Director elections and the influence of proxy advisors, Working paper, New York University.

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

Del Guercio, Diane G., Laura J. Seery, and Tracie Woidtke, 2008, Do boards pay attention when institutional investors "just vote no"?: CEO and director turnover associated with shareholder activism, *Journal of Financial Economics* 90, 84–103.

Denis, David J., Diane K. Denis, and Atulya Sarin, 1997, Ownership structure and top executive turnover, *Journal of Financial Economics* 45, 193–221.

Dixon, Catherine T., and Randall S. Thomas, 1998, *Aranow and Einhorn on Proxy Contests for Corporate Control*, 3rd edition (Aspen Law and Business, New York, NY).

Dodd, Peter, and Jerold B. Warner, 1983, On corporate governance: A study of proxy contests, *Journal of Financial Economics* 11, 401–438.

Fama, Eugene F., 1980, Agency problems and the theory of the firm, *Journal of Political Economy* 88, 288–307.

Fama, Eugene F., and Kenneth R. French, 1997, Industry costs of equity, *Journal of Financial Economics* 43, 153–193.

Farrell, Kathleen A., and David A. Whidbee, 2003, Impact of firm performance expectations on CEO turnover and replacement decisions, *Journal of Accounting and Economics* 36, 165–196.

Fich, Eliezer M., and Anil Shivdasani, 2006, Are busy boards effective monitors? *Journal of Finance* 61, 689–724.

Fich, Eliezer M., and Anil Shivdasani, 2007, Financial fraud, director reputation, and shareholder wealth, *Journal of Financial Economics* 86, 306–336.

Fischer, Paul E., Jeffrey D. Gramlich, Brian P. Miller, and Hal White, 2008, Uncontested director election results and board performance, Working paper, Pennsylvania State University.

Gillan, Stuart L., and Laura T. Starks, 1998, A survey of shareholder activism: Motivation and empirical evidence, *Contemporary Finance Digest* 2, 10–34.

Gompers, Paul A., Joy L. Ishii, and Andrew Metrick, 2003, Corporate governance and equity prices, *Quarterly Journal of Economics* 118, 107–155.

Graham, John R., Campbell R. Harvey, and Shivaram Rajgopal, 2005, The economic implications of corporate financial reporting, *Journal of Accounting and Economics* 40, 3–73.

Grundfest, Joseph A., 2003, Advice and consent: An alternative mechanism for shareholder participation in the nomination and election of corporate directors, Stanford Law and Economics Olin Working Paper No. 274.

Hartzell, Jay C., Eli Ofek, and David L. Yermack, 2004, What's in it for me? CEOs whose firms are acquired, *Review of Financial Studies* 17, 37–61.

Hermalin, Benjamin E., and Michael S. Weisbach, 1988, The determinants of board composition, *Rand (Bell) Journal of Economics* 19, 589–606.

Hu, Henry T.C., and Bernard S. Black, 2007, Hedge funds, insiders, and the decoupling of economic and voting ownership: Empty voting and hidden (morphable) ownership, *Journal of Corporate Finance* 13, 343–367.

Huson, Mark R., Paul H. Malatesta, and Robert Parrino, 2004, Managerial succession and firm performance, *Journal of Financial Economics* 74, 237–275.

Jensen, Michael C., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323–329.

Karpoff, Jonathan M., 2001, The impact of shareholder activism on target companies: A survey of empirical findings, University of Washington Working paper.

Karpoff, Jonathan M., Paul H. Malatesta, and Ralph A. Walkling, 1996, Corporate governance and shareholder initiatives: Empirical evidence, *Journal of Financial Economics* 42, 365–395.

L. Reed Walton, Publications, 2007, The SEC denies proxy access, November 30.

Moeller, Sara B., Frederik Schlingemann, and René M. Stulz, 2005, Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave, *Journal of Finance* 60, 757–782.

Morgan, Angela G., and Annette B. Poulsen, 2001, Linking pay to performance—compensation proposals in the S&P 500, *Journal of Financial Economics* 62, 489–523.

Mulherin, J. Harold, and Annette B. Poulsen, 1998, Proxy contests and corporate change: Implications for shareholder wealth, *Journal of Financial Economics* 47, 279–313.

Parrino, Robert, Richard W. Sias, and Laura T. Starks, 2003, Voting with their feet: Institutional ownership changes around forced CEO turnover, *Journal of Financial Economics* 68, 3–46.

Pensions and Investments, 2007, The looming proxy season, December 10.

Pound, John, 1988, Proxy contests and the efficiency of shareholder oversight, *Journal of Financial Economics* 20, 237–265.

Pozen, Robert, 2003, Institutional perspective on shareholder nominations of corporate directors, Harvard Law and Economics Discussion Paper No. 429.

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

Schwartz, Donald E., 1983, Shareholder democracy: A reality or chimera? *California Management Review* 25, 53–67.

Shivdasani, Anil, and David L. Yermack, 1999, CEO involvement in the selection of new board members: An empirical analysis, *Journal of Finance* 54, 1829–1853.

Thomas, Randall S., and James F. Cotter, 2007, Shareholder proposals in the new millennium: Shareholder support, board response, and market reaction, *Journal of Corporate Finance* 13, 368–391.

Thomas, Randall S., and Kenneth J. Martin, 2000, The determinants of shareholder voting on stock option plans, *Wake Forest Law Review* 35, 31–82.

Walkling, Ralph A., and Michael S. Long, 1984, Agency theory, managerial welfare and takeover bid resistance, *Rand (Bell) Journal of Economics* 15, 54–68.

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

Yermack, David L., 2006, Flights of fancy: Corporate jets, CEO perquisites, and inferior shareholder returns, *Journal of Financial Economics* 80, 211–242.