Shareholder Voting and Corporate Governance Around the World

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Abstract

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

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Abstract

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

1. Introduction

The process of shareholder voting underpins the exercise of corporate governance. If well-functioning and effective, this process has two fundamental components: first, outside shareholders should vote as though they are exercising governance; and second, the votes they cast should have a governance-related outcome.

In this paper, we examine whether the voting process is effective for firms from around the world. This is an important question because studies to date, conducted primarily for U.S. firms, have found mixed evidence regarding both fundamental components of a well-functioning voting process. Perhaps more important, the two fundamental components of voting have not been investigated for a broad sample of firms domiciled outside of the U.S., where a greater dispersion in the potential for shareholder expropriation can make exercising corporate governance more consequential but potentially more difficult than for U.S. firms.

To conduct our tests, we use data on the votes cast by U.S. institutional investors for director elections, as well as subsequent director turnover, in 7,975 companies across 42 countries over the years 2003-2009. We focus on U.S. institutional investors' votes because since 2003 these investors have been required to report all votes cast on corporate ballots for U.S. and foreign firms and to put in place policies ensuring that they vote in the best interests of their clients. We focus on director elections because these votes are the most common votes cast at an annual shareholder meeting. Further, they are arguably the most essential for governance given that it is directors who approve all important corporate decisions, and director votes are binding in nature.[1]

[1] Conclusions from the NYSE Proxy Working Group report of 2006 state that director elections are of critical importance because "Directors have authority over the most fundamental issues of corporate governance today, while investors, regulators, courts and others have all recognized the critical role directors play in the life of a corporation." We note here that while studies of whether shareholder voting patterns are linked to changes in

The first fundamental component of an effective voting process—whether shareholders vote as though they are exercising governance—is tested using regression models in which *Voting Against* (the percentage of U.S. institutional investors' votes cast against management's recommendations for annual director elections for a given fiscal year and firm) is regressed on variables that capture expected expropriation at the country level and expected agency problems due to managerial entrenchment at the firm level. For U.S. firms, Daines, Gow, and Larcker (2010) find no evidence that greater firm-level agency problems correspond to fewer votes cast for directors, whereas Cai, Garner, and Walkling (2009) do find such evidence.[2]

At the country level, we find that a significantly higher level of votes are cast against directors in countries with weak investor protection laws and enforcement and low levels of corporate disclosure. These results suggest that expected expropriation induced by poor country-level institutions leads to a greater exercise of corporate governance through dissent voting. That said, similar to the Cai et al. (2009) U.S. firm results, we also find that the vast majority of votes nonetheless go in the direction of management's recommendations regarding director elections.

At the firm level, we find that greater managerial entrenchment as measured by *Insider Control* (the percentage of shares held by insiders excluding shares held in a fiduciary capacity) and the Gov_{41} index (compiled by ISS and used in Aggarwal, Erel, Ferreira, and Matos (2011)) is associated with greater *Voting Against*. This finding again suggests that dissent voting is tied to expected expropriation. Moreover, we find that the relation between managerial entrenchment and voting against directors is prevalent in both strong and weak

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executive compensation are also informative, we cannot analyze this topic because around the world executive compensation packages are generally not disclosed.

[2] We discuss these and other papers related to the effectiveness of the voting process in more detail in Section 2.

investor protection countries. Thus, our results indicate that shareholders use their voting power to challenge entrenched managers in firms across the world.

The second fundamental component of an effective voting process—whether votes cast have a governance-related outcome—is tested using regressions in which *Director Turnover* (number of directors that leave the board from one annual meeting to the next) is regressed on *Voting Against*. Although the vast majority of votes go in favor of directors, a larger proportion of against votes, while not enough to mechanically disqualify a director, may nonetheless result in the removal or the voluntary resignation of a director. Importantly, we test whether there is an incremental effect of voting on turnover that goes beyond the well-documented effect attributable to poor firm performance (e.g., Weisbach (1988) and Yermack (2004)). Cai et al. (2009) do not find that fewer favorable votes have any measurable effect on director turnover in their sample of U.S. firms. However, Fischer, Gramlich, Miller, and White (2009) provide evidence that greater dissent voting does correspond to greater director turnover in U.S. firms.

We find that greater voting against directors is associated with a significantly higher number of directors that exit the board over the following year and that this result obtains even after we use several methods to control for prior firm performance. Thus, dissent voting has an independent effect on director turnover over and above the negative votes attributable to poor performance. Additionally, we find that greater *Voting Against* is associated with higher *Director Turnover* in both strong and weak investor protection countries, indicating that voting matters for firms from across the world.

Overall, our cross-country results are consistent with a shareholder voting process that is effective because our tests show that the two fundamental components of the process are working. First, institutional investors choose to challenge management more often in cases where they fear expropriation the most: investor protection at the country level is weak or firm-level managerial entrenchment is high. Second, their votes cast have a governance-related outcome. Voting against directors in director elections is associated with greater director turnover, and this holds true for both weak and strong investor protection countries.

To our knowledge, this paper is the first to assess the two fundamental components of shareholder voting in a large cross-country sample. We conclude that shareholders of non-U.S. firms do indeed exercise corporate governance by voting their shares in a meaningful way, and that shareholder voting is an important channel through which corporate governance is exercised in firms across the world. In this way, our results extend research on the governance implications of foreign investors conducted by Ferreira, Massa, and Matos (2010) and Aggarwal et al. (2011) by providing a specific channel, shareholder voting, through which foreign institutional investors improve the governance of the firms they hold.

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

2. Literature Review

As the emphasis on ensuring proper corporate governance has grown rapidly in recent years, research on shareholder voting has become increasingly prominent (Yermack (2010) surveys the voting literature). However, there is significant debate as to whether shareholder voting is an effective part of the governance process, because the prior evidence is mixed on:

(1) whether shareholders vote as though they are exercising governance, and (2) whether the votes shareholders cast actually have a governance-related outcome. Moreover, prior studies typically focus on shareholder voting in a single country where governance characteristics are relatively homogeneous.

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

The first fundamental question in shareholder voting research is concerned with whether outside shareholders vote as though they are steering managers in the direction of better governance. When expected agency problems are present in a firm, one would expect outside shareholders to vote against management's recommendations with greater frequency. Recent studies that examine the determinants of shareholder voting for uncontested director elections held by U.S. firms find evidence consistent with this prediction. For example, Cai et al. (2009) show that while institutional investors overwhelmingly cast "For" votes, greater managerial entrenchment is associated with more "Against" votes being cast for director elections. Choi, Fisch, and Kahan (2011) find that shareholders vote against directors more often when a firm has poor director attendance at board meetings, poor performance, or an accounting restatement. There is, to our knowledge, no research on director voting patterns for non-U.S. firms.

While director elections are the most common voting agenda item for U.S. firms, equity compensation plans also require shareholder approval and voting patterns for these plans have been studied as well.[3] The study by Armstrong, Gow, and Larcker (2012) exploits recent data and finds that shareholders are more likely to vote against executive pay plans that

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

are excessive. Morgan, Poulsen, and Wolf (2006) examine aggregate shareholder votes for S&P 500 firms and find evidence that shareholders provide less support for plans that are more dilutive. Outside the U.S., the only evidence comes from the U.K.'s introduction in 2002 of non-binding "say-on-pay" shareholder voting on executive compensation proposals. Carter and Zamora (2009) find evidence that excess salary and excess bonus are associated with lower levels of shareholder support in U.K. firms' "say-on-pay" voting.

While the above studies suggest that outside shareholders vote as though they are attempting to exercise governance, countervailing studies also exist. Daines et al. (2010) find that proxies for expected governance problems are not associated with lower shareholder support in director elections for U.S. firms. Further, a body of research across different settings suggests mechanisms other than voting might be useful for expressing governance concerns. One such mechanism is to simply avoid holding poorly governed firms. Parrino, Sias, and Starks (2003) study U.S. institutional holdings of U.S. firms and find that institutional investors tend to "vote with their feet" by selling their shares in firms that do not implement stronger governance practices. Consistent with this concept, Leuz, Lins, and Warnock (2009) show that U.S. investors of all types (institutional and individual) hold significantly smaller equity positions in non-U.S. firms predicted to have poor governance and information flow.

Private engagement with managers also has been shown to be important. A clinical study of the activist-style Hermes U.K. focus fund by Becht, Franks, Mayer, and Rossi (2009) shows that activist investors may prefer to express governance concerns via private engagement rather than public voting. Consistent with these results, the McCahery, Sautner and Starks (2010) survey documents that 80% of U.S.- and Netherlands-based institutional investors are prepared to sell shares and 55% are prepared to initiate private discussions with the executive board to express concerns with governance. Finally, Kahan and Rock (2008) describe in detail a number of "hanging chad" pathologies that interfere with the accurate tabulation of U.S. shareholder votes, which could lessen investors' beliefs that the votes cast will be meaningfully amalgamated.

Overall, there is mixed evidence regarding whether outside shareholders actually vote as though they are exercising governance.[4] Further, there is additional evidence indicating that shareholder voting may not, in fact, be a useful way to exercise governance because either: (1) concerned investors are simply not present because they do not expect to be able to change the governance of firms when they find it lacking, or (2) investors believe it is better to use private channels to communicate with management.

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

The second fundamental question in shareholder voting research is concerned with the effectiveness of shareholder voting as a mechanism to bring about changes in corporate policy. That is, do the votes shareholders cast actually matter?

When examining the efficacy of votes in director elections, the primary corporate governance outcome of interest is whether more negative votes cause changes in the composition of the board. Because the vast majority of votes go in favor of directors, a larger proportion of against votes will not likely be enough to mechanically disqualify a director, but it may nonetheless result in the removal or the voluntary resignation of a director. This is the

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

result documented by Fischer et al. (2009) who show that greater dissent voting corresponds to greater director turnover in U.S. firms. In contrast, Cai et al. (2009) study director turnover and do not find that fewer favorable votes have any measurable effect on director turnover in their sample of U.S. firms.[5] Ertimur, Ferri, and Oesch (2012) study the efficacy of voting for U.S. firms and find that the sensitivity of board turnover to votes withheld from directors at annual elections is higher subsequent to the adoption of majority voting (rather than plurality voting). This is consistent with the notion that a strong election system makes boards more responsive to shareholder pressure. There is, to our knowledge, also no research on whether voting patterns for director elections matter for changes in board composition for non-U.S. firms.

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

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

[6] Other research shows that institutional activism also results in positive governance changes for U.S. firms (see, e.g., Del Guercio, Seery, and Woidtke (2008), and Morgan et al. (2011)).

results in several outcomes: greater sensitivity of CEO cash and total compensation to negative operating performance, curbing of excess salaries, and a lessening of equity holder dilution due to stock option grants.

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

3. Data

3.1. Voting Data and Measures

We investigate director voting patterns and outcomes for non-U.S. firms. An ideal dataset for this task would be one that maps the votes cast for director elections by all shareholders domiciled in all countries. Unfortunately, such a dataset does not exist because of inconsistent, and sometimes minimal or nonexistent, regulatory requirements to disclose shareholder voting data for the persons and institutions present in a given country.

A large sample of consistent data is available, however, because in 2003 the U.S. SEC mandated the reporting via Form N-PX by U.S.-registered management investment companies (arguably the most influential equity investing bloc in the world) of all votes cast on corporate ballots for the U.S. and non-U.S. firms they hold. It was also mandated that these U.S. institutional investors adopt written policies and procedures ensuring that proxies are voted in the best interests of clients, thus reinforcing their longstanding fiduciary duty responsibilities. This component of the 2003 regulations makes it particularly interesting to study U.S. institutions' voting patterns for non-U.S. firms' director elections because they are required to take such voting seriously.

We obtain the voting data used in our paper from the ISS Voting Analytics database. This database uses the investment company filings of Form N-PX to provide the identity of the companies holding elections, the shareholder meeting date, the agenda item descriptions, the number of "For", "Against", "Abstain", "Withhold" and "Do Not Vote" votes of institutional owners, and the management's recommendations. The Voting Analytics database begins election coverage in 2003 and we use the data up through 2009.[7]

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

For each of the 7,975 firms we create a variable (*Voting Against*) that measures the percentage of the votes that go against the management's proposals for agenda items related

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

to director elections on the shareholder meetings over the fiscal year.[8] As previously discussed, we focus on voting for director elections because these are the most common and generally most important votes cast at shareholder meetings.[9] ISS is sometimes quite broad in its classification of agenda items related to directors. For our paper, we use the agenda items that contain "Elect Directors," "Elect Board Members," or "Approve Discharge of Directors" in the item title for which management recommends to vote "For".[10] We count "Against", "Withhold", and "Abstain" votes as votes that go against management's recommendations. The *Voting Against* variable is calculated as the sum of "Against", "Withhold", and "Abstain" votes on the shareholder meetings over the firm's fiscal year divided by the sum of "For", "Against", "Withhold", and "Abstain" votes.

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

Our research design focuses on non-contested director elections, which constitute the vast majority of director voting situations faced by firms. In contrast, contested elections (in which a dissident formally solicits votes for a slate of directors in opposition to incumbent

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[8] Cai et al. (2009) also use the average vote percentage compiled for each firm year in their tests.

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

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

management) occur with mild frequency in the U.S. and the U.K. but are to our knowledge infrequent or nonexistent in other countries around the world.[11]

Table 1 reports the country distribution of our sample and the average percentage of director election votes that are cast against management's recommendations per firm-year. In total, there are 21,632 firm-years with both voting data and Worldscope firm characteristic data. The average percentage vote against directors is 7.6%, and this average varies widely by country. Also, the non-U.S firms in our sample are spread out across 42 countries, and these countries have wide dispersion in measures that capture the institutional environment faced by outside investors, which should give power to our country-level tests. The majority of firm-year observations fall in the 2003 to 2008 fiscal year period.[12]

3.2. Director Turnover Data and Measure

To measure whether voting matters for director turnover, we obtain data on director positions from Thomson Reuters ONE Banker, which provides termination dates for directors for a large number of Thomson Reuters Worldscope firms. We use this information to calculate the number of directors of a particular firm that leave the board of directors (*Director Turnover*) over the time period from one annual meeting to the next annual meeting

[11] Alexander, Chen, Seppi, and Spatt (2010) study contested elections in U.S. firms and conclude that proxy advisor recommendations bring new information to the market and that recommendations in favor of dissidents have a cumulative abnormal stock return of several percentage points. Buchanan, Netter, and Yang (2009) find that shareholder-initiated proposals for U.S. firms are associated with more significant subsequent policy changes than shareholder proposals put forth for U.K. firms. Further, Gillan and Starks (2000) find that when institutional investors initiate proposals for U.S. firms these proposals receive significantly more favorable votes.

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

as in Fischer et al. (2009).[13] We are able to collect directors' data for 7,304 firms, resulting in a total of 19,692 firm-year observations.

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

Our tests feature both country-level and firm-level variables that measure the potential for outside (minority) shareholder expropriation. At the country-level, we employ *Civil Law* legal origin, a dummy variable equal to one if the firm is from a civil-law country, and zero otherwise, as well as a *French/Socialist Legal Origin* dummy variable equal to one if the firm is domiciled in a country with French or Socialist legal origin, and zero otherwise. *Civil Law* and *French/Socialist Legal Origin* countries have been shown to have the weakest investor protection laws (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)). We also use *Legal*, a combination measure of the anti-director rights index times the average rule of law over our sample period (Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)), as employed in Durnev and Kim (2005) and Doidge, Karolyi, and Stulz (2007); *Disclosure*, a measure of average firm-level disclosures concerning research and development expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods obtained from Bushman, Piotrowski, and Smith (2004); *Shareholder Suits Index*, a measure of shareholders' ability to challenge related-party transactions (Djankov et al. (2008)); and *Efficiency of Judicial System*, produced by the country risk rating agency Business International Corporation, an assessment measure of the "efficiency and integrity of the legal environment as it affects business" (see La Porta et al. (1998)).

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

At the firm level, we first employ *Insider Control*, which is the percentage of closely held shares obtained from Worldscope, as a measure of expected managerial entrenchment. The idea behind this measure is that higher levels of insider control will correspond to greater insider entrenchment and a lesser ability for outsiders to challenge the usage of such control (see, for example, Doidge, Karolyi, Lins, Miller, and Stulz (2009)). This measure tabulates shares held by insiders and specifically includes: (1) shares held by officers, directors and their immediate families; (2) shares held in trust; (3) shares of the company held by any other corporation (except shares held in a fiduciary capacity by banks or other financial institutions); (4) shares held by pension/benefit plans; and (5) shares held by individuals who hold 5% or more of the outstanding shares. Importantly for our analysis, it explicitly excludes shares held in a fiduciary capacity and shares held by insurance companies, which are the exact "outsider" shareholders whose voting patterns we are trying to assess. We expect that greater levels of managerial entrenchment that result from higher levels of insider control will coincide with a greater incidence of institutional investors voting against directors. For robustness, we also use a threshold measure of *Insider Control* that equals one if a firm's *Insider Control* is larger than the sample median value of *Insider Control*, and zero otherwise.

Alternatively to *Insider Control*, we employ a firm-level governance index (Gov_{41}) which is based on 41 governance attributes for the categories of board, audit, anti-takeover provisions, compensation, and ownership, as compiled by Aggarwal et al. (2011). It ranges from zero to one, with higher values indicating less managerial entrenchment. The index is available for a subsample of our observations (5,881 of 21,632 firm-years) and spans the years 2004 to 2008.

Table 2 summarizes voting and director turnover statistics as well as statistics for the control variables used in our regression models. It shows that the 7.6% of votes investors cast against management's proposals for director elections on average has a relatively wide standard deviation of 19.5%. The average number of directors turned over each year is 1.10 with a standard deviation of 1.54 directors. Firms in our sample have average insider control of about 39% with significant variation (standard deviation of 24%), and score an average 0.46 on the governance index of Aggarwal et al. (2011). Finally, the statistics on control variables show that the firms in our analysis are similar to the ones examined in recent international corporate finance studies (see, e.g., Ferreira and Matos (2008), Leuz et al. (2009), and Aggarwal et al. (2011)). For our sample, mean firm size is $6.9 billion measured by market capitalization and $7.3 billion measured by total assets, leverage (measured as total debt to total assets) is 21.6%, market to book equity ratio is 2.5, profitability (measured as net income plus interest to total assets) is 5.6%, and 7.7% are cross-listed on a U.S. exchange.

4. Empirical Tests and Results

We use regression analysis to investigate whether outside shareholders vote as though they are exercising governance and whether their votes cast matter. First, we test whether country-level investor protection influences the way outside investors vote, using *Voting Against* as the dependent variable. We then test whether firm-level proxies for managerial entrenchment are related to *Voting Against*, and afterward examine whether country-level investor protection affects the degree to which investors are concerned with firm-level managerial entrenchment when voting. Finally, we investigate whether the votes cast against directors matter for our sample of non-U.S. firms. To do so, we test whether greater *Voting*

Against corresponds to more directors leaving the board, using *Director Turnover* as the dependent variable.

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

4.1. Country-level Investor Protection

Table 3 presents the results of models testing whether poor country-level investor protection maps into a greater propensity to vote against directors. Models 1 and 2 include the dummy variables *Civil Law* and *French/Socialist Legal Origin* to proxy for higher expected expropriation at the country level. Both coefficients are positive and significant (*p*-value less than 0.01). They show that U.S. institutional shareholders cast on average 6.7 percentage points more votes against directors in civil-law countries than in common-law countries, and cast 7.4 percentage points more votes against directors in French and Socialist legal origin countries relative to other countries. Models 3 through 6 collectively show that lower scores for a country's legal and disclosure environment are associated with significantly more votes being cast against directors. In addition to statistical significance, the effects uncovered appear sizable economically—for example, a one standard deviation decrease in the *Legal* variable (-0.798) in model 3 implies a 28.6% increase in the votes cast against directors (calculated as -0.798 × -2.718 / 7.597). Taken together, Table 3 shows that outside shareholders cast more votes against directors in countries with weaker investor protection institutions, which is consistent with the first fundamental premise of an effective voting process—that is, shareholders vote as though they are exercising governance.

Turning to the control variables in the regression models, the coefficient on *Market Capitalization* is negative and significant in four of the six models, the coefficient on *Leverage* is positive and significant in two of the six models, and the other control variables have insignificant coefficients. While the effects of size are likely to be nuanced, one possible explanation for the negative coefficient is that portfolio investors are more interested in shaping the governance of firms which have a larger pool of equity because they can more easily sell out and capture profits after governance improvements are made. The positive coefficient on leverage may result from levered firms having greater financial risk and outside investors being more concerned with steering their governance.

4.2. Firm-level Managerial Entrenchment

Table 4 presents regression models that test the relation between firm-level managerial entrenchment and the frequency with which outside shareholders vote against directors. Model 1 of Table 4 uses *Insider Control* as the measure for managerial entrenchment and is estimated on the full sample of 21,632 firm-years. *Insider Control* has a positive coefficient, significant at the 1% level, indicating that U.S. institutional investors vote substantially more often against directors when controlling shareholders are more likely to be entrenched in their firms. The magnitude of this coefficient suggests economic significance as well. Specifically, the coefficient of 5.720 implies that a one standard deviation increase in *Insider Control* of 0.237 results in 1.3 percentage points greater voting against directors. In percentage terms, a one standard deviation increase in *Insider Control* corresponds to a 17.8% increase in the propensity to vote against directors (calculated as 1.356 / 7.597).[14]

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

Taken together, the results in Table 4 show that, across a broad set of countries, institutional shareholders cast significantly more "Against" votes in director elections of firms with higher levels of managerial entrenchment. This again supports the premise that these

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

investors vote their shares of non-U.S. firms in a manner consistent with the effective exercise of corporate governance. [15]

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

Our results so far document that country-level investor protection and firm-level managerial entrenchment matter for the exercise of corporate governance via voting. In our next set of tests, we examine whether there is an interaction between these two factors. Given prior research, any interaction effect is likely to be nuanced. On one hand, studies such as Aggarwal, Erel, Stulz, and Williamson (2010) imply that investors would be more concerned with managerial entrenchment when country institutions are weak, and would thus be especially interested in shaping the governance of such firms. On the other hand, Bergman and Nicolaievsky (2007) and Doidge et al. (2007) argue that in poor investor-protection countries, firm-level mechanisms to commit to improved governance are either not available or are prohibitively expensive. Under this line of reasoning, U.S. institutions may not vote differently for firms from weak investor-protection countries that appear to have entrenched managers because there is no reasonable way that this entrenchment could somehow be changed.

To empirically test whether firm-level managerial entrenchment matters differently for *Voting Against* depending upon country-level investor protection, we estimate our previous regressions but partition observations into subsamples based on our six country-level investor

[15] We note here that while it may be interesting to compare our non-U.S. results with prior U.S. results, it is not possible to do so directly because the managerial entrenchment measures as well as other data are different between our tests and those conducted for U.S. firms' director voting patterns by Cai et al. (2009) and Daines et al. (2010). As discussed in an earlier section, Cai et al. (2009) find that greater managerial entrenchment is significantly linked to greater voting against directors while Daines et al. (2009) do not find a significant link. We do not find mixed evidence; instead, our managerial entrenchment measures are statistically and economically significant, which allows us to conclude that our sample of institutional shareholders are indeed interested in using the voting process to shape the governance of their non-U.S. portfolio firms.

protection measures. The weak investor protection subsamples are comprised of *Civil Law* or *French/Socialist Legal Origin* countries, or those countries that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, and *Efficiency of Judicial System*. By estimating subsample models, we allow for differences in all coefficients across the two subsamples and also control for country fixed effects.

Table 5 presents the results. In Panel A we find that *Insider Control* is positively and significantly related to *Voting Against* for the weak investor protection subsamples. The coefficients range from 3.900 to 8.614 and are comparable to the estimated coefficient in the full sample model reported in Table 4. Panel B of Table 5 reports results for the strong investor protection subsamples. This panel shows that *Insider Control* is also positively and significantly related to *Voting Against* in all subsamples. The coefficients range from 5.396 to 6.508, suggesting that firm-level entrenchment also matters for voting decisions in firms from countries with strong investor protection. When we test for statistical significance across subsamples, the *Insider Control* coefficients in all models are not significantly different (i.e., all *p*-values are greater than 0.10) between the weak and strong protection subsamples.[16]

Overall, the Table 5 results suggest that the effect of firm-level managerial entrenchment on shareholder votes cast against directors is independent of country-level institutions.[17] That is, shareholders use the voting process to challenge entrenched managers in countries with either weak or strong investor protection.

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[16] The significance level is based on combined regressions in which all variables are interacted with an indicator variable set equal to one when a country belongs to the low protection subsample, and zero otherwise. Again, standard errors are clustered at the country/industry group level.

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

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

In this section, we examine the second fundamental component of an effective voting process, that is, whether the votes cast by outside shareholders have a governance-related outcome.

The dependent variable for this analysis is the number of directors that leave the board of directors over the time period from one annual meeting to the next annual meeting (*Director Turnover*). We follow Hermalin and Weisbach (1988) and estimate Poisson regressions of *Director Turnover* on *Voting Against* because our dependent variable is a count variable. We control for firm-level managerial entrenchment, firm size, and firm performance. As before, we measure managerial entrenchment with *Insider Control* and with the Gov_{41} index. We use *Log (Market capitalization)* to control for firm size and use *Profitability* and *Excess Stock Return* to control for past performance (see, e.g., Lel and Miller (2008), Fischer et al. (2009), and Aggarwal et al. (2011)).

Table 6 reports the results. The first three columns show that greater voting against directors is associated with significantly more directors leaving the board over the next year. This result provides evidence that the votes cast against directors by U.S. institutions do indeed have a governance-related outcome—greater director turnover. We obtain this result when we use no firm-level entrenchment control (model 1) and when we use *Insider Control* and Gov_{41} in models 2 and 3, respectively. In terms of economic significance, the coefficient of 0.227 on *Voting Against* in model 2 implies a 4.8% increase in director turnover for a one standard deviation increase in *Voting Against*. Alternatively, going from the median of the first quintile to the median of the fifth quintile of *Voting Against* is associated with a 5.8% increase in director turnover.

It is helpful to gauge the economic significance of these results by comparing them to the sensitivity of board turnover to poor firm performance, which the literature has argued is a first-order demonstration of good corporate governance. In model 2, the *Profitability* coefficient of -1.204 implies a 13.9% increase in director turnover for a one standard deviation decrease in *Profitability*.[18] Thus, the incremental effect of voting against directors on director turnover discussed in the prior paragraph can be considered important economically because it is 35% as large as the effect for the most commonly identified source of turnover, poor performance.

While the previous turnover tests control for firm performance, we also use the method employed in Cai et al. (2009) to verify that our results are still not in part driven by firm performance. Specifically, we estimate a regression of *Voting Against* on prior year industry-adjusted *Profitability* and *Excess Stock Return*, as well as industry, country, and year dummies. We use the residual from this regression, *Residuals of Voting Against,* as the dependent variable of interest in models 4, 5, and 6. Using the residual measure of shareholder voting against directors confirms our results from the first three models. Collectively, for our sample of non-U.S. firms, the Table 6 results are consistent with an effective voting process in which greater voting against directors is associated with greater director turnover beyond the effects of poor firm performance.

Finally, we test whether the effect of shareholder voting on director turnover is different for firms domiciled in countries with weak versus strong investor protection. We estimate the same Poisson regressions as in model 2 of Table 6 for different subsamples partitioned on our six country-level governance measures. As in earlier tests, the weak

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

investor protection subsamples are *Civil Law* or *French/Socialist Legal Origin* countries, or those that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, or *Efficiency of Judicial System*.

Panel A of Table 7 reports the results for the weak protection subsamples. Across all subsamples the coefficient on *Voting Against* is positively and significantly associated with director turnover. The magnitude of the coefficients range from 0.205 to 0.311 and are on average bigger than the coefficient reported for the full sample in model 2 of Table 6. In Panel B of Table 7 we also document a positive relation between *Voting Against* and director turnover for countries with strong investor protection, although the coefficients on *Voting Against* are slightly smaller and less significant. However, across all subsamples, the differences in the *Voting Against* coefficients between weak and strong protection countries are not statistically significant at customary levels (i.e., *p*-values are greater than 0.10). Thus, our findings show that dissent voting matters for director turnover across the world.

Overall, our Table 6 and 7 results show that the votes outside shareholders cast have a governance-related outcome—greater voting against director elections is associated with a greater number of directors that exit the board. When combined with the earlier tests reported in Tables 3 through 5, our results indicate that the shareholder voting process is an effective mechanism for exercising corporate governance in our large sample of non-U.S. firms.

5. Additional Analyses

5.1. Other Voting Categories

As noted earlier, we study director election votes because they are by far the biggest and most important voting category. However, the ISS Voting Analytics database compiles shareholder votes for all agenda items at a firm's shareholder meetings, not just those related to directors. As such, it may be informative to assess the importance of these other types of votes. To do so, we create a similarly constructed variable that measures the percentage of all votes that go against the management's recommendations, excluding the votes for director elections we have used in previous tests. As with director votes, we measure *Voting Against* as the sum of "Against", "Withhold", and "Abstain" votes divided by all "For", "Against", "Withhold", and "Abstain" votes.[19] In total, there are 21,414 firm-year observations of which on average 13.3% votes are cast against management's recommendations.

Using the same regression models as before, we find that on the country level, shareholders also vote more against management on other agenda items when outside shareholder protection is weak. This holds for 3 of the 6 country-level investor protection measures: civil-law dummy, the shareholder suits index, and the efficiency of a country's legal system. On the firm level, we again find that *Insider Control* is significantly positively associated with voting against management's recommendations while Gov_{41} has a significant and negative association. Also, as before, when we split our observations into samples of high and low investor protection countries, we find that the coefficients on *Insider Control* (Gov_{41}) are positively (negatively) related to *Voting Against* in each investor protection subsample and that there is no overall difference in these coefficients across subsamples.[20]

Thus, the tests conducted with this additional voting measure confirm our findings for director elections. Shareholders exercise their right to vote in a meaningful way and challenge management more often when country-level investor protection is low and when firm-level expected agency costs from managerial entrenchment are high.

[19] Our results do not change if we include shareholder proposals (0.9% of the votes).
[20] These results are robust to the exclusion of votes on routine business items, which account for 44.5% of all non-director votes.

5.2. Two-tier Board Structures

Instead of the traditional U.S.-style board of directors, some international firms, especially firms from countries relying on German corporate law, have a two-tier board structure. That is, these firms have two boards of directors, a management board as well as a supervisory board. To ensure that our results are not driven by such firms with a two-tier board structure, we run the following additional robustness checks. First, we exclude firms from countries for which more than 50% of director election votes are cast on agenda items that ISS classifies as pertaining to either a "management board" or a "supervisory board." By doing so, we exclude the following countries: Austria, Bulgaria, Czech Republic, Germany, Poland, Portugal, and Slovenia. Excluding these countries does not change our results. Specifically, poor country-level investor protection and greater managerial entrenchment are each related to greater voting against directors; further, voting against management in director elections is positively and significantly related to director turnover. As a second test, we exclude all votes cast on "management board" and "supervisory board" agenda items and, again, our results are confirmed.[21]

5.3. Fund Holdings

Our analysis does not control for the holdings of U.S. institutional investors in our sample firms. Holdings may be important if institutions spend more effort collecting information and opposing management when they have larger stakes in a firm. However, given that these investors already have a mandatory fiduciary duty (SEC final rule 33-8188)

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

to vote shares they hold in the best interest of their clients, they should be fulfilling these duties regardless of the amount they hold in a particular firm.

In this section, we assess, to the best of our ability, whether the stakes held by institutions play a role in voting patterns. One database that collects fund holdings is the Thomson-Reuters Institutional Holdings (13F) Database. Unfortunately, this database collects holdings only if the funds report a portfolio firm's CUSIP number, which would only be available for foreign firms that at some point were traded in the U.S. Given that only a small proportion of non-U.S. equities trade on U.S. exchanges either as ADRs or directly listed shares, the Thomson database does not help us identify the institutional holdings of our sample firms.

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

6. Conclusion

This study examines the votes cast by U.S. institutional investors for director elections, as well as subsequent director turnover, in 7,975 companies across 42 countries over the years 2003-2009. We investigate two questions that are fundamental to the effective exercise of corporate governance through the shareholder voting process: (1) Do outside shareholders vote as though they are exercising governance?, and (2) Do the votes they cast have a governance-related outcome?

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

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

Taken together, we find consistent evidence that a large and important bloc of equity investors does indeed find voting to be a fruitful mechanism for exercising corporate governance in the non-U.S. firms they hold. Our results thus have implications for stock exchanges and regulators around the world. Specifically, institutional reforms that enhance the ability of shareholders to vote should be welcomed, and are likely to be value enhancing.

Such reforms could include mechanisms that disallow, or make more difficult, the issuance or retention of non-voting equity shares, or agreements that standardize the voting process, such that global investors can avoid confusion and inefficiency when casting their votes.

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Table 1
Country Distribution

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

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

Table 2
Summary Statistics

The table reports summary statistics. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The variable is calculated as the sum of "Against", "Withhold", and "Abstain" votes divided by the sum of "For", "Against", "Withhold", and "Abstain" votes. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database. *Director Turnover* is the number of directors of a particular firm that leave the board of directors over the time period from one annual meeting to the next annual meeting. *Insider Control*, obtained from Worldscope, is the percentage of closely held shares, which specifically excludes shares held in a fiduciary capacity by institutional investors. It includes: (1) shares held by officers, directors and their immediate families; (2) shares held in trust; (3) shares of the company held by any other corporation (except shares held in a fiduciary capacity by banks or other financial institutions); (4) shares held by pension/benefit plans; and (5) shares held by individuals who hold 5% or more of the outstanding shares. The governance index (Gov_{41}) includes 41 governance attributes for the categories board, audit, anti-takeover provisions, compensation, and ownership. It ranges from 0 to 1, with higher values indicating better governance. The index is obtained from Aggarwal, Erel, Ferreira, and Matos (2011) and is available for a subsample of our firms for the years 2004-2008. Data for the remaining firm-level variables are from Worldscope. *Market Capitalization* is the market capitalization of equity in billions of US$. *Total Assets* is measured in billions of US$. *Leverage* is total debt to total assets. *Market-to-book* is the market value of equity divided by the book value of equity. *Profitability* is net income plus interest expenses to total assets. *Cross-list* is a dummy variable equal one if the firm is cross-listed on a major U.S. stock exchange, zero otherwise. *Civil Law* is a dummy variable that equals one for countries with civil law legal origin, and zero otherwise. *French/Socialist Legal Origin* is a dummy variable equal to one if the firm is domiciled in a country with French or Socialist legal origin, and zero otherwise. *Legal* is the product of anti-director rights index and rule of law (Doidge, Karolyi, and Stulz (2007), Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Disclosure* measures average firm-level disclosures concerning research and development expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods (Bushman, Piotrowski, and Smith (2004)). *Shareholder Suits Index* is a measure of the powers of shareholders to challenge self-dealing transactions, with higher values indicating greater shareholder power to challenge related-party transactions (Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Efficiency of Judicial System* is an assessment of the "efficiency and integrity of the legal environment as it affects business" produced by the country risk rating agency Business International Corp. It "may be taken to represent investors' assessment of conditions in the country of questions" (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)). The sample consists of 7,975 distinct international firms. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period.

Variables	Mean	SD	N
Voting Against	7.597	19.530	21,632
Director Turnover	1.097	1.542	19,692
Insider Control	0.388	0.237	21,632
Gov_{41}	0.455	0.105	5,881
Market Capitalization	6.880	1.639	21,632
Total Assets	7.283	1.913	21,632
Leverage	0.216	0.183	21,632
Market-to-book	2.478	2.539	21,632
Profitability	0.056	0.106	21,632
Cross-list	0.077	0.267	21,632
Civil Law	0.251	0.434	21,632
French/Socialist Legal Origin	0.143	0.350	21,632
Legal	3.201	0.798	19,127
Disclosure	92.555	13.369	20,645
Shareholder Suits Index	7.087	1.458	21,627
Efficiency of Judicial System	9.018	1.694	20,859

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

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year (*Voting Against*). The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period. *Civil Law* is a dummy variable that equals one for countries with civil law legal origin, and zero otherwise. *French/Socialist Legal Origin* is a dummy variable equal to one if the firm is domiciled in a country with French or Socialist legal origin, and zero otherwise. *Legal* is the product of an anti-director rights index and a rule of law index (Doidge, Karolyi, and Stulz (2007), Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Disclosure* measures average firm-level disclosures concerning research and development expenses, capital expenditures, product and geographic segment data, subsidiary information, and accounting methods (Bushman, Piotrowski, and Smith (2004)). *Shareholder Suits Index* is a measure of the powers of shareholders to challenge self-dealing transactions, with higher values indicating greater shareholder power to challenge related-party transactions (Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008)). *Efficiency of Judicial System* is an assessment of the "efficiency and integrity of the legal environment as it affects business" produced by the country risk rating agency Business International Corp. It "may be taken to represent investors' assessment of conditions in the country of questions" (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)). All other variables are described in Table 2. All time-varying independent variables are measured at the end of the fiscal year preceding the shareholder meeting. Indicator variables for years and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *t*-test of equality with zero is reported in parentheses.

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

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

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year (*Voting Against*). The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period. *Insider Control*, obtained from Worldscope, is the percentage of closely held shares. This measure captures insider holdings and specifically excludes shares held in a fiduciary capacity by institutional investors. The governance index (Gov_{41}) includes 41 governance attributes for the categories board, audit, anti-takeover provisions, compensation, and ownership. It ranges from 0 to 1, with higher values indicating better governance. The index is obtained from Aggarwal, Erel, Ferreira, and Matos (2011) and is available for a subsample of our firms for the years 2004-2008. All other variables are described in Table 2. All time-varying independent variables are measured at the end of the fiscal year preceding the shareholder meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *t*-test of equality with zero is reported in parentheses.

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

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

The table reports OLS regression estimates of the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year (*Voting Against*). The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009, which correspond to firms' fiscal years over the 2002 to 2009 period. Panels A and B reports results for subsamples based on our six country-level investor protection measures. The weak investor protection subsamples (Panel A) are *Civil Law* or *French/Socialist Legal Origin* countries, or those that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, or *Efficiency of Judicial System*. Strong investor protection subsample results are reported in Panel B. All variables are described in Table 2. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *t*-test of equality with zero is reported in parentheses.

Panel A: Weak Investor Protection

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

Panel B: Strong Investor Protection

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

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

The table reports Poisson regression estimates of director turnover on the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The dependent variable, *Director Turnover*, is the number of directors that leave the board of directors from one annual meeting to the next annual meeting. The director data are from Thomson Reuters ONE Banker. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database. *Residuals of Voting Against* are the residuals of a regression of *Voting Against* on industry-adjusted *Profitability* and *Excess Stock Return*, as well as industry, country, and year dummies. *Excess Stock Return* is the difference between a firm's annual stock return and the annual return on the stock market index of its country. All other variables are described in Table 2. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years over the 2002 to 2009 period. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *z*-test of equality with zero is reported in parentheses.

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

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

The table reports Poisson regression estimates of director turnover on the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The dependent variable, *Director Turnover*, is the number of directors that leave the board of directors from one annual meeting to the next annual meeting. The director data are from Thomson Reuters ONE Banker. Panels A and B reports results for subsamples based on our six country-level investor protection measures. The weak investor protection subsamples (Panel A) are *Civil Law* or *French/Socialist Legal Origin* countries, or those that score below the sample country median for *Legal*, *Disclosure*, *Shareholder Suits Index*, or *Efficiency of Judicial System*. Strong investor protection subsample results are reported in Panel B. *Voting Against* is the percentage of U.S. institutional investors' votes cast against management's proposals for agenda items related to director elections at a firm's shareholder meetings for a given fiscal year. The voting data are from the Institutional Shareholder Service (ISS) Voting Analytics database. *Excess Stock Return* is the difference between a firm's annual stock return and the annual return on the stock market index of its country. All other variables are described in Table 2. The sample period comprises shareholder meetings held from July 1, 2003 through December 31, 2009 which correspond to firms' fiscal years over the 2002 to 2009 period. All time-varying independent variables are measured at the end of the fiscal year preceding the meeting. Indicator variables for years, countries, and industry groups (based on the classification of Campbell (1996)) are included but not reported. For each coefficient, the *p*-value (computed using standard errors corrected for heteroskedasticity and clustered at the country/industry group level) of the two-tailed *z*-test of equality with zero is reported in parentheses.

Panel A: Weak Investor Protection

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

Panel B: Strong Investor Protection

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