Voting Rationales[*]

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Abstract

We examine why institutional investors vote the way they vote, using a novel dataset on nearly one million voting rationales provided by institutional investors. First, we find that institutional investors are more likely to provide rationales when they vote against management, suggesting that they disclose rationales to express their concerns over management. Second, using machine learning techniques and focusing on rationales on director elections, we find that the most important reasons behind opposing directors are board independence, board diversity, tenure, firm governance, and busyness. Further, institutional investors are increasingly voting against directors to hold them accountable for failure to address environmental and social issues. We find that institutional investors' concerns are well-grounded: companies with low board gender diversity receive more rationales on board diversity, similar for companies with long director tenure and busy directors. Finally, we show that companies with high dissent voting related to board diversity, tenure, and busyness improve their board composition in the following year. Our evidence shows that voting rationales contain useful information for firms about investors reason for opposing directors, providing an effective low-cost strategy to promote good governance practices in their portfolio companies.

Keywords: institutional investors, voting, voting rationales, corporate governance
JEL: JEL: G11, G23, G30

"Ultimately, corporate accountability is only possible when the funds that manage American investors' savings diligently exercise their authority to vote, clearly disclose their votes to investors, and operate in a system that efficiently provides accurate information about vote execution."

A.H. Lee, Acting Chair of the SEC, March 17, 2021.

1. Introduction

Voting plays a central role in the governance of publicly traded companies, allowing shareholders to hold the board and management accountable while promoting environmental and social policies. With institutional investors holding more than 70% of shares outstanding of publicly traded companies in the US, the effectiveness of the governance system critically relies on institutional investors diligently exercising the voting authority on behalf of their clients.[1] However, recent concerns have been raised regarding institutional investors' commitment to exerting adequate governance on the companies they own, as incentives structures (Woidtke, 2002; Bebchuk, Cohen, and Hirst, 2017; Heath, Macciocchi, Michaely, and Ringgenberg, 2022), potential conflicts of interest with portfolio companies (Cvijanović, Dasgupta, and Zachariadis, 2016) and within the same fund family (Michaely, Ordonez-Calafi, and Rubio, 2023), may compromise the governance system and the best interest of their clients. Therefore, it is of utmost importance for companies, regulators, and researchers to understand the reasons behind institutional investors' voting decisions.

Although existing literature offers valuable insights into the determinants of institutional investors' voting decisions (Bolton, Li, Ravina, and Rosenthal, 2020; Matvos and Ostrovsky, 2010; Davis and Kim, 2007; Iliev and Lowry, 2015), the underlying reasons for each vote remain elusive. Researchers typically rely on indirect inferences based on observable information to uncover these determinants, such as voting patterns and the characteristics of companies, sponsors, proposals, or institutional investors (e.g., Gillan and Starks, 2000; Cai, Garner, and Walkling, 2009; Malenko and Shen, 2016; Gantchev and Giannetti, 2021). However, because

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[1]A.H. Lee, Acting Chair of the SEC, March 17, 2021. "Every Vote Counts: The Importance of Fund Voting and Disclosure." Available here.

votes do not come with an explicit explanation (i.e., voting rationale), it is difficult to ascertain the specific concerns or considerations that underlie each vote. For instance, if an institutional investor votes against a director nominee, is it related to the nominee's candidacy, or does it reflect broader concerns about the company's direction? Despite prior research on this topic, it is challenging to fully understand the reason behind institutional investors' voting decisions.

This paper sheds light on why institutional investors vote the way they vote, by studying a novel dataset containing almost one million voting rationales. Voting rationales are vote-specific, voluntarily disclosed, and have the potential to reveal useful information beyond what is typically contained in votes alone, as it provides insight into the reason behind institutional investors' voting decisions. Examples include *"A vote AGAINST incumbent Nominating Committee member William (Bill) Larsson is warranted for lack of diversity on the board"* or *"Company already has policies in place to address these issues."* By analyzing the voting rationales of institutional investors from around the world, including pension funds, on more than 4,000 companies' management and shareholder proposals during 2014–2021 proxy season, we provide three novel insights into the literature. First, we provide comprehensive evidence on the main reasons institutional investors vote against directors, and quantify the relative importance of each reason. Second, we show that institutional investors' rationales are well-grounded on the aggregate. Specifically, companies with low board gender diversity receive more rationales on board diversity, similar for companies with long director tenure and busy directors. This indicates that many institutional investors exert governance efforts when they vote. Third, we find that companies with high dissent voting related to board diversity, tenure, and busyness improve their board composition in the following year, supporting the view that companies respond to investors' concerns stated in their voting rationales. This implies that voting rationales are an effective tool for institutional investors seeking to influence corporate behavior.

As the first paper to analyze institutional investors' voting rationales, we begin by providing an overview of the data. While voluntary, disclosing voting rationales has become increasingly popular in recent years. In our sample, there has been an increase in the proportion of institutional investors disclosing at least one rationale during the proxy season, from 6.1% in 2014 to

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12.8% in 2021, and a corresponding increase in the proportion of votes with a rationale, from 1.4% in 2014 to 5.4% in 2021. We find that the proportion of votes with a rationale varies significantly based on proposal type and vote choice. For management proposals, the proportion of votes with rationales is 3.5% on average, but this increases to 16.4% when the votes are against management proposals. Shareholder proposals have an average of 8.4% of votes with rationales, increasing to 12.3% for those in favor and 3.5% for those against. Our findings indicate that votes are more likely to have a rationale when they go against management recommendations, as most shareholder proposals are opposed by management. In our sample, each proposal has an average of 4.79 rationales, and about 82% of proposals and 88% of meetings have at least one rationale. Although the proportion of votes with disclosed rationales is still small, our data on voting rationales covers a wide range of meetings and proposals, providing insights into the factors that influence institutional investors' voting decisions.

To gain a better understanding of the reasons behind the votes, we use Bidirectional Encoder Representations from Transformers (BERT), a natural language processing technique developed by Google in 2019, to categorize institutional investors' rationales into different topics. It is essential to separate voting rationales by proposal types since different types of proposals have different rationales.[2] We focus on uncontested director elections as they are the most critical mechanism through which shareholders can hold directors accountable, and high opposition from shareholders can lead to severe consequences (Cai et al., 2009; Ertimur, Ferri, and Oesch, 2018; Aggarwal, Dahiya, and Prabhala, 2019). Director elections are also the most common type of proposal, accounting for 73% of votes in our sample. Using a supervised machine learning approach, we analyze a random sample of voting rationales to identify 15 non-mutually exclusive topics that capture the main reasons behind their votes, drawing on the theoretical and empirical literature to confirm their relevance. The BERT model shows strong performance, achieving an overall accuracy of 98%, precision of 96%, recall of 97%, and F1-score of 96%. Given this, we are confident that we can successfully identify the main motivation behind each

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[2]For example, an argument like *"Current practice is sufficient"* is often used to oppose shareholder proposals, but rarely used for management proposals. In contrast, board diversity (e.g., *"The board does not have a minority director after the election"*) or attendance (e.g., *"Less than 75% attendance"*) are considerations for director election proposals, but not for other management or shareholder proposals.

institutional investor's votes. For each director candidate, institutional investors generally offer one or two reasons on average.

We uncover a broad range of reasons behind institutional investors' votes.[3] Institutional investors oppose directors for various reasons, including independence (21%), board diversity (18%), governance concerns (13%),[4] tenure (13%), busyness (12%), compensation issues (7%), CEO duality (6%), and board structure (5%), responsiveness (1.2%), attendance (1%), ESG/CSR (0.8%), company performance (0.4%), among others. Some of these concerns have been identified in the literature (e.g., Cai et al., 2009; Choi, Fisch, and Kahan, 2013; Ertimur et al., 2018), but we provide novel evidence on their relative importance. For example, excessive tenure and general governance issues are among the most important rationales behind votes against directors, whereas other factors such as lack of responsiveness to majority-vote shareholder proposals and lack of regular attendance at board meetings account for a much smaller proportion of rationales in votes against directors. Notably, board diversity is of particular importance, being the second most common reason for opposing directors, constituting 18% of rationales and mentioned in 72% of meetings. This concern is frequently mentioned even before the Big Three institutional investors (i.e., BlackRock, Vanguard, and State Street) launched campaigns to promote gender diversity in 2017 (Gormley, Gupta, Matsa, Mortal, and Yang, 2022). We also find that a small fraction of institutional investors hold director nominees responsible for concerns over ESG/CSR, especially after the 2019 proxy season. Interestingly, we rarely observe rationales related to the boards' advising roles, despite the importance of directors' skill sets and experiences (e.g., Adams, Akyol, and Verwijmeren, 2018).

A natural question is what makes institutional investors support director candidates. We find that institutional investors are much less likely to provide rationales when they support director nominees, and even when they do, the rationales usually lack significant information (e.g., *"A vote FOR director nominee Thomas A. Edwards is warranted"*). Therefore, in our

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[3]Our evidence is biased towards those institutional investors that provide a rationale, and for those proposals on which they disclose one.

[4]Governance concerns include a broad set of issues, such as dual class shares, adoption of major governance changes without shareholder approval, hedging, board interlocks, excessive audit tenure, pledging of company shares by executives or directors.

subsequent analyses, we focus on rationales for votes against director nominees.

Proxy advisors are known to wield significant influence in shareholder voting (Cai et al., 2009; Iliev and Lowry, 2015; Larcker, McCall, and Ormazabal, 2015; Malenko and Shen, 2016; Ertimur et al., 2018), which raises concerns that voting rationales may merely reflect the rationales of proxy advisors. Although we cannot directly observe ISS or Glass Lewis rationales,[5] we can infer them from robo-voters, which we define as institutional investors that agree with ISS or Glass Lewis at least 99% of the time during a proxy season. Robo-voters exhibit high similarity of rationales to one another, with average cosine similarity of 0.96 and 0.99 for ISS and Glass Lewis robo-voters, respectively. Their rationales are essentially identical, which suggests that they may not have been developed independently, but rather reflect the influence of their respective proxy advisors. In the full sample, the similarity of rationales across investors is much lower, with average cosine similarity of 0.43, and the rationales cover a wider range of topics. Notably, ISS or Glass Lewis robo-voters do not provide rationales regarding director tenure, which is the fourth most common rationale for voting against directors among all institutional investors. Taken together, our findings suggest that the rationales in our sample largely reflect independent assessment of institutional investors, as opposed to the rationales of proxy advisors.

We next investigate heterogeneity in institutional investors voting rationales. Our analysis reveals significant differences in voting rationales across institutional investors, consistent with governance preference differences among them (Bolton et al., 2020; Bubb and Catan, 2022). For instance, US investors often emphasize board diversity and company performance, while European investors tend to focus on CEO duality, board structure, independence, and tenure. Notably, some European investors have held directors accountable for ESG/CSR-related issues since 2015, while this rationale only became prominent among US investors in 2020. This rationale has become a significant factor for the Big Three in 2021, which may indicate a new way for them to pressure companies to change environmental and social policies. We find that board diversity has become an important factor for the Big Three since 2017, coinciding with

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[5]We contacted ISS to obtain their rationales when issuing a voting recommendation. As of September 2022, ISS is unwilling to make their data available to academics.

their campaigns to promote gender diversity on corporate boards (Gormley et al., 2022). Although independence remains the most common rationale for all investors, it is less frequently mentioned by the Big Three. Interestingly, pension funds and fund managers show no distinct pattern in their voting rationales, despite concerns about potential conflicts of interest (Woidtke, 2002; Del Guercio and Hawkins, 1999; Prevost and Rao, 2000). Finally, we note that some institutional investors focus almost exclusively on a single factor across all their portfolio companies (e.g., Calvert and Trillium focus on board diversity), while others (e.g., BlackRock, BMO Global Asset Management) consider multiple dimensions and provide different rationales for different companies in their portfolio.

While different institutional investors might provide different rationales for the same director, our findings indicate that in the aggregate, they provide an accurate picture of a company's governance weaknesses. In particular, we find that companies receiving a higher proportion of rationales related to board diversity have less gender-diverse boards, with the proportion of rationales indicating the relative importance of each issue. We also observe the same pattern for companies with long director tenure and busy directors. Importantly, these results indicate that institutional investors cast informed votes, despite recent concerns about their incentives to exert sufficient governance (Bebchuk and Hirst, 2019; Iliev, Kalodimos, and Lowry, 2021). Further, the results suggest that rationales are not systematically biased by institutional investors that pursue own agenda (e.g., Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002; Matsusaka, Ozbas, and Yi, 2019) or have conflicts of interest (Davis and Kim, 2007; Cvijanović et al., 2016; Michaely et al., 2023).

Having established that rationales for institutional investors' votes are well-grounded, a natural question arises: what motivates investors to disclose these rationales? Our evidence collectively suggests that institutional investors are primarily trying to explain the reasons for their dissent to the company's management. First, our analysis of anecdotal evidence indicates that the intended audience for these rationales is the company, rather than the investors' clients, and the goal is to communicate their reasons for voting against management and express their governance expectations. Second, as noted earlier, we find that institutional investors are more likely to disclose their voting rationales when their votes are not in line with management

recommendations, for both management and shareholder proposals. Finally, in our previous analyses, we show that rationales are uninformative for votes in favor of directors, but not for votes against. Taken together, our findings suggest that institutional investors disclose rationales as a low-cost engagement strategy to explain their opposition to management and communicate their governance expectations.

If institutional investors disclose their rationales for communicating with portfolio companies, it raises the question of whether companies actually respond to their concerns. We find that companies with high dissent voting related to board diversity increase the percentage of female directors in the following year. Likewise, companies with high dissent voting related to director tenure and busyness reduce the average director tenure and busyness, respectively. These results suggest that directors are willing to address concerns that result in high shareholder dissent, as it can have serious consequences (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019), and voting rationales can be an effective tool to communicate the source of this dissent. To further test this hypothesis, we conduct a falsification test to determine if high dissent in companies with poor governance practices (low female representation, long tenure, busy directors) also experience board changes the following year. We do not find significant results, showing that companies cannot easily infer the sources of dissent and address the issues unless institutional investors explicitly state the reason behind their vote through voting rationales. This indicates that voting rationales are a unique and effective tool for communicating the reasoning behind shareholder dissent.

To the best of our knowledge, this is the first paper to study institutional investors' voting rationales. Our contribution is to provide comprehensive evidence on the main reasons institutional investors vote for or against directors, and to uncover the relative importance that investors place on different rationales. Our paper is related to Ertimur et al. (2018), which focuses on ISS rationales in recommending to withhold votes in uncontested director elections. While ISS is an important institution, our paper provides a broader overview of institutional investors' considerations when casting their shares. Importantly, our results demonstrate that ISS rationales may not fully capture the range of considerations that institutional investors have when voting on proposals. Furthermore, our study uncovers new rationales, such as lack

of board diversity and concerns over ESG/CSR, which are not considered in ISS rationales.

More broadly, our paper contributes to the literature on the governance role of institutional investors (Fich, Harford, and Tran, 2015; McCahery, Sautner, and Starks, 2016; Iliev et al., 2021; Dasgupta, Fos, and Sautner, 2021; Lewellen and Lewellen, 2022). While some forms of shareholder activism can be costly for institutional investors (Gantchev, 2013), recent papers document the use of low-cost activist strategies, such as shareholder proposals (Gantchev and Giannetti, 2021), "just vote no" campaigns (Del Guercio, Seery, and Woidtke, 2008), disclosure of proxy voting (Couvert, 2020), or expectation documents (Aguilera, Bermejo, Capapé, and Cuñat, 2021). We show that institutional investors disclose voting rationales to communicate their corporate governance views to firm's management, and that companies change their board composition in response to institutional investors' concerns.

Our paper also adds to the literature on the limits to effective governance by institutional investors. Prior papers documents mutual funds' overreliance on proxy advisors (Iliev and Lowry, 2015; Larcker et al., 2015), limited resources devoted to stewardship (Bebchuk and Hirst, 2019; Iliev et al., 2021), mutual funds' business ties with portfolio companies (Cvijanović et al., 2016) and the incentive structure of institutional investors (Woidtke, 2002; Heath et al., 2022). Our results indicate that many institutional investors make informed decisions when casting their shares, and that attention is probably more widespread than previously documented (Iliev et al., 2021).

Our paper contributes to the recent policy debate on the importance of fund voting and accountability around the voting process. Our results indicate that companies listen to institutional investors' concerns, suggesting that disclosing voting rationales is an effective low-cost strategy to communicate with companies and promote good governance practices. Further, recent evidence suggests that the current disclosure framework does not prevent funds from voting in a way that is not aligned with fund shareholders' interests (Cvijanović et al., 2016; Michaely et al., 2023). The United Nations (UN) Principles for Responsible Investment (PRI) recommend their signatories to publicly disclose voting rationales, particularly for high-profile or controversial votes (PRI, 2021). Our results suggest that institutional investors do not use

voting rationales to communicate with their clients on arguably controversial shareholder proposals (except when voting against management). Voting rationales can help clients understand the true reason for their votes and bring transparency to the decision-making process.

2.   Data and Summary Statistics

We collect data on votes, proxy advisors' and management recommendations, voting rationales, and meeting and proposal characteristics from Proxy Insight for annual meetings at US publicly traded companies between July 2013 and June 2021.[6] Proxy Insight collects information on votes and voting rationales from publicly available sources, including NP-X files, mutual fund webpages, among others. While this information is provided at the fund level, we aggregate the information at the voting manager level because fund votes cast by the same voting manager have little variation. In our sample, only 0.25% of fund-proposal observations have at least one fund voting differently from the rest of the funds from the same voting manager.[7] Therefore, we aggregate votes at the voting manager level (institutional investor, hereafter) and drop any individual fund level information, similar to Cvijanović et al. (2016) and Bolton et al. (2020).[8]

Our sample includes 1,383 institutional investors from around the world that vote in at least 20 annual meetings in US publicly traded companies in a proxy season. In our sample, about 75% (or 1,035) of institutional investors are located in the US (Panel A of Table 1), but we also have some large institutional investors outside of the US, including 102 from Canada, 99

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[6]We exclude special meetings and proxy contests because the type of proposal up for vote in these meetings are very different than those voted during annual meetings (e.g., merger and acquisitions). They are relatively uncommon (they only represent 6.3% of the meetings in our sample), and not all firms have at least one in our sample period.

[7]For instance, in Proxy Insight, BlackRock funds have three different voting managers: BlackRock, BlackRock Suatainability Funds and BlackRock (sub-advised). Because BlackRock Sustainability votes on behalf of environmental and social funds that typically vote differently (Michaely et al., 2023), the votes at the voting manager level are more homogeneous than votes at the family level. In many cases, the voting manager and the family are exactly the same (e.g., Vanguard).

[8]In some cases, for the same institutional investor, we have the voting rationale for some funds only. We assume that, as far as all funds that that belong to the same institutional investor vote in unison, the rationale for the vote is the same for all funds.

from the UK, and 147 from all other countries. Institutional investors in our study include 956 fund managers, 148 pension funds, and 279 other institutional investors (e.g., investment firms, banks, labor unions), with fund managers representing 68% of the votes, followed by pension funds at 24% and other institutional investors at 8%, conditional on nonmissing information on investor type. Information on institutional investor country and investor type comes from Proxy Insight. Our study provides a comprehensive analysis of institutional investors worldwide, covering a broad range of investor types, which are often overlooked in many other studies that focus solely on US investors or mutual fund managers.

We obtain information on institutional ownership from Thomson Reuters, companies' financial information from Compustat, and information on board characteristics from ISS Governance database and BoardEx (see Table 1 and Appendix A for summary statistics and definitions, respectively). Proxy Insight reports voting data for 6,273 US firms during our sample period. The number of firms drop to 4,441 after merging with Compustat, and to 4,323 firms after merging with Thomson Reuters. Intersecting the Proxy Insight data with the other databases resulted in a final sample of more than 25 million votes, on 190,992 unique proposals (187,458 management-sponsored and 3,534 shareholder-sponsored), as shown in Panels A and B of Table 1.

We find that 96% of votes are cast on management proposals, with director election proposals accounting for 74% of those votes (Table 1 Panel C). This indicates that director election proposals make up a majority of all proposals, and shareholder proposals represent only a small fraction of all proposals in US publicly traded firms. On average, management proposals received high support (97.4%, Table 1 Panel B), which is consistent with prior research by Iliev and Lowry (2015) and Cvijanović et al. (2016) that also find high levels of support for management proposals. The level of support for shareholder proposals (32.1%, Table 1 Panel B), is higher than that reported in prior studies (e.g., Michaely et al., 2023). This can be attributed to the inclusion of pension funds and non-US institutional investors in our sample, as they tend to be more supportive of shareholder proposals (Gibson Brandon, Glossner, Krueger, Matos, and Steffen, 2022).[9]

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[9]In our sample, 68% of votes by pension funds support shareholder proposals, while 51% of votes by fund

We use the number of meetings worldwide in which institutional investors cast their shares as a proxy for size. The average investor in our sample is voting on 934 meetings in each proxy season (Table 1 Panel E). We also show the largest institutional investors by number of meetings in the 2021 proxy season in Table 2. Regarding US mutual fund families (Panel A), Dimensional Fund Advisors and Vanguard vote in more than 19,000 meetings, and over 170,000 different proposals. BlackRock and State Street voted in more than 16,000 meetings, and more than 150,000 proposals. These figures are similar for the two largest pension funds in our sample (Panel B), CalPERS and TIAA-CREF. In Panel C, we show the largest non-US institutional investors, with Legal & General Investment Management (from the UK) and Norges Bank Investment Management (from Norway) among the largest investors (more than 11,000 meetings each and more than 100,000 unique proposals in 2021).

The extent of diversification by these institutional investors suggests that they cannot engage individually with each firm they hold in their portfolio, as this might be prohibitively costly (Bebchuk and Hirst, 2019).[10] Voting rationales can become a low-cost strategy to communicate the reasons behind their votes to their portfolio firms. In contrast to other low-cost strategies, such as voting policies (Couvert, 2020) and expectation documents (Aguilera et al., 2021), which provide general guidelines over governance issues, voting rationales offer specific explanations for individual companies and proposals that address their unique governance issues.

3. The Decision to Disclose Voting Rationales

In this section, we analyze institutional investors' decision to disclose voting rationales. As this is the first paper to study data on voting rationales, we believe it is incumbent upon us to provide description of the data on voting rationales. We first provide some anecdotal evidence from institutional investors regarding the reason why they disclose their voting rationales, as disclosure of voting rationales is voluntary (see Appendix B for further detail). For instance,

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managers support shareholder proposals. Additionally, 72% of votes by European investors support shareholder proposals, whereas 51% of votes by US investors support shareholder proposals.

[10]Bebchuk and Hirst (2019) show that the Big Three investors have on average 26 investment stewardship personnel to cover 12,221 firms in their portfolio.

NEI Investments states that *"we write to corporate boards where we have identified corporate governance concerns or notable good practices to explain the rationale for our voting decisions."* AllianzGI indicates that *"As we cannot reach out to all investee companies individually to communicate our voting decisions in an efficient way, we believe that website publication of these decisions and rationales for votes against/abstentions the day following the shareholder meeting is our next best option."* Our examination of anecdotal evidence indicates that institutional investors provide voting rationales primarily to engage with corporations and communicate their expectations for corporate governance practices. We further support this finding with empirical evidence on the factors that drive the decision to disclose, which is presented throughout Section 3.

Disclosure of voting rationales has been gaining momentum in recent years. Figure 1 shows the fraction of votes that have a rationale from the 2014 to 2021 proxy season, using the information on votes and rationales from Proxy Insight. Rationales are increasing over time, from 1.4% of votes in 2014 to 5.4% in 2021. Some of the largest institutional investors such as Norges Bank and Vanguard have only started to disclose their rationales in the 2020 proxy season, while others such as BlackRock are increasing the proportion of votes for which they disclose in recent years. We find that the decision to disclose is highly persistent; An institutional investor that provides at least one voting rationale in a given proxy season is 82% likely to provide rationales in the following proxy season. An institutional investor that does not provide any voting rationales in a given proxy season is 97% likely to not provide any rationales in the following proxy season.

3.1. Heterogeneity in the Decision to Disclose

In this section, we report how the disclosure of voting rationales varies across different institutional investors. European and US institutional investors may engage differently in a number of ways, due to differences in the regulatory environment, corporate governance structures, and cultural norms (Cziraki, Renneboog, and Szilagyi, 2010; Buchanan, Netter, Poulsen, and Yang, 2012; Dasgupta et al., 2021). We also examine the disclosure of robo voters, defined as

investors who vote with ISS or Glass Lewis at least 99% of the time during a proxy season (Matsusaka and Shu, 2022). As robo voters tend to exert minimal effort on voting, they may have less incentives to engage and hence less likely to provide detailed explanations for their voting decisions. Pension funds and mutual funds might also engage differently, as they might have different motivations for shareholder activism (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002). Studying the heterogeneity in the decision to disclose among institutional investors can shed light on the factors that shape disclosure practices, and have implications for developing policies aimed at promoting greater transparency and accountability among investors.

We begin by presenting the proportion of votes with rationales as a function of the institutional investor country (Figure 2). Our sample includes rationales for votes cast in US firms by US and non-US institutional investors. The figure shows high heterogeneity, with European investors disclosing more than the US and Australian counterparts, which is consistent with different stewardship codes and governance practices (Dasgupta et al., 2021). German institutional investors are not required to disclose their actual votes or voting rationales, but out of the six German institutional investors in our sample, 28% of votes have voting rationales. The group of 'Rest of World' encompasses 25 countries, including Denmark, India, Japan, the Republic of Korea, South Africa, Sweden, and Thailand.

There is also variation in rationales within countries. Figure 3 plots the distribution of institutional investors based on the mean proportion of votes with rationales in the full sample, and some examples of which institutional investors fall in each range. Most institutional investors do not disclose the rationale for their vote (82%), including Fidelity (US), CalSTRS, and Franklin Templeton. On the other extreme of the distribution, NEI Investments and Calvert provide voting rationales for most votes. Some of the largest mutual fund families (BlackRock, Vanguard, State Street (SSgA)) disclose rationales for about 5 to 10% of the votes. We also observe variation for the same institutional investor across different countries. For instance, Aberdeen (US) has a lower fraction of votes with rationales compared to Aberdeen (UK). Pension funds in the US are more likely to disclose rationales, but there is also high variation among them, with the University of California reporting for more than half of their votes, and CalSTRS not

disclosing any.

In untabulated results, we partition our sample of institutional investors to investigate potentially varied engagement incentives. We first examine the disclosure of robo voters, and find that ISS robo voters, who account for 21% of the total votes in our sample, disclose rationales for only 1.9% of their votes, compared to 4.1% for non-ISS robo voters. Similarly, Glass Lewis robo voters, who cast 7% of the total votes, disclose rationales for only 1.1% of their votes, compared to 3.8% for non-Glass Lewis robo voters. These results provide evidence that robo voters are less likely to provide voting rationales, which is consistent with their tendency to minimize their voting efforts. We next examine whether fund managers and pension funds differ in their disclosure practices. We find that pension funds are more likely than other types of institutional investors to provide rationales for their votes, all else equal, with 5.5% of their votes including rationales compared to 3.5% for fund managers and 3.6% for other institutional investors.

In conclusion, our analysis highlights that there are substantial variation in the disclosure of voting rationales among institutional investors, suggesting that measures such as stewardship codes and regulations may have varying effects across different types of institutional investors. It is important to note that other factors, such as the voting patterns of individual institutions (e.g., some institutions are more likely to support management) and the different disclosure policies they adopt (e.g., some prioritize disclosing for votes against management), may also contribute to the observed heterogeneity. In Section 3.2, we delve deeper into this issue by using a regression framework to analyze the determinants of disclosure decisions among institutional investors.

3.2. Determinants of the Decision to Disclose Rationales

To better understand reasons for disclosing voting rationales, we investigate whether institutional investors are more likely to disclose voting rationales for certain proposal types and votes (Section 3.2.1) or companies with particular characteristics (Section 3.2.2), and discuss why the decision to disclose may be related to these factors. We also discuss whether the decision to

disclose is correlated with institutional investors' characteristics (Section 3.2.3) and proxies for institutional investors' attention (Section 3.2.4), after taking into account other determinants of the decision to disclose voting rationales.

Throughout Section 3.2, we use the following framework to analyze the decision to disclose a rationale, for the subsamples of management and shareholder proposals:

$$Rationale_{ip} = \beta_1 Against_{ip} + \beta_2 Abstain_{ip} + \gamma_1 Contradictory_{ip}$$
$$+\gamma_2 Against\_ISS_{ip} + \gamma_3 Against\_GL_{ip} + \gamma_4 Close\_call_p + \eta FirmCharacteristics_{jm} \quad (1)$$
$$+\delta InstitutionCharacteristics_{im} + \zeta BusySeason_m + \tau_t + \theta_l + \epsilon_{ip}$$

where $Rationale_{ip}$ is a dummy equal to one if institutional investor i's vote on proposal p has a rationale, and zero otherwise. $Against_{ip}$ ($Abstain_{ip}$) is a dummy equal to one if the institutional investor votes against (abstain) the proposal p, and zero otherwise. $Contradictory_{ip}$ is a dummy equal to one if the vote is different from the predicted vote, where the predicted is "for" if the investor votes for that type of proposal more than 50% of the time.[11] $Against\_ISS$ and $Against\_GL$ indicate votes against proxy advisors' recommendations. $Close\_call_p$ is an indicator for close-call votes in the $\pm 10\%$ interval around the 50% threshold. $FirmCharacteristics_{jm}$ ($InstitutionCharacteristics_{im}$) includes firm (institution) characteristics which may predict the decision to disclose voting rationales, at the firm-meeting (institution-meeting) level. For the subsample of 13F filers, $InstitutionCharacteristics_{im}$ also includes the institution's ownership in the firm, relative to shares outstanding and assets reported in 13F file. $BusySeason_m$ is a dummy equal to one if the meeting takes place during the busy proxy season. τ_t and θ_l account for proxy season and industry fixed effects, respectively. All variables are defined in Appendix A. Standard errors are clustered at the institutional investor level.

Panel A of Table 3 presents the results for management proposals, and Panel B shows the results for shareholder proposals. We first present the results for all institutional investors (columns (1)–(3)), and next split the sample into US investors (columns (4)–(6)), European investors (columns (7)–(9)), and all 13F filers for which we have ownership data (columns (10)–

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[11]This variable is intended to capture voting policies, as institutional investors are expected (and typically) follow them when casting their shares (Couvert, 2020).

(12)). Given that motivations behind shareholder activism might differ between fund managers and pension funds, we further split the sample into fund managers (columns (2), (5), (8) and (11)) and pension funds (columns (3), (6), (9) and (12)). Unlike most studies that focus almost exclusively on fund managers, our comprehensive sample includes a variety of institutional investors. This provides a unique opportunity to examine the distinct impact of fund managers and pension funds on corporate governance.

3.2.1. Proposal and Vote Characteristics

As disclosing voting rationales can be costly for investors, the UN PRI recommends signatories to prioritize disclosure when (i) the investor is voting against management or abstains from voting, (ii) the vote might be perceived to contradict the investor's principles, (iii) when they vote against a shareholder proposal (especially if submitted by a PRI signatory) (PRI, 2021). Examining how the nature of proposals and votes influences the decision to disclose can provide insight into the motivations behind disclosing voting rationales.

We begin by examining whether institutional investors are more likely to disclose votes for certain proposal types. Figure 4 shows that shareholder proposals are more likely to have rationales compared to management proposals, with a ratio of 8% and 3%, respectively. This holds for each type of proposal. This difference may be attributed to the greater level of opposition that shareholder proposals typically face from other shareholders or the company's management, which also makes the outcome of such proposals more uncertain. Notably, while management proposals receive an average vote support of 97%, shareholder proposals only receive an average of 32% support, and 20% of shareholder proposals are close-call (in the 10% margin), compared to 0.5% for management proposals. Among management proposals, remuneration proposals typically receive more rationales (5%). Within the 'Board of Director' group, nearly all proposals (99.6%) are on director elections during annual meetings, and the proportion of rationales is 3.2%. Management-sponsored environmental and social (ES) proposals were non-existent until recently, when companies started to submit proposals related to decarbonization. In particular, there are only two ES proposals submitted in the 2021 proxy season, in Moody's Corporation

and S&P Global Inc. Both passed with more than 98% support.

Regarding shareholder proposals, institutional investors tend to disclose more when they relate to general governance or the board of directors, with a proportion of rationales to total votes of 9.1% and 8.5%, respectively. The proportion of rationales to total votes is significantly lower for shareholder proposals related to committees and reporting, with 5.8%, followed by remuneration (7%) and ES proposals (8.1%). The varying proportion of rationales for different types of shareholder proposals may be attributed to the characteristics of the proposals, such as their level of vote support or uncertainty of outcome, as well as the voting patterns. For example, institutional investors may be more inclined to provide rationales for their votes when they vote against a proposal or when the likelihood of its passage is unclear. Building upon this insight, we next explore whether the decision to disclose is related to proposal or vote characteristics.

Panel A of Table 3 presents the results of estimating Equation (1) for management proposals. The most notable pattern is that institutional investors are more likely to disclose a rationale when they vote against (and to some extent, when they abstain) on a management proposal. This aligns with the guidance provided by the UN PRI, and suggests that institutional investors use voting rationales to convey their reasoning and justification for opposing management proposals. The economic impact is large. For instance, the coefficient on column (1) implies that the probability of having a rationale increases by 318% when the investor votes against the proposal, or by 121% when they abstain, relative to the unconditional mean of 3.3%.

Regarding the variables that proxy for high profile or controversial votes (i.e., votes different from the predicted vote, votes against proxy advisors' recommendations, close-call votes), we find that the sign and statistical significance of the coefficients varies substantially in different subsamples. For instance, pension funds (both US and European) seem more likely to disclose when votes are different from the predicted vote, but this is not the case for fund managers. Institutional investors are generally more likely to disclose when they vote against ISS and Glass Lewis recommendations, and this is particularly the case for fund managers (in the full

sample and 13F filers). For close-call proposals, which arguably capture high profile cases, we find that the results are consistently negative, although it is insignificant in many specifications.

Panel B of Table 3 presents the results of estimating Equation (1) for shareholder proposals. The negative coefficients on against indicate that institutional investors are more inclined to disclose their voting rationales when supporting shareholder proposals. This finding is in contrast to the recommendation of UN PRI, which suggests prioritizing disclosure when voting against such proposals. Note that shareholder proposals are almost always opposed by management, and therefore, supporting the proposal for means voting against management. This evidence, in conjunction with the evidence in Panel A of Table 3, suggests that institutional investors are more prone to disclosing their voting rationales when they cast votes that differ from management recommendations. Our analysis suggests that the rationales are not primarily intended to facilitate communication with proposal sponsors or other shareholders; If that were the case, we would observe more explanations when institutional investors vote against shareholder proposals. Other proxies for high-profile or controversial votes suggest that institutional investors are not more likely to disclose for arguably controversial or unexpected votes.

In summary, institutional investors tend to disclose their voting rationales when they vote in opposition to management recommendations. Taken together with anecdotal evidence presented in Section 3, this indicates that voting rationales are primarily utilized as a means of communication with firm management to explain why they voted against management recommendations, as opposed to being directed towards investor clients or other shareholders.

3.2.2. Firm Characteristics

Disclosure of voting rationales can also be related to firm characteristics if institutional investors believe that disclosure might be more beneficial to some firms than others, such as firms with poorer governance quality or higher agency costs. That said, if institutional investors provide rationales for all companies in their portfolio, or for certain votes (e.g., votes against) regardless of firm characteristics, we might observe a lack of correlation between firm charac-

teristics and the decision to disclose. Panels A and B of Table 3 show that firms' characteristics have little explanatory power over institutional investors' decision to disclose a rationale for both management and shareholder proposals, suggesting that voting rationales are related to proposal specific characteristics rather than firm-specific features. Table 3 shows that the coefficient on size is small and statistically insignificant, and Figure 5 provides further support for the lack of a significant relationship between size and voting outcomes. This is in contrast with Azar, Duro, Kadach, and Ormazabal (2021) and Iliev et al. (2021) that suggest larger firms receive more attention from institutional investors. We also find that the decision to disclose cannot be attributed to entrenchment, as indicated by the E-Index (Bebchuk, Cohen, and Ferrell, 2009) once other covariates are included in the regression.

Our evidence reveals that institutional investors' decision to disclose voting rationales is not significantly related to firm or governance characteristics. This is possible if institution-level practices (e.g., disclose rationales for all votes against management) determine the disclosure voting rationales. Our research indicates that institutional investors' decision to disclose voting rationales reflects a unique aspect of corporate governance efforts.

3.2.3. Institutional Investor Characteristics

Institutional investors' disclosure decisions may be influenced by their characteristics, including institution size, relative holdings in the company, incentive structure, and potential conflicts of interest. These factors could potentially explain the observed heterogeneity in disclosure decisions among institutional investors documented in Section 3.1. Panels A and B of Table 3 show that institutional investor characteristics generally have limited explanatory power regarding the decision to disclose voting rationales. The only exception is the coefficient on US institutional investors, which is negative and statistically significant, in line with the findings presented in Figure 2. The coefficient on institutional investor size is generally positive but statistically weak, which differs from Iliev and Lowry (2015) who find a positive association between fund/family size and informed voting. In our setting, while large institutional investors may have more incentives and resources to disclose their voting rationales, some may

opt for direct engagement with companies instead precisely because of these factors. We find that robo voters are less likely to disclose a rationale, but the coefficient becomes insignificant after accounting for proposal and vote characteristics. This can be explained by the fact that this variable will be highly correlated with voting against ISS and Glass Lewis. Overall, after accounting for proposal-specific characteristics, institutional investor characteristics have limited explanatory power, except for the negative and significant coefficient on US institutional investors.

3.2.4. Institutional Investors' Attention

Recent evidence shows that institutional investors' attention to corporate governance issues is focused mostly on large firms, and on meetings that occur outside the busy proxy season (Iliev et al., 2021).[12] Institutional investors typically receive a large volume of proxy materials during the proxy season and are required to analyze and vote on numerous proposals within a relatively short period of time, which might lead some investors to prioritize the actual voting over disclosing their rationales during the busy proxy season.

We explore whether the decision to disclose voting rationales can be explained by investors' attention. In Figure 5 we show the proportion of votes with rationales based on firm's decile of market capitalization, and find no clear pattern (as discussed in Section 3.2.2). We also examine the proportion of voting rationales in each week of the year in Figure 6, with the busy proxy season corresponding to weeks 18 to 24 (shaded area), and find that votes cast during this period are no more or less likely to have a rationale than those cast outside of it. Consistent with these findings, Table 3 shows that the coefficients on firm size and busy proxy season are generally statistically insignificant and economically small. These results suggest that institutional investors provide rationales for votes cast on companies of all sizes, and that the decision to disclose these rationales may not be driven by their attention to specific types of firms or periods of the year. Overall, these findings reinforce the notion that institutional investors operate under a consistent policy to determine when to disclose their voting rationales,

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[12]Iliev et al. (2021) show that firms with meetings during the busy proxy season receive 22.2% fewer proxy views, all else equal.

regardless of the size or timing of the companies involved.

3.2.5. Summary

Section 3.2 explores the determinants of institutional investors' decision to disclose voting rationales. The results indicate that votes on shareholder proposals are more likely to have rationales compared to votes on management proposals, and institutional investors are more likely to disclose their rationales when voting against management recommendations. Firm characteristics, such as size or governance quality, have little explanatory power over institutional investors' decision to disclose a rationale, suggesting that the decision to disclose voting rationales is mainly related to proposal or vote characteristics. While we observe that US investors tend to disclose rationales less frequently, other institutional investor characteristics have limited explanatory power. Overall, the evidence suggests that voting rationales are primarily utilized as a means of communication with firm management to explain why they voted against management recommendations, rather than being directed towards clients or other shareholders.

4. Classification of Rationales on Director Elections

We now turn attention to what is stated in institutional investors' voting rationales. Our goal is to understand what makes each investor vote for or against a given proposal by examining the contents of the voting rationales. Different types of proposals typically have different types of rationales, depending on the topic up for vote. For instance, *"Company already has policies in place to address these issues."* and *"Overly prescriptive"* often appear as reasons for opposing shareholder proposals, but would not typically be used for management proposals. Similarly, concerns over director tenure (e.g., *"The average board tenure exceeds 10 years."*) or director busyness (e.g., *"This director is overboarded."*) are typical of director elections but would not appear as reasons for supporting or opposing other management or shareholder proposals. Hence, voting rationales have to be separated by proposal types. We therefore

focus on the subsample of director election proposals at annual shareholder meetings, which is the most common type of proposal accounting for 73% of votes in our sample. Voting on director elections is the most important mechanism through which shareholders can hold directors accountable, and high shareholder opposition is associated with severe consequences, for executive compensation (Cai et al., 2009), board structure (Ertimur et al., 2018), and directors (Aggarwal et al., 2019). Moreover, director elections take place in every company on an annual basis, allowing us to analyze companies of different sizes across different sectors.

Our objective is to categorize voting rationales by grouping together those that share similar reasoning. We use the term 'categorize' to describe this process, as it succinctly conveys our aim to organize the data. For director elections, our sample contains 611,389 votes with rationales across all voting options (i.e., for, against, and abstain/withhold). We observe that some rationales appear multiple times in our sample (e.g., *"A vote FOR the director nominees is warranted."*), often used by different institutional investors for different candidates. To avoid duplicating efforts, we categorize 55,391 unique rationales on director elections in our sample. Given the large number of unique rationales, it would be challenging to manually categorize all of the rationales, so we need to rely on some Natural Language Processing (NLP) techniques. We use a supervised classification model that classifies examples based on predefined categories, because we are interested in studying how frequently institutional investors mention factors that have been previously identified in the literature as major determinants of votes on director elections (e.g., attendance or busyness (Cai et al., 2009; Ertimur et al., 2018)). A supervised model is the optimal choice for our task because it allows researchers to define the categories and train the model on correctly labeled data, leading to more precise categorization. In contrast, unsupervised models like Latent Dirichlet Allocation (LDA) rely on clustering observations based because unsupervised models can group together observations for reasons that are not straightforward to researchers. Therefore, we prefer supervised classification models over unsupervised ones.

To implement the supervised classification model, we randomly select 2% of the distinct rationales (i.e., 1,132 unique rationales) and categorize each rationale in the following manner. First, two authors independently read over the random sample of rationales and agree on 15

categories, which are independence, board diversity, tenure, governance, busyness, compensation, CEO duality, board structure, responsiveness, attendance, ESG/CSR, no reason, no significant concerns, and miscellaneous, as presented in Table 4. Table 4 provides explanations and examples of what each category refers to. In creating these 15 categories, our focus is on identifying factors that theoretical and empirical literature have found important determinants of votes in director elections, while taking into account the frequency of each category and the contents of the rationales. For example, while some rationales mention factors such as gender representation or racial diversity (e.g., *"The percentage of female directors on the board is too low."*; *"There is no racial diversity on the board."*), in many cases, the rationales simply refer to the importance of overall board diversity without providing more specific details (e.g., *"The nominee is not diverse and the board is less than 30% diverse."*). As a result, we consolidate board diversity into a single category rather than separating it into multiple categories. Also, while the literature has identified proxy advisors' recommendations as a determining factor in voting outcomes (e.g., Iliev and Lowry, 2015), we do not create a separate category for rationales such as *"per Glass Lewis recommendation"* since we observe fewer than 10 instances of this type of rationale among 1,132 unique rationales, and instead assign such rationales to the miscellaneous category.[13] For similar reason, we do not create a separate category for director skills, experiences, or expertise.[14]

After creating 15 categories, the two authors independently assigned labels to each of the 1,132 rationales in the random sample, and in case of a disagreement, they had a discussion to reach an agreement on the appropriate label. A label, in this context, refers to a descriptive category assigned to a rationale that captures the key reason behind a vote in director elections, such as board diversity or CEO duality. Consider the following rationale: *"Vote against because*

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[13]We acknowledge that some institutional investors may blindly follow proxy advisors' recommendations without explicitly stating that the reason behind their voting decision is the advice from proxy advisors. To shed light on the influence of proxy advisors on institutional investors' voting rationales, we examine robo voters' voting rationales in Section 5.2.

[14]Although theory recognizes directors' dual roles as advisors and monitors (Adams and Ferreira, 2007), and empirical research shows the importance of directors' skill sets (e.g., Adams et al., 2018) and experiences (e.g., Cohen, Hoitash, Krishnamoorthy, and Wright, 2014), this is not a rationale frequently used by institutional investors. However, this should not be interpreted as skills do not matter. It is possible that most directors are highly skilled, and therefore, institutional investors do not raise concerns regarding their skills.

nominee serves as the nominating committee chair and board is only 11% women." In this case, the reason behind the vote is board diversity and we accordingly assign the 'board diversity' label to this rationale. *"A vote against is warranted because: -The nominee serves as the company's CEO/Chair. -To signal to the board that stronger independent oversight and board management of climate risks at the company are necessary."* In this case, the reasons behind the vote are CEO duality and ESG/CSR concerns. As demonstrated in this example, some rationales may mention multiple reasons behind the vote, and therefore we allow for multiple labels per rationale.

We next explain how we categorize the entire rationales on director elections in our sample, based on 1,132 rationales with labels. We use Bidirectional Encoder Representations from Transformers (BERT), a deep learning-based language model, to assign each rationale into 15 non-mutually exclusive categories. BERT is a state-of-the-art NLP method of training a multipurpose language model on a large text corpus, released as an open-sourced project by Google in 2019. It is an autoencoder language model that is trained through reconstructing the original data from corrupted (or masked) input. Importantly, BERT learns the full context of a word by examining words that come before and after it. We find that BERT is the ideal model for our domain-specific classification task, because it allows researchers to train a supervised classification model on top of BERT.[15] As voting rationales predominantly discuss finance and business topics, we use the FinBERT model by Prosus, a financial domain-specific pre-trained language model. A typical classification task predicts a single category, but in our case, we allow each rationale to fall under more than one categories.

To train the classification model, we need to divide the labeled data into three different sets: train, validation, and test. While the train set is used for the model to learn the classification pattern, the validation set is useful to fine-tune hyperparameters such as the number of epochs

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[15]We have considered other widely-accepted neural architecture models, including older models like Long Short-Term Memory (Hochreiter and Schmidhuber, 1997) and ULMFit (Howard and Ruder, 2018), as well as state-of-the-art giant models like XLNet (Yang, Dai, Yang, Carbonell, Salakhutdinov, and Le, 2019) and GPT-3 (Brown, Mann, Ryder, Subbiah, Kaplan, Dhariwal, Neelakantan, Shyam, Sastry, Askell, et al., 2020). After taking into account computational costs, performance, and trainability, we conclude that BERT is the ideal model for our purpose.

or the batch size of the training loop.[16] We select 0.64, 0.16, and 0.2 as the proportions of the train, validation, and test sets, respectively, which we argue is a reasonable choice in many machine learning applications.[17]

After the training is completed, we can calculate the model performance using the test set. We report the aggregate model performance metrics in Table 5. Accuracy, the ratio of correctly predicted observations to the total observations, is 0.98. One caveat of accuracy as a performance measure is that it can be misleading when a large number of observations come from one class and few come from the others: a model that simply predicts the majority class for every observation can achieve a high accuracy score. We pay particular attention to this issue because each label is typically assigned to only a small proportion of observations (e.g., out of 1,132 rationales, only 28 relate to director attendance). When there is such data imbalance, precision, recall, and F1-score provide a more informative measure of how well the model performs on the minority class. In our model, precision, the correctly predicted positives relative to correctly predicted positives plus false negatives, is 0.96. Recall, the correctly predicted positives relative to correctly predicted positives plus false negatives, is 0.97. Finally, the macro average of all labels' F1-scores is 0.96, where F1-score is the harmonic mean of recall and precision (i.e., (2×recall×precision)/(recall+precision)). As we achieve high recall, precision, and F1-score, in addition to high accuracy, we conclude that our model performs well and accurately classifies instances in the minority class.At the proposal level (i.e., director level), we find that each rationale has 1.27 labels on average, 1.35 for votes against and 1.2 for votes for. This suggests that institutional investors usually mention one or two most important reasons for each director candidate.

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[16]We select the following hyperparameters: batch size=2, epoch=30, learning rate= 2e-05.

[17]There is no general rule on how to choose the number of observations in the three sets, as it depends on many factors such as the number of observations, structure of the model, and dimension of the data. While Hastie, Tibshirani, Friedman, and Friedman (2009) suggest that 0.5 for train, and 0.25 of each for validation and test is a reasonable split, Karpathy, Johnson, and Fei-Fei (2015) use a split of 0.8 for train, and 0.1 of each for validation and test.

5. The Rationale Behind Institutional Investors' Votes

In this section, we investigate what are the main reasons behind institutional investors' votes on director elections. While we run the BERT algorithm to categorize each institutional investor's rationales at the proposal level, in what follows we consider each institutional investor's rationales at the board level (i.e., which issues were raised during the annual meeting for all directors up to vote). We do this for two reasons. First, in many cases institutional investors vote against directors for reasons that are not director specific, but rather for issues that concern the whole board, or more generally, the firm (e.g., *"Concerns about overall board structure."*; *"A vote is cast to withhold on all nominees because the board maintains a charter that prohibits shareholders to amend bylaws which is adverse to shareholder interests."*). Second, while rationales are often director-specific, sometimes institutional investors provide the same rationale for all directors up for election in a given meeting. For example, the following rationale was provided for eight director nominees at Sunstone Hotel Investors in 2020: *"Votes AGAINST incumbent Nominating Committee members Douglas Pasquale, W. Blake Baird and Keith Russell are warranted for lack of diversity on the board. Votes FOR the remaining director nominees are warranted."* To avoid counting the same rationale multiple times, we consider whether an institutional investor raises each issue at least once in that director election. In the Sunstone Hotel Investors example, we identify two issues for the meeting from the rationale, 'board diversity' and 'no reason': board diversity as a reason for votes against, and no reason as a reason for votes in favor. Throughout Section 5, we analyze rationales at the institutional investor-meeting level.

5.1. Overall Patterns

Our objective is to investigate the key factors that determine institutional investors' votes on director elections. Table 7 provides a breakdown of the frequency of different reasons behind votes against (including abstentions and withheld votes) and votes in favor, based on

data at the institutional investor-meeting level.[18] It shows that lack of independence is the top concern raised by institutional investors, accounting for 21.2% of all mentions across the 15 categories we examine (column (2)). Specifically, independence was mentioned in 42,581 institutional investor-meeting observations in our sample, out of a total of 200,571 mentions across all 15 categories (column (1)), which translates to 21.2% (=42,581/200,571) of all mentions. Additionally, column (3) shows that independence was mentioned by at least one institutional investor in 66% of meetings as a reason behind votes against, based on a sample of meetings with at least one rationale for votes against. Our findings indicate that institutional investors have been consistently pushing for increased board independence, even after the enactment of the Sarbanes-Oxley Act of 2002 and exchange regulations in 2003, which mandated companies to have a higher representation of outside directors.[19]

We find that board diversity is the second most common reason mentioned for votes against, accounting for 17.7%.[20] In fact, board diversity is mentioned in a higher percentage of meetings than independence, among the meetings where there is at least one rationale for votes against (72% vs. 66%, column (3)). This finding is noteworthy for several reasons. First, it indicates that institutional investors consider board diversity to be one of the most important factors in their voting decisions. Second, prior studies covering earlier periods do not identify board diversity as a factor explaining mutual funds' withhold votes or ISS withhold recommendations for directors (e.g., Choi et al., 2013, Ertimur et al., 2018).[21] Finally, the analysis shows that institutional investors have been taking into account board diversity since at least 2013, even before the board gender diversity campaign by the Big Three began in 2017 (Gormley et al.,

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[18]A description of each label and examples of rationales are provided in Table 4.

[19]An extensive literature studies the effect of board independence on companies (e.g., Hermalin and Weisbach, 1991; Dahya and McConnell, 2007; Duchin, Matsusaka, and Ozbas, 2010).

[20]Several papers examine the relation between board gender diversity and firm value, with mixed evidence (e.g., Carter, Simkins, and Simpson, 2003; Adams and Ferreira, 2009; Ahern and Dittmar, 2012; Matsa and Miller, 2013).

[21]Choi et al. (2013) identify 28 company and director attributes that can potentially explain mutual funds' likelihood to withhold votes for directors, but board diversity is not included among these attributes. Company attributes include abnormal stock return, size, institutional ownership, and governance features such as abnormal CEO compensation, board classification/poison pill/cumulative voting/golden parachute status, responsiveness to majority-vote shareholder proposals, and history of financial restatement/SEC enforcement. Director attributes include age, attendance, busyness, relationship with the company, and indicators for interlocking or new director.

2022). This trend is shown in Figure 7 where we document the relative frequency of different voting rationales over the years. These findings suggest that institutional investors recognized the significance of board diversity as early as 2013, and the Big Three institutional investors were not the first to promote diversity in the boardroom.

Our study is unique in that we uncover institutional investors' voting rationales and quantify the relative importance of each issue that institutional investors and proxy advisors have been interested in for several years. While many of the governance issues we uncover in Table 7, such as excessive tenure, general governance concerns (including dual class shares structures, adopting major governance changes without shareholder approval or board interlocks), busyness of directors, compensation issues, CEO duality, or board structure, have been of interest to institutional investors and proxy advisors for several years, our study is the first to provide evidence on their relative importance of these factors from institutional investors' perspectives.[22] We find that some of these factors, such as excessive tenure and general governance issues, are among the most important rationales behind votes against directors, accounting for 13.1% and 12.9% of rationales, respectively. Other factors that have been shown to be important in previous studies, such as lack of responsiveness to majority-vote shareholder proposals and lack of regular attendance at board meetings, account for a much smaller proportion of rationales in votes against directors, at 1.2% and 1%, respectively.[23] We find that corporate performance is not an important consideration for institutional investors' votes against, accounting for only 0.4% of rationales in votes against directors. This is consistent with McCahery et al. (2016) who show that corporate performance is not a key driver of institutional investors engagement

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[22]Regarding tenure, there is a long-standing concern about directors with long tenure as they might lack independence, but they might offer better advice through accumulated knowledge. Empirical studies lack consensus (e.g., Beasley, 1996; Anderson, Mansi, and Reeb, 2004) and recent papers document non-monotonic relationship (e.g., Huang and Hilary, 2018; Li and Wahid, 2018). Similarly, heavy workload of busy directors might make them less effective monitors, but their experiences and network might make them better advisors. Core, Holthausen, and Larcker (1999) and Fich and Shivdasani (2006) show negative effects of busy directors, while Masulis and Mobbs (2011) and Field, Lowry, and Mkrtchyan (2013) document positive effects.

[23]Regarding attendance, our evidence does not contradict the findings of Cai et al. (2009) and Choi et al. (2013). Cai et al. (2009) show that only 1% of directors do not attend meetings regularly, which explains why attendance is not mentioned often even if it is associated with high withhold votes. Regarding responsiveness, Ertimur et al. (2018) divide ISS withhold recommendations into individual-, committee-, and board-level issues and find that 72% of board-level recommendations relate to lack of responsiveness to majority-vote shareholder proposals.

with companies. By quantifying the relative importance of these governance issues, our study sheds light on the factors that institutional investors prioritize when making voting decisions, and provides new insights that can inform future research and corporate governance practices.

We also find that some institutional investors hold directors accountable for ESG/CSR issues when casting their shares.[24] This is still a relatively uncommon voting rationale, accounting for only 0.7% of rationales. That said, it is mentioned in 4.8% of meetings with rationales for votes against and is becoming more important in recent years (Figure 7), consistent with recent anecdotal and academic evidence (Azar et al., 2021).[25]

While there is a clear picture regarding which factors are more important for institutional investors, we note that there is no clear time-series trend regarding the importance, as shown in Figure 7. If anything, independence became relatively less important over time.[26]

We next turn attention to rationales for votes in favor of directors. Column (2) of Table 7 shows that the most frequent rationale in votes for is no reason. That is, we find that almost a quarter of votes in favor actually do not provide any meaningful explanation, but rather, they provide a statement of the type *"A vote FOR new director John Sheridan is warranted"*, which we label as 'no reason.' So, while we observe a rationale, these cases are not informative on how the institutional investor makes the decision to support the candidate. In a few cases (1%), they state that no significant concern was identified, and therefore, they decided to support a director. Therefore, not only investors are more likely to disclose the rationale when they vote against a director, but also, the rationales when voting against directors are typically more informative than the rationale when voting for. This suggests that institutional investors use rationales to communicate their concerns with management, rather than to explain why they support them.

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[24]Lel (2023) shows that CEOs of firms subject to Environmental Protection Agency enforcement receive less shareholder support in directorial elections.

[25]See Dieter Holger, "More Investors Vote Against Corporate Directors Over Climate Change," Wall Street Journal, July 21, 2022. Available here.

[26]Despite the lack of time-series trend in the importance of each factor for all institutional investors, examining the data by specific investor type reveals interesting time-series patterns. We explore this in Section 5.3.

5.2. Proxy Advisors' Rationales

Several papers document the influence of proxy advisors when it comes to voting (Iliev and Lowry, 2015; Larcker et al., 2015; Malenko and Shen, 2016; Ertimur et al., 2018), which might raise concerns as to whether our voting rationales are just capturing the voting rationales provided by these proxy advisors rather than institutional investors' assessment of firms' corporate governance. Indeed, many of the voting rationales we find are typically mentioned by ISS as a reason to oppose directors, such as lack of independence, attendance problems at board meetings, or busyness (Ertimur et al., 2018).

Ideally, we would like to have voting rationales provided by ISS and Glass Lewis, use the same algorithm used for voting rationales from institutional investors, and then compare to what extent the issues raised by proxy advisors match those disclosed by institutional investors. However, this is not possible since proxy advisors are unwilling to make their data available to academics at the time of writing this paper. We therefore use another approach. Our sample contains a large fraction of "robo voters," that is, institutional investors that blindly follow proxy advisors' recommendation – either from ISS or Glass Lewis.[27] While robo voters are less likely to disclose voting rationales in the first place, consistent with these institutional investors minimizing their voting effort, we still find that some of them disclose. About 11% of ISS robo voters disclose at least one rationale, compared to 18% for all investors. We have 431 (248) ISS (Glass Lewis) robo voters in our sample, and 45 (27) of them provided at least one rationale.

We examine whether their voting rationales reflect the voting rationales of their proxy advisors.[28] If robo-voters minimize their voting efforts, we would expect them to just disclose the rationale provided by their proxy advisors, which would lead to all robo voters providing the same rationale on the same proposal. Consistently, we find that robo voters are much more likely to provide the same rationale for a given meeting or proposal, which adds weight to the

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[27]Specifically, we consider an institutional investor to be a "robo voter" it votes with ISS or Glass Lewis at least 99% of the time in a given proxy season.

[28]It could still be the case that other non-robo institutional investors use proxy advisors' services and rationales, but they are more likely to assess their rationales independently and make their own decision as to which rationale they provide.

view that institutional investors provide the rationales of their proxy advisor. Specifically, the average of cosine similarity between any two ISS robo voters' rationales for votes against at the meeting level is 0.93 (column (3) of Table 6), much higher than 0.42 for all investors. For Glass Lewis robo voters, the average cosine similarity is 0.99 (column (5) of Table 6).

We next present the voting rationales of robo voters in Figure 8 and and compare them with the rationales of all investors. Panel A presents the patterns for ISS robo voters, and Panel B presents the results for Glass Lewis robo voters.[29] The figures show that voting rationales of ISS and Glass Lewis robo voters are substantially different from all voting rationales disclosed by all institutional investors. Notably, governance concerns is the main topic mentioned by ISS robo voters, followed by independence. Board diversity is not frequently mentioned in this subsample, and it only appears for the first time in 2019, and it still shows a very low frequency compared to the full sample. Other rationales that are common in the full sample, such as tenure and CEO duality rarely appear in Panel A of Figure 8, while others such as responsiveness and board structure are very common for ISS robo voters.[30]

We turn attention to Glass Lewis robo voters. Notably, the number of distinct rationales in this subsample is much lower than that in the ISS robo voters or full sample, and most rationales seem to focus on a few issues, such as governance concerns, independence, busyness and compensation. Similar to ISS robo voters, Glass Lewis robo voters only mention board diversity starting in 2019, but this rationale is relatively more common than among ISS robo voters.

Overall, we show that the rationales disclosed by institutional investors are substantially different from the rationales disclosed by ISS and Glass Lewis robo voters, and do not purely reflect proxy advisors' rationales.

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[29]For comparison, the figure for other non-robo institutional investors is very similar to Panel A of Figure 7.

[30]Ertimur et al. (2018) show that the main reasons ISS recommends to withhold votes for directors during 2003–2010 are the following, in the order of importance: independence, responsiveness, poor pay practices, pay & performance disconnect, and busyness.

5.3. Heterogeneity in Institutional Investors' Rationales

We next explore whether reasons behind votes varies across different types of institutional investors. We focus on votes against directors, as institutional investors are more likely to disclose rationales for votes against, and these rationales tend to be more informative. Figure 9 shows which issues are most important for each type of investor. In Table 8, we formally present regressions for each issue. Specifically, we examine whether each individual issue (e.g., independence, board diversity) is more likely to be mentioned by, pension funds vs. fund managers, Big Three institutional investors vs. other investors, and US vs. European investors after controlling for institutional investor characteristics. We consider rationales at the meeting level for each institutional investor. We estimate the following equation:

$$Rationales_{im} = \beta_0 + \beta_1 US_i + \beta_2 Pension_i + \beta_3 Big\_Three_i +$$
$$\delta InstitutionCharacteristics_{im} + \tau_m + \epsilon_{im}$$

(2)

where $Rationales_{im}$ is a dummy equal to one if the institutional investor i mentions each issue (e.g., board diversity, tenure) in meeting m, and zero otherwise. τ_m denotes meeting fixed effects to capture the possibility that rationales are correlated within a given meeting across institutional investors. $InstitutionCharacteristic_{im}$ includes institution size, robo voter, and pro management, defined in Appendix A. Standard errors are clustered at the institutional investor level.

We first examine the rationales of US vs. European institutional investors. Panel A of Figure 9 shows that the figure for US investors is somewhat similar to the figure for all institutional investors (Panel A of Figure 7). This is not surprising because about half of the investors in our sample are US investors, providing 55% of rationales in our sample. Table 8 shows that board diversity and company performance are more frequently mentioned by US institutional investors. CEO duality, board structure, independence, and tenure are less frequently mentioned by US institutional investors. This means that European institutional investors use these rationales more often when they vote against director candidates, because most institutional investors in the omitted category consists of European investors. Panel B of

Figure 9 confirms that these topics are important for European institutional investors. Interestingly, it also shows that a small fraction of European institutional investors holds directors accountable for ESG/CSR related issues since 2015. Company performance is a topic that is never mentioned by European institutional investors.

We next turn attention to the Big Three's rationales. Notably, Panel C of Figure 9 shows that board diversity starts to appear in 2017 – coinciding with the launch of campaigns by the Big Three institutional investors to increase board diversity (Gormley et al., 2022). It is also worth mentioning that Big Three institutional investors vote against directors for ESG/CSR concerns since 2020 and increasingly so in 2021, which might indicate a new way in which Big Three investors exert pressure over companies to change environmental and social policies. Column (12) of Table 8 shows that the ESG/CSR is more important for the Big Three compared to all investors in their decision to vote against management. Columns (5) and (6) show that independence and board diversity, the two most frequent rationales for all investors, are relatively less important for the Big Three.

Finally, we examine the voting rationales of pension funds. Pension funds account for 11% of investors and provide 31% of rationales. Panel D of Figure 9 shows that there is no distinctive pattern for pension funds, except that board diversity becomes important since 2018. Even though there is a debate in the literature regarding the motivation of pension fund activism (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000;Woidtke, 2002), we do not find evidence that pension funds' voting rationales are substantially different from rationales in the full sample. Table 8 shows that responsiveness, board diversity, attendance, and ESG/CSR are less frequently mentioned by pension funds when they vote against director candidates.

Overall, Figure 9 shows that there is high heterogeneity in voting rationales by institutional investors. It also shows that some institutional investors changed their priorities and governance concerns over our sample period, even though there is no clear trend in the rationales for all institutional investors (Figure 7).

We conclude this section by discussing specific examples of issues that are important to different institutional investors. We find that some institutional investors put a heavy weight on

a single issue when voting against directors. For example, Calvert voted against 5,612 directors at 1,919 meetings during the 2021 proxy season, providing rationales for 4,862 directors. Board diversity was mentioned for 81% of directors and it was the only reason for votes against for 64% of the cases.[31] Similarly, board diversity has been the main issue for Trillium Asset Management and State of Rhode Island. Several institutional investors in our sample also focus on independence, tenure, or board structure.

In contrast, some institutional investors took into account multiple factors when voting against directors. Examples of such institutional investors include Legal & General Investment Management, British Columbia Investment Management Corporation, and BlackRock (for BlackRock, only until the 2018 proxy season). As these institutional investors usually provide different rationales for different companies in their portfolio, they generally show lower investor-level cosine similarity: 0.2–0.3 vs. 0.44–0.67 for an average investor in our sample (Panel C of Table 6). Our evidence suggests that at least some institutional investors are active monitors, assessing each director's candidacy and communicating their voting rationales.

6. Do Firms Listen When Institutional Investors Talk?

The results presented above show that there are many reasons why institutional investors might vote against a director, ranging from issues that are specific to a director (e.g., busyness or attendance), to general concerns over board composition or other governance issues. In this section, we first investigate whether, on aggregate, institutional investors' concerns reflect companies' governance problems. We then analyze whether voting rationales can bring change in portfolio companies. Finally, we present some falsification tests to show that we are actually capturing firms' reactions to institutional investors' concerns and not general corporate governance trends that might drive changes in companies regardless of institutional investors votes and rationales.

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[31]Institutional investors sometimes hold the entire committee responsible for the lack of board diversity. Calvert's other notable concerns during the 2021 proxy season include governance concerns, board structure, and independence for 22, 16, and 9% of the directors, respectively.

In this section we analyze votes against directors, as institutional investors are more likely to disclose rationales for votes against, and these rationales tend to be more informative. For each firm-annual meeting, we estimate the proportion of rationales on votes against directors that relate to board diversity, tenure, or busyness and study whether firms react to institutional investors' concerns. We focus on board diversity, tenure, and busyness because these are the board characteristics that are observable at the company level. They are also three of the five main rationales mentioned by institutional investors. While independence and governance appear very often in our sample, these categories includes several dimensions for which there is no suitable proxy that effectively captures all these issues together. For instance, independence includes lack of independence on a key position or committee, proportion of independent directors, or other independence-related concerns. Governance includes dual class share structures or changes in governance provisions without shareholders approval. Therefore, we only focus on board diversity, tenure, and busyness.

6.1. Are Concerns Well-Grounded?

It is important to understand whether, on aggregate, voting rationales reflect governance weaknesses in the portfolio companies of institutional investors. There are at least two reasons why that might not be the case. First, institutional investors might use voting rationales to pursue their own agenda and achieve goals that are not shared by other investors (e.g., Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002; Matsusaka et al., 2019). Second, institutional investors might be tempted to provide rationales that mask the true reason behind their votes due to conflicts of interest with their portfolio companies (e.g., due to business ties) or clients (Davis and Kim, 2007; Cvijanović et al., 2016; Michaely et al., 2023). That said, there is a basis for believing that voting rationales can provide insights into why institutional investors support or oppose director candidates. Institutional investors will reveal why they decide to vote against director candidates, if they think this information will be used by companies to address governance problems. Further, institutional investors always have the option of not disclosing why they vote the way they vote, due to the voluntary nature

of voting rationales. Therefore, it is unlikely that institutional investors will systematically provide an inaccurate rationale.

To formally evaluate whether concerns are well grounded, we examine whether firms that have lower board diversity (in particular, lower proportion of females) have a higher fraction of rationales related to board diversity, after controlling for other firm characteristics.[32] Likewise, we test if companies with long-tenured (busy) boards receive more concerns about tenure (busyness). In particular, we estimate the following equation:

$$Prop\_Rationale_{jt} = \beta_0 + \beta_1 BoardCharacteristics_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{jt} \qquad (3)$$

where $Prop\_Rationale_{jt}$ is the proportion of rationales on each individual issue (board diversity, tenure and busyness) for firm j in proxy season t. It is estimated as the number of institutional investors mentioning the rationale relative to all the rationales mentioned by all institutional investors in that same firm, and it is intended to capture the relative importance of that rationale for all investors in that firm-year.[33] $BoardCharacteristics_{jt}$ is either gender diversity, average tenure or average number of boards held by directors. X includes the same firm level controls that we include in Equation (1), τ_t accounts for proxy season fixed effects, and θ_l are industry level fixed effects. Standard errors are clustered at the firm level. We limit our sample to companies that receive at least 5 rationales on director elections to avoid capturing very idiosyncratic issues raised by some institutional investors. 71% of (or 16,684) meetings in our sample have at least 5 rationales, but data availability on boards characteristics reduce the sample to 11,204 meetings. We find that the average number of distinct labels per meeting is 4.06, 4.64 for meetings with at least one rationale, and 5.29 for meetings with at least five rationales.

Table 9 presents the results. Column (1) shows that firms that have a higher fraction of female directors on the board receive fewer rationales regarding board diversity after control-

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[32]While board diversity generally refers to gender, it might also refer to other directors' characteristics, such as race and other minorities. However, due to data availability, we can only consider gender diversity here.

[33]For instance, if Investor A mentions board diversity, tenure and ESG/CSR, and Investor B mentions board diversity and busyness, then, the proportion of rationales on board diversity is 0.4 (= 2/5), and 0.2 (= 1/5) for each of the other rationales. By construction, $Prop\_Rationale_{jt}$ varies between 0 and 1.

ling for other firm characteristics. The coefficient is highly statistically significant (t-stat = -16.9), and the economic impact is also large: a one standard deviation increase in the percentage of female directors reduces the fraction of rationales related to board diversity by 4%, or 0.22 standard deviations. Column (2) shows that firms that have board members with longer average tenure receive more rationales that reflect concerns about tenure. The coefficient is both economically and statistically significant (t-stat = 28.3). A standard deviation increase in average tenure increases the proportion of tenure-related rationales by 5.4%, or 0.44 standard deviations. Finally, column (3) indicates that companies with busy directors receive a higher fraction of rationales related to directors' busyness. The coefficient is also highly statistically significant (t-stat = 11.5) and has a large economic impact: a standard deviation increase in average busyness of directors increases the fraction of concerns by 4%, or 0.28 standard deviations. In untabulated results we further find that these board characteristics are the main determinant of the fraction of rationales related to each topic.

The results presented above are important for two reasons. First, they indicate that concerns are well grounded. That is, even if some institutional investors have incentives to misreport their true rationale, this is not systematic, and rationales reflect companies' corporate governance issues. Second, these results provide evidence that institutional investors cast informed votes, even when some of them might lack incentives to do governance related research and engage with companies (Bebchuk and Hirst, 2019; Iliev et al., 2021). The costs of disclosing voting rationales are likely to be significantly lower than the financial benefits, making engagement possible even for highly diversified investors.

6.2. Do Boards Respond to Investors' Concerns?

Voting is the key mechanism through which shareholders can hold the board of directors accountable. It is well documented that directors typically receive over 90% of votes cast (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019), but even moderate levels of dissent voting have severe consequences for CEO turnover and compensation (Cai et al., 2009), firms governance (Cai et al., 2009; Ertimur et al., 2018) and directors (Ertimur et al., 2018; Aggarwal

et al., 2019).

We have documented above an institutional investor might vote against directors for multiple reasons (number of rationales per institutional investors-meeting = 4.05), and that different institutional investors will vote against the same director for different reasons (cosine similarity = 0.43). For instance, if the chair of the Nominating Committee receives high dissent voting, it could be because there is not enough female representation, because there are not enough independent directors, or because of lack of responsiveness to shareholders after substantial withhold votes for directors in prior years. In this section we examine whether the disclosure of voting rationales is an effective mechanism institutional investors can use to communicate the reason of their disagreement with management, and help them address these governance issues in the following year. Specifically, we look at whether high dissent related to lack of female representation is associated with an increase in female representation in the following year. Similarly, we look at high dissent related to concerns over directors' tenure and busyness.

Specifically, we estimate the following equation:

$$\Delta BoardCharacteristic_{j,t+1} = \beta_0 + \beta_1 Prop\_rationales_{jt} \times Dissent_{jt} +$$
$$\beta_2 Prop\_rationales_{jt} + \beta_3 Dissent_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{j,t+1}$$

(4)

where $\Delta BoardCharacteristic_{j,t+1}$ is the change in the proportion of females on the board, the change in the average director tenure, or the change in average busyness of all directors the year after the meeting. $Dissent_{jt}$ is the mean dissent voting of all candidates on the ballot, and $Prop\_rationales_{jt}$ is the proportion of rationales related to board diversity, tenure or, busy directors (i.e., $Prop\_board\_diversity$, $Prop\_tenure$, or $Prop\_busy$). Our main coefficient of interest is β_1, and captures future changes in any of the previous board characteristics when the reason for dissent is related to that governance issue. X_{jt} includes a set of controls for firm characteristics defined in Equations (1) and (3). τ_{t+1} and θ_l account for proxy season and industry fixed effects, respectively.

Table 10 presents the results. Column (1) presents the results for board diversity. The results show that high dissent driven by lack of board diversity on the board is positively associated with

future changes in the percentage of females on the board. The coefficient on the interaction term is positive but significant at the 5% level, but the economic impact is large. When evaluating the effect for a dissent of 12% (75th percentile of dissent), a standard deviation increase in the proportion of rationales on board diversity is associated with a change the proportion of females 22.3% (or 4 standard deviations). This result suggests that voting rationales are informative of the reason for voting against directors, and that directors subsequently address these concerns, probably due to career concerns (Aggarwal et al., 2019).

Column (2) of Table 10 presents the results for the proportion of voting rationales related to directors' tenure. The coefficient on the interaction term is negative, suggesting that high dissent due to concerns over director tenure is associated with a decrease in average director tenure in the following year. The economic impact is large: when evaluated at a dissent of 12% (the 75th percentile of dissent), a one standard deviation increase in concerns over tenure leads to a 7.8 standard deviation decrease in average director tenure. This indicates that companies make changes in the board of directors to address concerns over long-tenured directors, and these effects are stronger when the board receives high opposition. Finally, column (3) shows the results on busy directors. The interaction term is larger in magnitude and highly significant, both economically and statistically. For a dissent of 12%, a one standard deviation increase in the proportion of rationales on busy directors decrease average busyness by 8.6 standard deviations.

Taken together, our results add to the literature studying the power of shareholder votes (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019). Companies make changes when shareholders oppose directors, and these changes are related to the concerns raised by institutional investors. Effective communication between firms and shareholders matters for improving governance practices in portfolio firms. Prior papers studying other low-cost activism strategies such as the release of expectation documents (Aguilera et al., 2021) or changes in voting policies (Couvert, 2020) find that companies change their corporate governance policies to conform to investors preferences. These documents are not targeted at any specific firm, but rather, they provide general provisions as to what institutional investors expect from their portfolio companies. On the contrary, voting rationales are firms (and even director) specific, and communicate

how institutional investors perceive corporate governance provisions for each company. Further, expectation documents and voting policies address several corporate governance provisions at the same time, making it hard for the researcher to disentangle the role of each of those provisions. Our novel dataset allows us to effectively link institutional investors' rationales for a given firm with changes in governance policies related to that specific issue, as opposed having to rely on general governance indexes at the firm level, which are typically problematic (Berg, Koelbel, and Rigobon, 2022).

6.3. Addressing Potential Concerns

6.3.1. Falsification Test

Some concerns might still remain as to whether rationales actually help investors communicate with management, or whether companies could identify the source of dissent based on their governance characteristics. For instance, a firm with low board diversity that received high dissent might be able to identify this issue as the source of discontent from shareholders and change their board composition accordingly. To formally test this possibility, we run a specification similar to Equation (4), but we replace voting rationales with board characteristics at the time of the meeting: percentage of female directors, average tenure and average busyness of the directors.

We present the results in Table 11. The interaction terms is statistically insignificant for the percentage of female directors and directors' busyness, and it even has the wrong sign for directors' tenure. In other words, voting rationales are unique in the sense that they can inform firms of the reason for opposing directors, and companies learn from this information. However, general dissent in directors' elections at companies with low female representation, high average tenure or busy directors do not change corporate governance. This shows that voting rationales are unique in the sense that they can inform firms of the reason for opposing directors, and companies learn from this information, reinforcing the interpretation that firms change policies in response to votes, particularly when they can identify the reason for institutional investors'

opposition. When high dissent is not accompanied by an explanation for such opposition, companies might find it hard to identify the source of investors dissatisfaction and might not be able to address the policies that lead to dissent in the first place.

6.3.2. Big Three Institutional Investors Influence

Gormley et al. (2022) show that Big Three institutional investors campaigns launched in 2017 to increase board gender diversity were successful: they show that companies with higher Big Three ownership increase board gender diversity to a larger extent than firms with lower Big Three ownership. The timing of these campaigns actually coincides with the increase in voting rationales on board diversity among Big Three investors in our sample (see Panel C of Figure 9), as discussed above. Then, one potential concern is whether our results are driven by these institutional investors, given the high voting power that they have in the average company. To test this possibility, we repeat our analysis excluding voting rationales by Big Three institutional investors and find a positive and significant association relationship between dissent related to board diversity issues and changes in percentage of females on the board in the following year (see Panel A of Table IA.2 of the Internet Appendix). We also test whether companies in which the Big Three disclose rationales on board diversity drive the results and find that this is not the case. Actually, results are statistically insignificant when we only consider voting rationales from Big Three institutional investors (see Panel B of Table IA.2 of the Internet Appendix).

Likewise, we analyze whether these large investors play a major role on other corporate governance issues. We find that the main results hold for changes in board tenure and busy directors when excluding the Big Three. We also estimate the same specification using only the rationales from Big Three institutional investors and find that none of the previous results are statistically significant.[34] In other words, firms seem to change their governance provisions when many institutional investors agree on the same concern. While Big Three might play an

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[34]It is worth noting that the sample size drops significantly when looking at Big Three only, as these investors do not disclose voting rationales for many companies. This also indicates that our results are unlikely to only capture the concerns raised by these large shareholders, which might arguably have a stronger power over these companies due to their high stakes.

important role engaging with companies on several issues (Azar et al., 2021; Gormley et al., 2022), our results cannot be explained by these large investors, but rather suggest that relatively small institutional investors can potentially contribute to improvements in firms' corporate governance by communicating with management via voting rationales.

6.3.3. Proxy Advisors Influence

The results presented in Section 6.2 are unlikely to be driven by proxy advisors' rationales, as board diversity and tenure are not common voting rationales among robo voters of ISS or Glass Lewis (see Figure 8). Rather, these results are likely to be driven by institutional investors that engage in governance related research and have in-house voting policies.

7. Conclusion

In this paper, we study why institutional investors vote the way they vote. While prior evidence has relied on indirect evidence based on firm, proposal, meeting characteristics, in this paper we shed new light by directly studying nearly one million voting rationales of institutional investors from across the world, for votes cast in US companies' annual shareholder meetings between July 2013 and June 2021. We find that voting rationales are disproportionally concentrated among votes against management, consistent with anecdotal evidence suggesting that institutional investors use voting rationale to provide an explanation for opposing the recommendation of the board. These voting rationales are widely dispersed among firms of all sizes, suggesting that institutional investors use voting rationales as a low-cost strategy to communicate with management when other forms of engagement might not be viable.

We use a BERT algorithm, a state-of-the-art supervised NLP method, to assign rationales on uncontested director elections into 15 categories, to uncover the main rationale behind their votes, along with the relative importance of each rationale. We find evidence of some well-known reasons for opposing directors, such as independence, tenure, or busyness, but we also find some new reasons for voting against directors, notably, (lack of) board diversity and

concerns over environmental and social issues. We also find heterogeneity in voting rationales for different types of institutional investors. We further find that these concerns are well-grounded: companies with fewer women on the board receive a higher fraction of voting rationales related to board diversity, and similar for other voting rationales.

Finally, we examine whether firms listen to institutional investors when they talk via voting rationales. We find that companies what receive a higher proportion of voting rationales related to board diversity (or alternatively, excessive tenure or busy directors) increase the fraction of females on board in the following year (reduce average tenure or director busyness), and the results are driven by companies that receive high shareholder dissent. That is, shareholder voice is powerful, and companies react to the issues raised by institutional investors. Taken together, our results suggest that disclosure of voting rationales is an effective low-cost strategy that institutional investors use to improve corporate governance in their portfolio companies.

Appendix A. Variable Definitions

Variable	Definition	Source
Investor-Proposal Level		
Abstain	Dummy equal to one if the institutional investor abstains or withholds the vote, and zero otherwise.	Proxy Insight
Against	Dummy equal to one if the institutional investor votes against the proposal, and zero otherwise.	Proxy Insight
Against_GL	Dummy equal to one if the institutional investor votes against Glass Lewis recommendation, and zero otherwise.	Proxy Insight
Against_ISS	Dummy equal to one if the institutional investor votes against ISS recommendation, and zero otherwise.	Proxy Insight
Contradictory	Dummy equal to one if the institutional investor votes in an unexpected way, and zero otherwise. The expected vote is for if the institutional investor vote for this type of proposal in other firms more than 50% of the time.	Proxy Insight
For	Dummy equal to one if the institutional investor votes for the proposal, and zero otherwise.	Proxy Insight
Rationale	Dummy equal to one if the institutional investor provides a rationale for the vote, and zero otherwise.	Proxy Insight
Investor-Meeting Level		
Own_SO	Institutional investor ownership in the firm relative to shares outstanding (in %).	13F files
Own_TNA	Institutional investor ownership in the firm relative to assets reported in 13F file (in %).	13F files
Proposal Level		
Close-call	Dummy equal to one if the proportion of votes for the proposal is between 40% and 60%, and zero otherwise.	Proxy Insight
Rationale ≥ 1	Dummy equal to one if at least one institutional investor provides a rationale on that proposal, and zero otherwise.	Proxy Insight
Meeting Level		
AvBusy	Average number of seats held by all directors in the board. Δ(AvBusy) is the change in AvBusy between the current meeting and next year meeting.	
AvTenure	Average tenure of all directors in the board. Δ(AvTenure) shows the change in AvTenure between the current meeting and next year meeting.	
BusySeason	Dummy equal to one if the meeting takes place during the busy spring proxy season (weeks 18th to 24th weeks of the calendar year) (Iliev et al., 2021)	Proxy Insight
E-Index	Index ranging from 0 to 6 based on anti-takeover provisions identified by Bebchuk et al. (2009). We set missing observations of E-Index equal to zero, and create a dummy E-Index_d equal to one if the data required to estimate E-Index are missing, and zero otherwise.	ISS Governance
Dissent	Mean dissent voting of all candidates on the ballot, where dissent is the fraction of votes against, abstain, or withheld as a fraction of the sum of votes for, against, abstain, and withheld.	Proxy Insight
Dividends	Total dividends divided by total equity as of the end of the fiscal year.	Compustat

(Continued)

Variable	Definition	Source
InstOwn_Perc	Percentage of shares outstanding owned by institutional investors.	Thomson Reuters
Leverage	Ratio of long term and short-term debt to total assets as of the end of the fiscal year.	Compustat
Ln(MktCap)	Natural logarithm of market capitalization as of the end of the fiscal year.	Compustat
Mkt_to_Book	Market to book value of equity as of the end of fiscal year.	Compustat
N_Investors	Number of institutional investors voting on director elections in a given meeting.	Proxy Insight
N_Investors_Rationale	Number of institutional investors providing voting rationales for votes on director elections in a given meeting, conditional on meetings with at least one rationale.	Proxy Insight
Per_female	Percentage of females on the board of directors. Δ(Per_female) shows the change in the proportion of females on the board between the current meeting and next year meeting.	BoardEx
Prop_rationales	Proportion of rationales related to board diversity (Prop_board_diversity), tenure (Prop_tenure), or busy directors (Prop_busy). It is the number of institutional investors mentioning the rationale relative to all the rationales mentioned by all institutional investors in that same firm.	Proxy Insight
ROA	Return on assets as of the end of the fiscal year.	Compustat

Investor-Proxy Season Level

Variable	Definition	Source
Institution_Size	Natural logarithm of the number of meetings (including non-US) in which an institutional investor votes during the proxy season (N_Meetings).	Proxy Insight
N_Meetings	Number of meetings (including non-US) in which an institutional investor votes during the proxy season	Proxy Insight
N_Proposals	Number of proposals (including proposals voted on non-US firms) in which the institutional investor votes during the proxy season.	Proxy Insight
ProMgmt	Dummy equal to one if the institutional investor votes with management 99% of the times or more, and zero otherwise.	Proxy Insight
Robo_Voter	Dummy equal to one if the institutional investor votes with ISS or Glass Lewis 99% of the times or more, and zero otherwise.	Proxy Insight
Robo_Voter_GL	Dummy equal to one if the institutional investor votes with Glass Lewis 99% of the times or more, and zero otherwise.	Proxy Insight
Robo_Voter_ISS	Dummy equal to one if the institutional investor votes with ISS 99% of the times or more, and zero otherwise.	Proxy Insight

Investor Level

Variable	Definition	Source
Big_Three	Dummy equal to one if the institutional investor is BlackRock, Vanguard, or State Street, and zero otherwise.	Proxy Insight
European	Dummy equal to one if the institutional investor's country is in Europe, and zero otherwise.	Proxy Insight
Fund_manager	Dummy equal to one if the investor type is fund manager, and zero otherwise.	Proxy Insight
Pension	Dummy equal to one if the investor type is pension fund, and zero otherwise.	Proxy Insight
US	Dummy equal to one if the institutional investor country is US, and zero otherwise.	Proxy Insight

Appendix B. Why Do Institutional Investors Disclose Voting Rationales?

NEI Investments[35]

"Proxy voting is only really meaningful if companies understand why shareholders are voting for or against certain proposals. As well as scrutinizing the proposals we are asked to vote on, we also undertake an activity that we call "Feedback on Proxy": we write to corporate boards where we have identified corporate governance concerns or notable good practices to explain the rationale for our voting decisions. This often leads to further dialogue. Companies have often told us that relatively few investment institutions reach out to provide detailed proxy feedback, so we encourage more investors to adopt this stewardship practice."

"As part of our commitment to transparency, we disclose potential proxy voting conflicts of interest, and how they have been addressed, in the voting rationale disclosure in our public proxy voting database."

Norges Bank[36]

"In April 2020, the fund pushed transparency on voting to a new level. We began publishing a rationale every time we voted against the board's recommendation. The published rationale is part of our continuous disclosure of all voting decisions, one business day after the shareholder meeting. The rationale is derived from the recently updated voting guidelines and provides a principled explanation for all votes against the recommendation of the board."

Neuberger Berman[37]

"Through our NB Votes initiative, we publish our vote intentions in advance of select shareholder meetings, with a focus on companies where our clients have significant economic exposure. NB Votes addresses a broad range of topics across our nine key governance and engagement principles with a balance of votes in support of and against management recommendations; enabling us to share our broad analysis and insights."

AllianzGI[38]

"AllianzGI sees stewardship as an integral part of our investment process, and proxy voting as an integral part of stewardship. We believe it is important to communicate the rationale for against votes and abstentions to companies, particularly if we would like to see improvements in standards and practices in future. As we cannot reach out to all investee companies individually to communicate our voting decisions in an efficient way, we believe that website publication of these decisions and rationales for votes against/abstentions the day following the shareholder meeting is our next best option. We are observing the increasing use of this information by companies and service providers.

Transparency of our voting decisions is also valued by our clients and other stakeholders. Although we provide other forms of proxy voting reporting to our clients, we understand that an ability to quickly check a particular vote and reasoning for any votes against without the need to wait for or access the report is a valuable and convenient tool for our clients. We understand that many other stakeholders, including NGOs, initiatives, consultants, and media outlets have been using our website disclosures to understand our voting behaviour and thinking."

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[35]Available here.

[36]Available here.

[37]Available here.

[38]Available here.

Appendix C.   Cosine Similarity of Rationales

Each investor's rationale is a vector with 15 elements indicating whether each issue (e.g., independence, board diversity) was raised during the annual meeting for a particular director. Specifically, investor i's rationale is defined as $R_i = [r_i^1, r_i^2, ..., r_i^{15}]$, where r_i^1 is a dummy equal to one if investor i mentions independence for a given director in a given meeting, and zero otherwise. For any two investors that provided rationales in a given meeting, it is possible to calculate the pairwise cosine similarity of their rationales, which takes a value between 0 and 1.

$$\text{Pairwise cosine similarity} = S_C(R_i, R_k) = \frac{\sum_{n=1}^{15} r_i^n r_k^n}{\sqrt{\sum_{n=1}^{15} r_i^n} \sqrt{\sum_{n=1}^{15} r_k^n}}$$

If there are N investors that provided rationales in a given meeting, the number of pairwise cosine similarity is $N(N-1)/2$. We average those $N(N-1)/2$ values to calculate the cosine similarity at the proposal level (i.e., director level).

We also calculate cosine similarity at the meeting and investor levels. To calculate proposal-level cosine similarity, we define R_i at the meeting level instead of proposal level. That is, r_i^1 is a dummy equal to one if investor i mentions independence for at least one director in a given meeting, and zero otherwise.

Investor-level cosine similarity measures whether an investor mentions the same set of issues for all directors at different companies (vs. different issues for different directors). This can be interpreted as the investor rationales' extent of "one-size-fits-all." For example, suppose independence is an investor's only reason behind the votes for all of its votes in a given proxy season. In that case, the investor's cosine similarity in that proxy season is 1. In contrast, if the investor mentions board diversity and tenure for director 1, ESG/CSR for director 2, and compensation for director 3, there is no overlap in rationales, and the investor's cosine similarity is 0.

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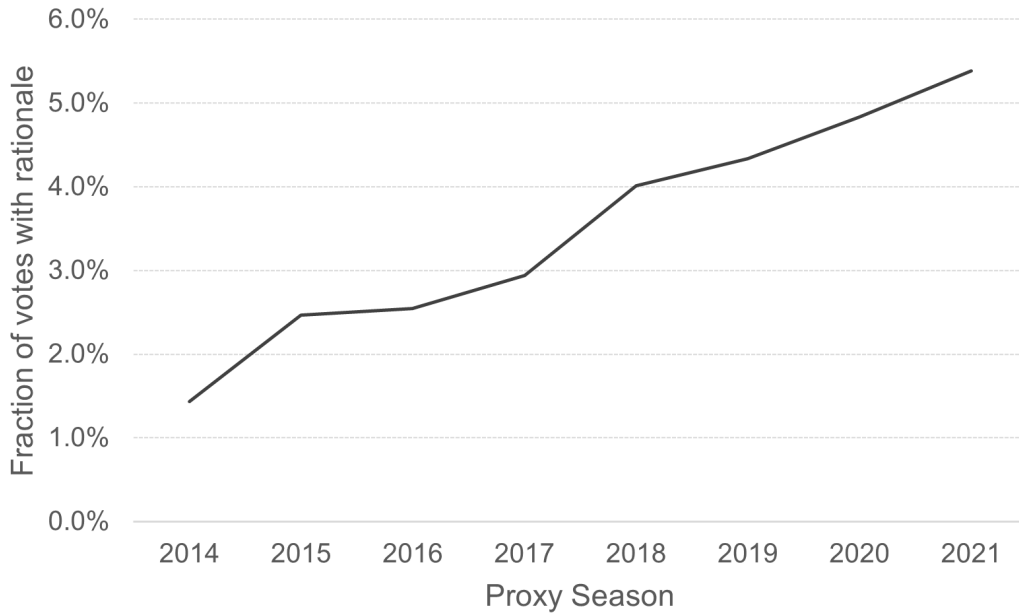
Figure 1. Fraction of Votes With Voting Rationale Over Time. The figure shows the trend in disclosure of voting rationales over time. While this practice was fairly uncommon at the beginning of the sample period, the fraction of votes with rationales is increasing over time, reaching 5.4% of votes in 2021.
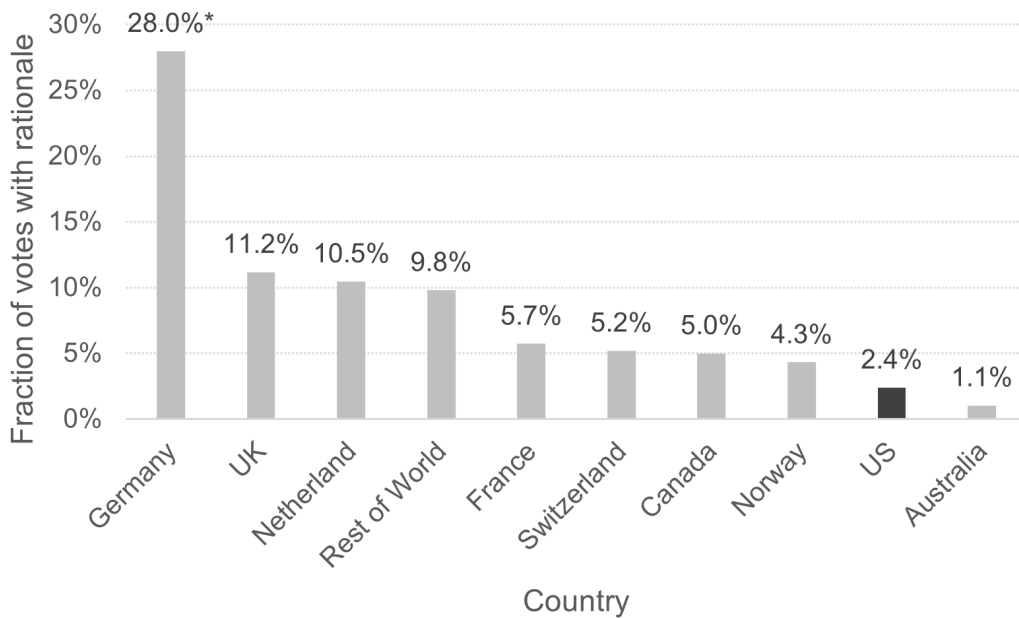
Figure 2. Fraction of Votes With Voting Rationale: By Institutional Investor Country. The figure shows the variation in disclosure of voting rationales in institutional investors from different countries. Evidence from Germany is only based on six voting managers, as institutional investors are not required to disclose actual votes in this country, so this figure has to be interpreted with this caveat in mind.
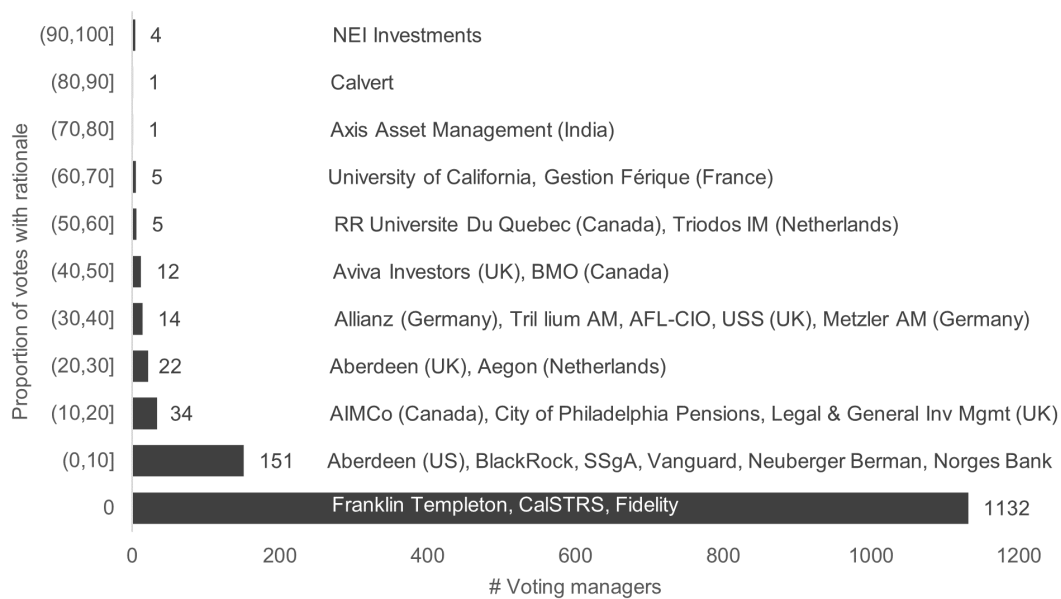
Figure 3. Fraction of Votes With Voting Rationale: By Institutional Investors. The figure presents the distribution of institutional investors by the mean proportion of votes with rationales for the full sample period (June 2013 to July 2021). The figure shows that while most institutional investors do not disclose any rationales on their votes (Fidelity, CalSTRS), some of them disclose for most of them (NEI Investments, Calvert).

Panel A. Management Proposals
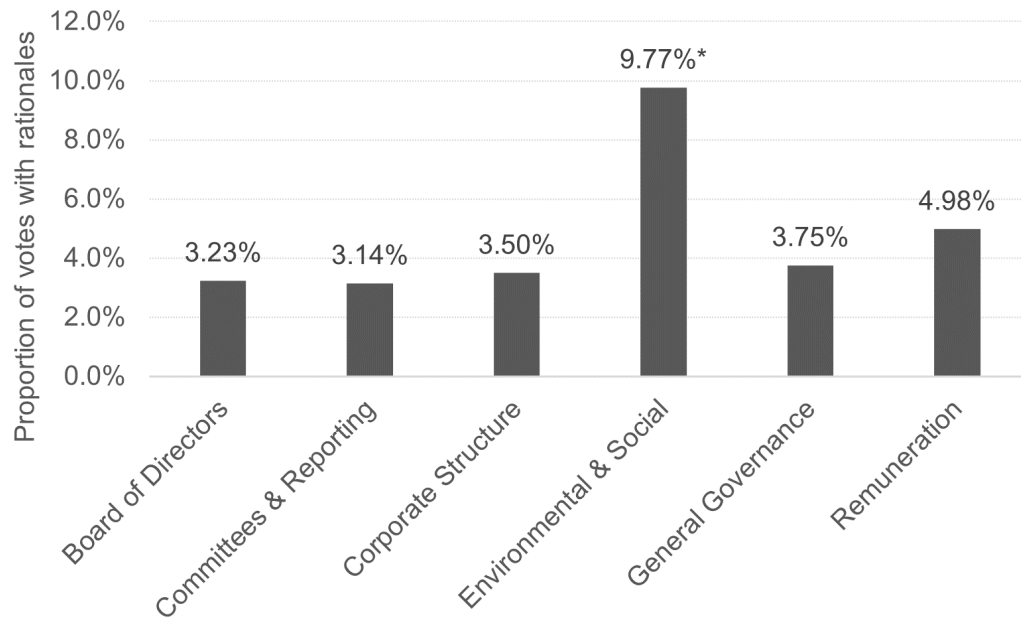
Panel B. Shareholder Proposals
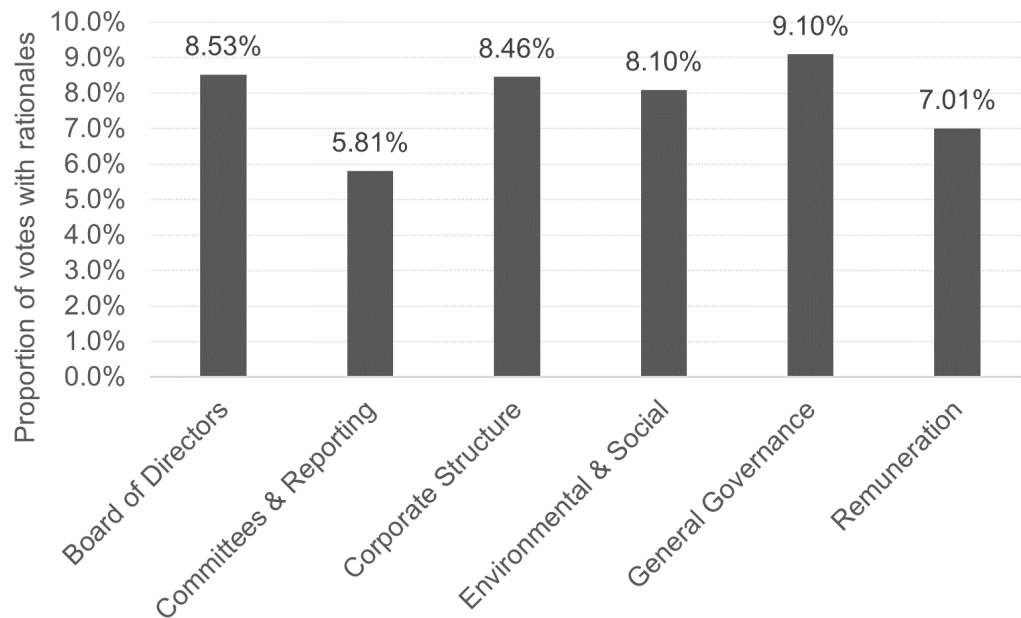
Figure 4. Fraction of Votes With Voting Rationale: By Proposal Type. These figures show the mean proportion of votes with a rational by different proposal types for management proposals (Panel A) and shareholder proposals (Panel B). Almost all (99.6%) management proposals under the 'Board of Director' group pertain to director elections held during annual meetings. Note that there are only 2 management-sponsored ES proposals that were submitted in the 2021 proxy season, both related to decarbonization, for Moody's Corporation and S&P Global Inc. There were no management-sponsored ES proposals in previous years.
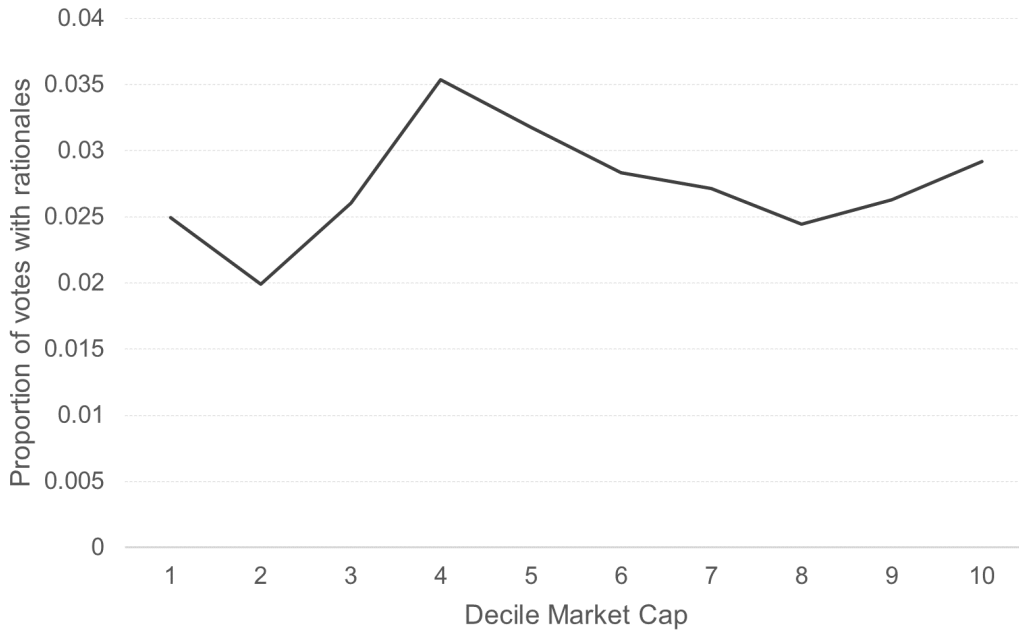
Figure 5. Fraction of Votes With Voting Rationale: By Market Capitalization. This figure presents the mean proportion of votes with rationale for firms in different deciles of market capitalization over our sample period (July 2013 to June 2021).
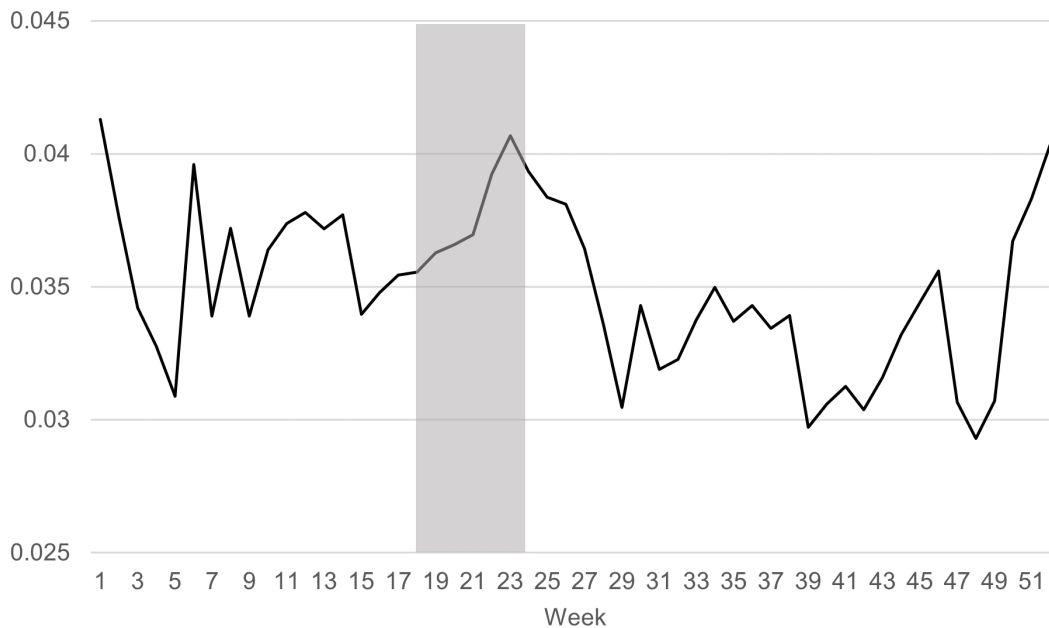
Figure 6. Fraction of Votes With Voting Rationale: By the Week of the Year. This plot shows the mean proportion of votes with a rationale over the weeks of the calendar year. The shaded area indicates the busy proxy season (weeks 18 to 24). The difference in means between busy (3.7%) and non-busy (3.5%) weeks is economically small but statistically significant.

Panel A. Votes Against
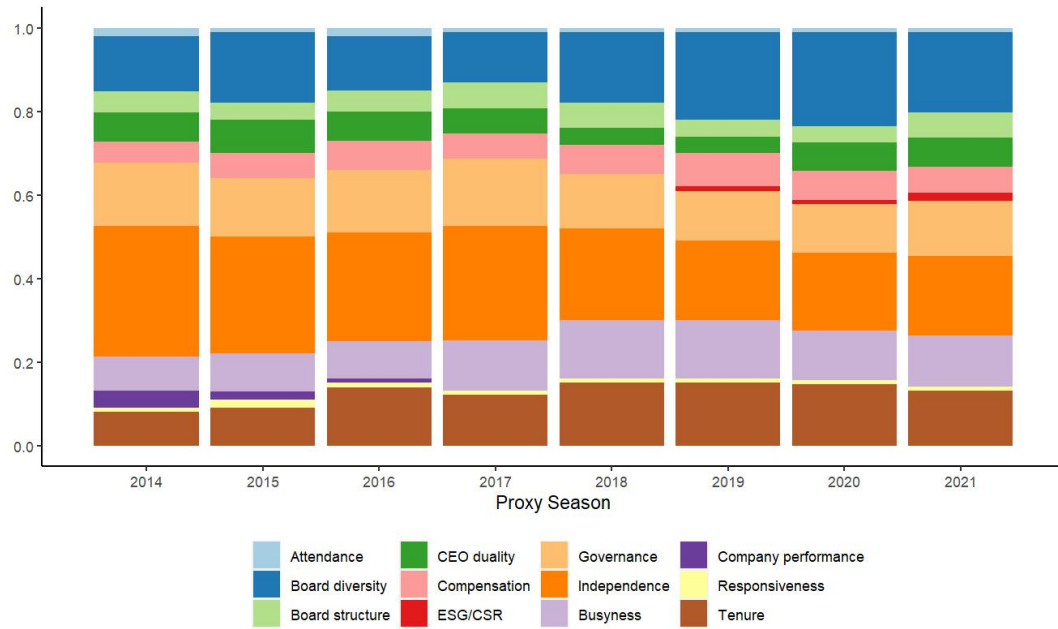
Panel B. Votes For
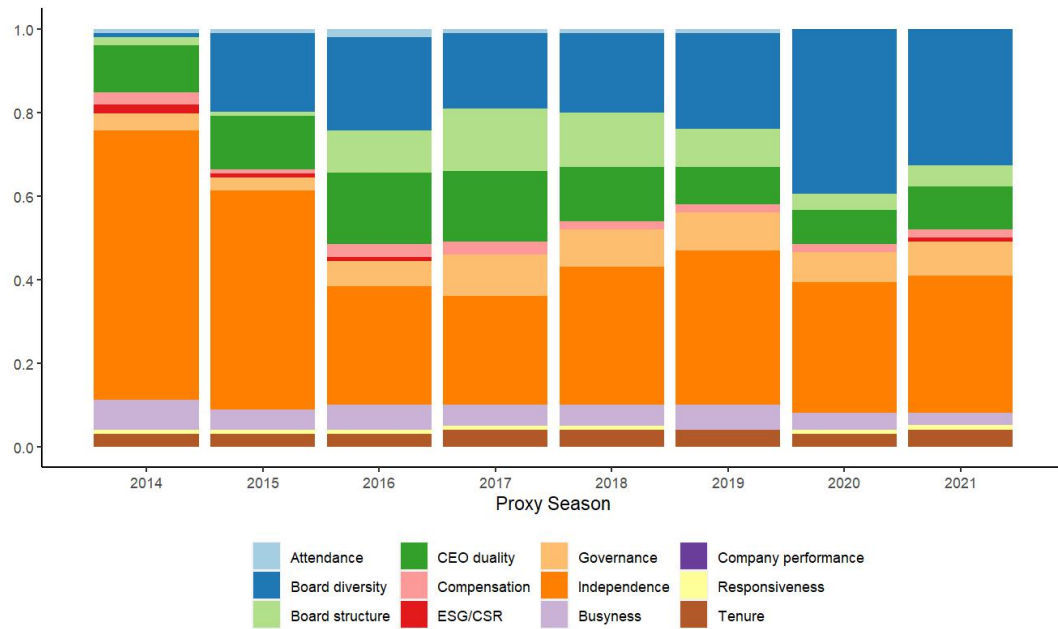
Figure 7. Relative Frequency of the Various Rationales. This plot shows the relative frequency of the different rationales over the years. Panel A presents the rationales for voting against directors, and Panel B presents the rationales for supporting them. We exclude rationales in the category "No reason," "No significant concern," and "Miscellaneous."

Panel A. ISS Robo Voters
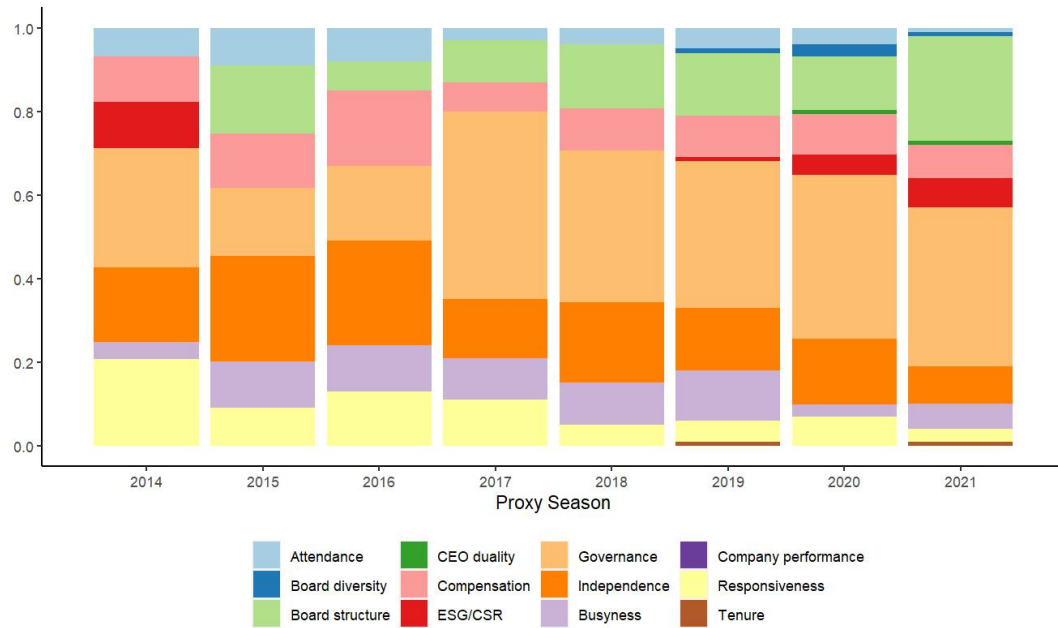
Panel B. Glass Lewis Robo Voters
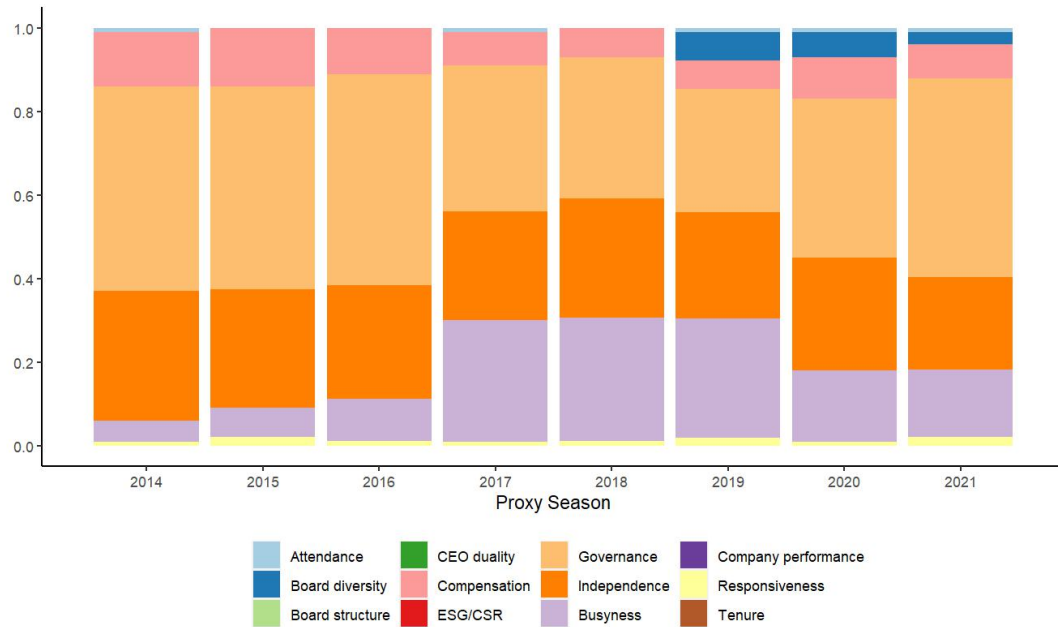
Figure 8. Proxy Advisors' Rationales. This plot shows the relative frequency of the different rationales on votes against by different types of institutional investors over the years. We exclude rationales in the category "No reason," "No significant concern," and "Miscellaneous."

Panel A. US Institutional Investors
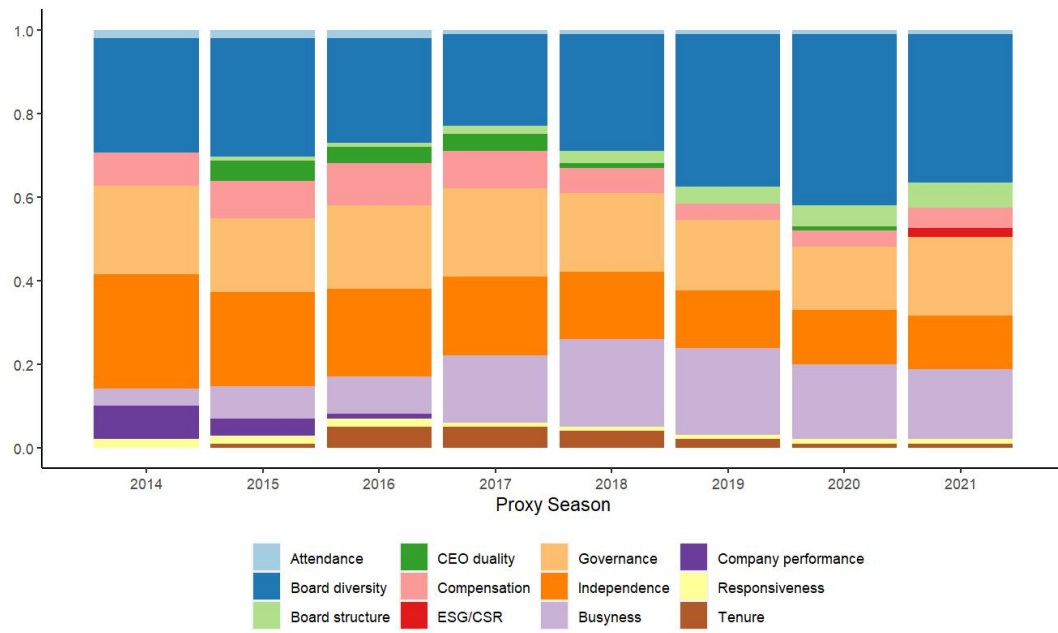
Panel B. European Institutional Investors
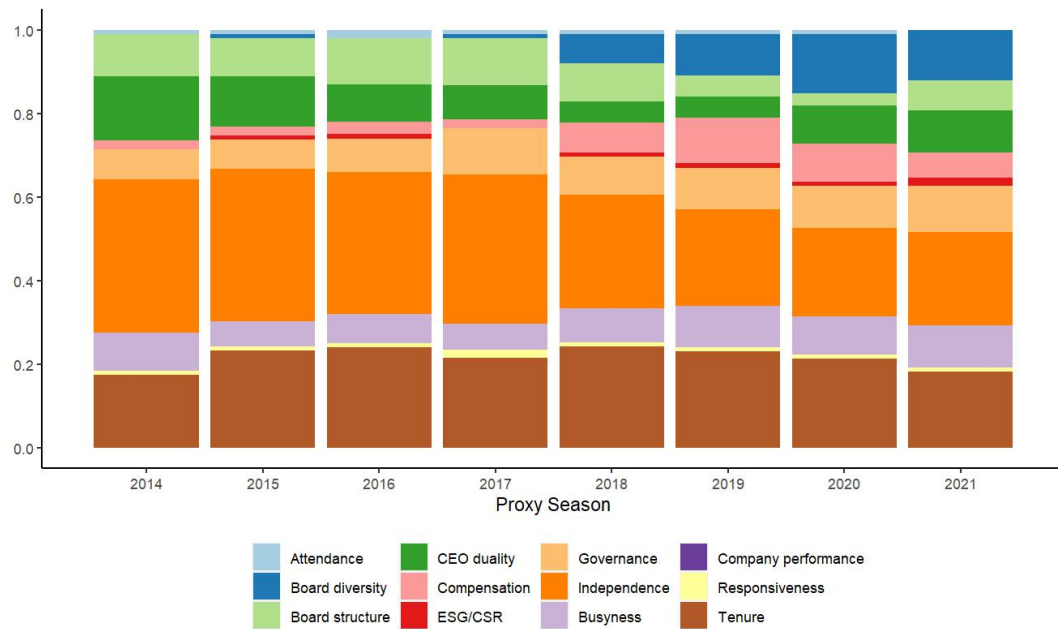
(Continued)

Panel C. The Big Three Institutional Investors
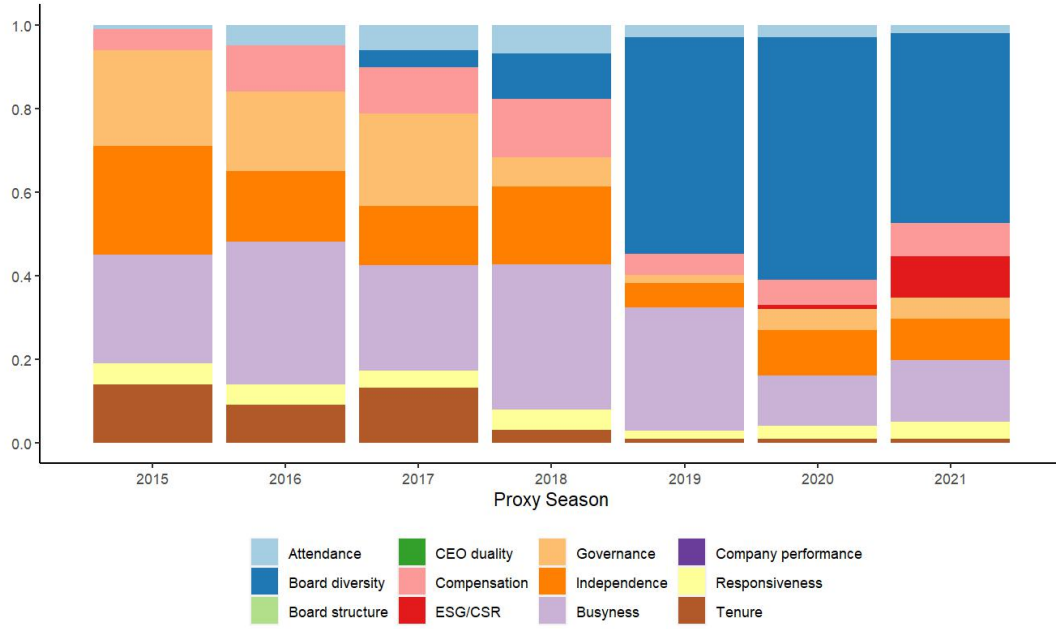
Panel D. Pension Funds
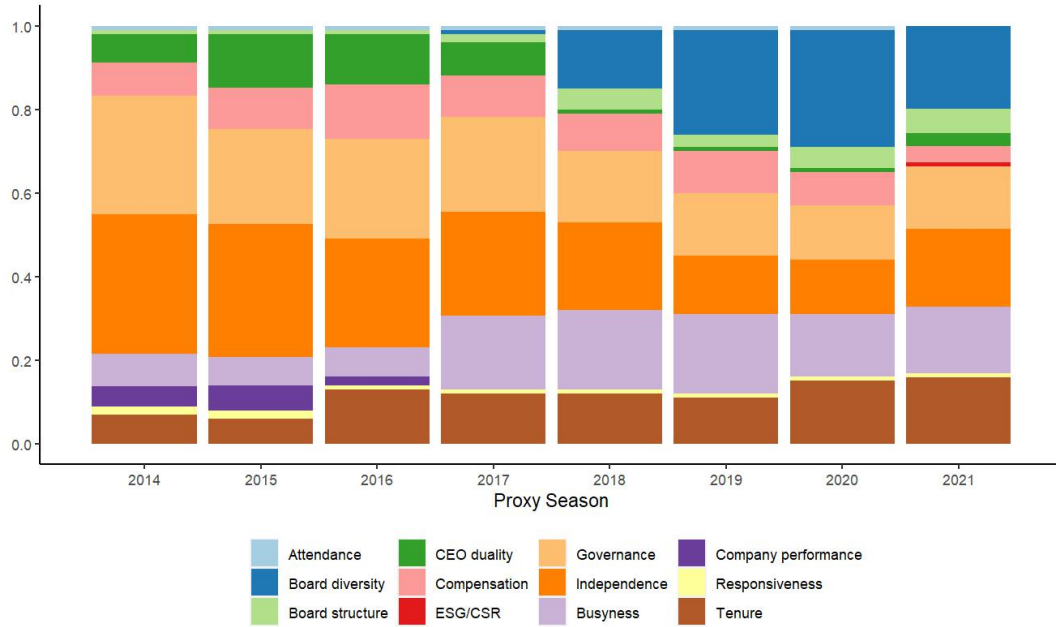
Figure 9. Heterogeneity in institutional investors' rationales. This plot shows the relative frequency of the different rationales on votes against by different types of institutional investors over the years. We exclude rationales in the category "No reason," "No significant concern," and "Miscellaneous." For the Big Three, we exclude 2014 because we have a few rationales from the Big Three institutional investors in that year.

Table 1. Summary Statistics

The table presents summary statistics. The unit of observation is investor-proposal in Panel A, proposal in Panel B, firm-year or meeting in Panel C, investor-proxy season in Panel D, investor-meeting in Panel E, and investor in Panel F. Panel C considers meetings with at least one director election proposals. The sample covers votes by institutional from the US and non-US countries that hold shares in US publicly traded companies over the proxy seasons 2014 to 2021. All variables are defined in Appendix A.

Panel A. Investor Level

	All Proposals				Director Election Proposals			
	# Investors	# Votes	# Proposals with Rationales	# Meetings with Rationales	# Investors	# Votes	# Proposals with Rationales	# Meetings with Rationales
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All	1,382	25,807,796	159,831	19,995	1,379	18,832,703	113,506	19,795
Big_Three	3	532,026	18,975	4,971	3	382,314	12,263	3,457
Pension	148	5,478,273	124,645	17,436	148	4,004,020	86,599	16,741
Fund_manager	956	15,217,906	147,047	18,187	954	11,081,386	106,032	17,827
Robo_Voter_ISS	429	5,471,328	60,272	7,515	415	3,998,693	52,346	7,190
Robo_Voter_GL	244	1,732,998	10,216	5,847	228	1,267,993	5,852	3,584
European	192	3,470,479	103,974	15,940	192	2,557,065	72,655	15,205
US	1,035	20,282,566	155,049	19,551	1,032	14,757,398	109,908	19,324

Panel B. Proposal Level

	Management Proposals				Director Election Proposals				Shareholder Proposals			
	Mean	Median	SD	N	Mean	Median	SD	N	Mean	Median	SD	N
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Rationale ≥ 1	0.834	1.000	0.372	187,458	0.834	1.000	0.372	136,147	0.990	1.000	0.102	3,534
Voting_Outcome	97.419	99.672	6.470	185,976	98.514	100.000	4.237	135,881	32.063	30.486	21.230	3,534
Close-call	0.005	0.000	0.071	185,976	0.001	0.000	0.037	135,881	0.197	0.000	0.398	3,534

(Continued)

Table 1. Summary Statistics (*—Continued from previous page*)

Panel C. Investor-Proposal Level

	Management Proposals				Director Election Proposals				Shareholder Proposals			
	Mean (1)	Median (2)	SD (3)	N (4)	Mean (5)	Median (6)	SD (7)	N (8)	Mean (9)	Median (10)	SD (11)	N (12)
Rationale	0.037	0.000	0.188	25,807,796	0.032	0.000	0.177	18,832,703	0.084	0.000	0.277	984,444
For	0.881	1.000	0.324	25,807,796	0.899	1.000	0.301	18,832,703	0.553	1.000	0.497	984,444
Against	0.076	0.000	0.264	25,807,796	0.044	0.000	0.205	18,832,703	0.427	0.000	0.495	984,444
Abstain	0.043	0.000	0.204	25,807,796	0.057	0.000	0.231	18,832,703	0.020	0.000	0.139	984,444
Against_ISS	0.095	0.000	0.293	25,356,543	0.086	0.000	0.280	18,513,673	0.269	0.000	0.443	947,788
Against_GL	0.104	0.000	0.306	23,342,847	0.089	0.000	0.285	17,209,690	0.321	0.000	0.467	849,621

Panel D. Firm-Year or Meeting Level

	Mean (1)	Median (2)	SD (3)	N (4)
Ln(MktCap)	7.088	7.109	2.037	21,445
ROA	-0.029	0.023	0.337	21,260
Mkt to Book	3.292	1.958	8.687	21,438
Dividends	0.017	0.006	0.027	21,376
Leverage	0.266	0.218	0.264	21,397
InstOwn_Perc	0.682	0.764	0.278	21,483
BusySeason	0.617	1.000	0.486	21,483
E_Index	2.358	2.000	1.369	8,983
AvTenure	7.930	7.531	4.877	20,093
AvBusy	1.937	1.750	0.880	20,093
Per_female	0.161	0.143	0.121	20,092
N_Investors	117	101	92	21,483
N_Investors Rationale	7.423	5.000	7.697	21,483
Dissent	0.093	0.049	0.109	21,453

(*Continued*)

Table 1. Summary Statistics (—*Continued from previous page*)

Panel E. Investor-Proxy Season Level

	Mean (1)	Median (2)	SD (3)	N (4)
N_Proposals	9,819	2,127	19,000	8,325
N_Meetings	934	198	1873	8,325
Robo_Voter_ISS	0.188	0.000	0.391	8,325
Robo_Voter_GL	0.079	0.000	0.269	8,325
Robo_Voter	0.259	0.000	0.438	8,325
ProMgmt	0.127	0.000	0.333	8,325
Institution_Size	5.465	5.288	1.722	8,325

Panel F. Investor-Meeting Level

	Mean (1)	Median (2)	SD (3)	N (4)
Own_SO	0.004	0.000	0.091	1,265,352
Own_TNA	0.209	0.023	0.643	1,265,467

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Table 2. Largest Institutional Investors

The table presents the largest institutional investors based on the number of meetings worldwide in which they cast their shares during the 2021 proxy season. Panel A shows largest fund managers, Panel B pension funds, and Panel C, non-US institutional investors.

Panel A. Top 10 Fund Managers

Meetings	Number of Proposals	Investor Name
19,471	177,260	Dimensional Fund Advisors, Inc.
19,221	172,307	Vanguard Group, Inc.
16,443	153,357	SSGA Funds Management, Inc.
16,435	155,614	Blackrock
11,526	115,098	Northern Trust Investments
11,526	112,293	Geode Capital Management
11,108	108,767	Charles Schwab Investment Management, Inc.
10,923	107,622	American Century
9,993	95,625	BNY Mellon
8,774	85,426	DWS Investment Management Americas, Inc.

Panel B. Top 10 Pension Funds

Meetings	Proposals	Investor Name
14,892	137,516	California Public Employees' Retirement System (CalPERS)
12,354	120,431	TIAA-CREF Asset Management LLC
10,758	108,284	University of California
10,206	101,731	Ohio Public Employees Retirement System (OPERS)
9,794	97,193	Oregon Investment Council
9,311	91,468	Los Angeles City Employees' Retirement System (LACERS)
8,897	88,649	California State Teachers' Retirement System (CalSTRS)
8,252	85,520	Massachusetts Pension Reserves Investment Management (PRIM)
7,889	84,805	Maryland State Retirement and Pension System
7,507	74,999	Florida State Board of Administration

Panel C. Top 10 Non-US Institutional Investors

Meetings	Proposals	Investor Name
12,228	122,563	Legal & General Investment Management
11,778	120,757	UBS Asset Management
11,708	100,649	Manulife Investment Management
11,245	110,626	Norges Bank Investment Management
9,448	95,111	Allianz Global Investors
8,279	86,560	New Zealand Superannuation Fund
7,937	84,102	HSBC Global Asset Management
7,089	73,984	BMO Global Asset Management
6,816	72,551	Aberdeen Standard Investments
6,562	70,160	Schroders

Table 3. Determinants of Disclosure of Voting Rationales

The table presents the linear probability models for determinants of disclosure of voting rationales on management proposals (Panel A) and shareholder proposals (Panel B). The dependent variable, Rationale, is a dummy variable taking the value one if the institutional investor discloses the voting rational for that vote and zero otherwise. Standard errors are clustered at the investor level. t-statistics are provided in parenthesis. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in Appendix A.

Panel A. Management Proposals

Dep. Variable:	Rationale											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Against	0.105***	0.133***	0.126***	0.042***	0.015	0.111***	0.273***	0.423***	0.227***	0.150***	0.205***	0.130*
	(4.867)	(3.258)	(4.071)	(2.816)	(0.732)	(3.049)	(5.248)	(6.058)	(3.460)	(3.286)	(3.832)	(1.960)
Abstain	0.040*	0.043	0.072**	0.021	0.001	0.076**	0.223***	0.376***	0.181**	0.063	0.094*	0.081
	(1.947)	(0.967)	(2.579)	(1.563)	(0.055)	(2.346)	(3.431)	(4.501)	(2.250)	(1.577)	(1.816)	(1.396)
Contradictory	0.041**	0.033	0.054***	0.042**	0.051	0.050**	0.034	-0.037	0.059*	0.001	-0.031	0.041
	(2.247)	(0.837)	(3.062)	(2.177)	(1.170)	(2.621)	(1.392)	(-1.354)	(1.982)	(0.041)	(-0.832)	(0.936)
Against_ISS	0.042***	0.068***	0.010	0.024**	0.035	0.005	0.036	0.066	-0.025	0.057***	0.081***	0.008
	(4.062)	(3.584)	(0.723)	(2.360)	(1.507)	(0.320)	(1.144)	(1.597)	(-1.032)	(3.299)	(3.500)	(0.577)
Against_GL	0.007	0.029***	-0.041*	-0.007	0.014	-0.065**	0.008	0.017	0.000	0.019*	0.038***	-0.050
	(0.859)	(3.657)	(-1.768)	(-0.819)	(1.493)	(-2.165)	(0.734)	(1.056)	(0.023)	(1.669)	(3.368)	(-1.143)
Close-call	-0.043***	-0.078***	-0.005	-0.023*	-0.040	-0.005	-0.008	-0.021	0.015	-0.057***	-0.091***	-0.002
	(-4.151)	(-3.919)	(-0.578)	(-1.952)	(-1.442)	(-0.421)	(-0.538)	(-0.784)	(1.276)	(-3.176)	(-3.720)	(-0.099)
BusySeason	0.001	0.003*	-0.001	0.001	0.002	-0.001	0.005*	0.011***	-0.007	-0.000	-0.000	-0.000
	(1.356)	(1.939)	(-0.757)	(0.797)	(1.189)	(-0.319)	(1.945)	(3.646)	(-1.059)	(-0.238)	(-0.188)	(-0.039)
Ln(MktCap)	0.000	0.000	-0.000	0.001	0.001	0.003	-0.007	-0.003	-0.022*	0.002*	0.002	0.006
	(0.289)	(0.187)	(-0.119)	(1.007)	(0.544)	(1.269)	(-1.400)	(-0.634)	(-1.756)	(1.789)	(1.091)	(1.205)
ROA	0.003*	0.005**	-0.001	0.001	0.003	-0.004	-0.002	-0.011	-0.007	0.008***	0.011***	-0.008
	(1.838)	(2.235)	(-0.259)	(0.466)	(1.607)	(-1.263)	(-0.250)	(-1.066)	(-0.421)	(2.702)	(3.455)	(-0.938)
Mkt.to.Book	0.000	-0.000	-0.000	-0.000	-0.000	0.000	-0.000	-0.000	-0.000	0.000	-0.000	0.000
	(0.069)	(-0.737)	(-0.492)	(-0.361)	(-0.497)	(0.432)	(-0.359)	(-0.624)	(-1.089)	(0.627)	(-0.413)	(0.575)
Dividends	-0.011	-0.008	-0.030	-0.007	-0.008	0.002	-0.068	-0.010	-0.282***	-0.011	-0.011	0.006
	(-0.890)	(-0.493)	(-1.422)	(-0.636)	(-0.555)	(0.107)	(-1.098)	(-0.111)	(-2.653)	(-0.881)	(-0.726)	(0.199)
Leverage	-0.002**	-0.003**	-0.001	-0.001	-0.002*	0.001	-0.007	-0.006	-0.011	-0.003*	-0.004***	0.003
	(-2.118)	(-2.473)	(-0.423)	(-1.177)	(-1.895)	(0.338)	(-1.588)	(-0.996)	(-1.478)	(-1.817)	(-2.716)	(0.748)

(Continued)

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Table 3. Determinants of Disclosure of Voting Rationales (*—Continued from previous page*)

...(*Continued from previous page*)

Dep. Variable:	Rationale											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
InstOwn_Perc	-0.001	-0.002	0.005	0.000	-0.001	0.006	-0.040**	-0.052**	-0.069*	0.010***	0.011***	0.015
	(-0.388)	(-0.368)	(0.708)	(0.186)	(-0.390)	(0.861)	(-2.024)	(-2.225)	(-1.901)	(2.676)	(2.643)	(1.058)
E-Index	0.000	0.000	0.001**	-0.000	-0.000*	0.001	0.001	0.001	-0.000	0.001	0.001	-0.000
	(0.768)	(0.199)	(2.090)	(-0.308)	(-1.810)	(1.236)	(0.684)	(0.731)	(-0.158)	(1.359)	(1.372)	(-0.461)
E-Index_d	-0.001	-0.002	0.001	-0.002	-0.003	-0.000	0.004	0.006	0.003	-0.001	-0.002*	-0.000
	(-1.079)	(-1.449)	(0.427)	(-1.230)	(-1.326)	(-0.120)	(1.385)	(1.402)	(0.588)	(-1.166)	(-1.887)	(-0.145)
Institution_Size	0.006*	0.008*	0.004	0.004	0.005	0.001	0.014	0.028	0.021*	0.004	0.007**	-0.033
	(1.745)	(1.958)	(0.220)	(1.048)	(1.111)	(0.031)	(1.149)	(1.581)	(1.817)	(1.484)	(2.286)	(-1.491)
Robo_Voter	-0.006	-0.011	0.019	-0.005	-0.011	0.013	0.001	0.025	0.153	0.009	0.006	0.026
	(-0.637)	(-0.884)	(0.739)	(-0.567)	(-0.831)	(0.451)	(0.034)	(0.579)	(1.557)	(1.021)	(0.720)	(0.553)
ProMgmt	-0.004	-0.002	-0.018	-0.007	-0.010	-0.056	0.155	0.212*	0.081*	0.004	0.008	
	(-0.784)	(-0.258)	(-1.003)	(-1.505)	(-1.620)	(-1.534)	(1.419)	(1.749)	(1.749)	(0.647)	(1.246)	
Pension	0.002			0.022			-0.028			0.007		
	(0.093)			(1.004)			(-0.925)			(0.320)		
US	-0.038***	-0.051**	-0.006							-0.048**	-0.068***	0.045
	(-2.610)	(-2.357)	(-0.228)							(-2.408)	(-2.929)	(0.970)
Own_TNA										0.002	0.005***	-0.004
										(1.129)	(2.682)	(-0.721)
Own_SO										0.004	-0.002	0.004
										(0.465)	(-0.219)	(0.062)
Mean	0.033	0.032	0.049	0.022	0.017	0.049	0.098	0.131	0.075	0.025	0.023	0.043
Observations (mil)	22.1	13.0	4.7	17.3	10.5	3.4	3.0	1.6	0.8	11.0	8.1	1.8
Adjusted R-squared	0.081	0.127	0.050	0.033	0.032	0.033	0.194	0.286	0.181	0.112	0.184	0.072
Country	All	All	All	US	US	US	European	European	European	All	All	All
Investor type	All	FM	P	All	FM	P	All	FM	P	All (13F)	FM (13F)	P (13F)
Proxy Season FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Table 3. Determinants of Disclosure of Voting Rationales (—*Continued from previous page*)

Panel B. Shareholder Proposals

Dep. Variable:	Rationale											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Against	-0.065***	-0.060***	-0.108***	-0.036***	-0.024*	-0.120***	-0.154***	-0.210***	-0.141***	-0.058***	-0.053***	-0.135**
	(-6.437)	(-4.540)	(-4.084)	(-3.307)	(-1.741)	(-2.960)	(-5.510)	(-4.613)	(-3.212)	(-4.348)	(-3.667)	(-2.661)
Abstain	-0.066***	-0.067***	-0.097***	-0.062***	-0.053**	-0.105**	0.038	0.210**	-0.030	-0.062***	-0.063**	-0.040
	(-4.444)	(-2.997)	(-2.928)	(-4.088)	(-2.579)	(-2.388)	(0.537)	(2.079)	(-0.555)	(-2.921)	(-2.543)	(-0.674)
Contradictory	-0.015***	-0.016***	0.000	-0.010**	-0.005	-0.006	0.017	0.015	0.023	-0.015***	-0.018***	-0.006
	(-3.824)	(-3.102)	(0.033)	(-2.579)	(-1.023)	(-0.625)	(1.503)	(0.963)	(0.997)	(-2.734)	(-2.768)	(-0.464)
Against_ISS	0.003	-0.001	0.013	0.009*	0.006	0.010	-0.037***	-0.044***	-0.019	0.013**	0.010	0.024
	(0.594)	(-0.257)	(1.118)	(1.920)	(1.259)	(0.905)	(-3.356)	(-3.086)	(-1.227)	(1.964)	(1.258)	(1.057)
Against_GL	0.004	0.012***	-0.024	-0.000	0.007*	-0.040	0.015**	0.020*	0.000	-0.002	0.009**	-0.063**
	(0.970)	(3.251)	(-1.633)	(-0.022)	(1.921)	(-1.661)	(2.117)	(1.817)	(0.038)	(-0.271)	(2.031)	(-2.038)
Close-call	-0.001	-0.006*	0.012**	0.003	-0.002	0.013*	0.004	0.003	0.002	0.006	-0.001	0.020**
	(-0.308)	(-1.676)	(2.115)	(0.873)	(-0.581)	(1.949)	(0.793)	(0.277)	(0.278)	(1.533)	(-0.226)	(2.212)
BusySeason	0.001	0.001	0.002	0.001	0.001	0.001	0.002	0.003	-0.002	0.001	0.001	0.001
	(1.306)	(0.630)	(0.592)	(1.184)	(1.062)	(0.261)	(0.396)	(0.438)	(-0.276)	(1.029)	(0.526)	(0.217)
Ln(MktCap)	0.003**	0.004***	-0.004	0.001	0.003**	-0.003	0.004	0.008	-0.011	0.002	0.002	-0.004
	(2.536)	(3.118)	(-1.550)	(1.502)	(2.471)	(-1.319)	(0.890)	(1.403)	(-1.362)	(1.253)	(1.288)	(-1.024)
ROA	0.008*	0.008	-0.000	0.003	0.006	-0.005	-0.004	0.005	-0.052	0.002	0.009	-0.010
	(1.769)	(1.472)	(-0.018)	(0.739)	(1.104)	(-0.386)	(-0.241)	(0.199)	(-1.579)	(0.239)	(1.278)	(-0.428)
Mkt.to.Book	-0.000	-0.000	0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	0.000	0.000	-0.000
	(-0.749)	(-0.450)	(0.186)	(-1.572)	(-0.671)	(-0.719)	(-0.547)	(-0.352)	(-0.185)	(0.890)	(0.821)	(-0.465)
Dividends	0.062*	0.097**	-0.035	0.027	0.056	0.035	0.080	0.257	-0.208	0.073*	0.100**	0.208
	(1.846)	(2.175)	(-0.619)	(0.987)	(1.564)	(0.780)	(0.607)	(1.157)	(-1.416)	(1.744)	(2.153)	(1.261)
Leverage	-0.001	0.000	-0.000	-0.002	0.001	-0.006	-0.004	-0.006	0.004	-0.001	0.002	-0.006
	(-0.716)	(0.155)	(-0.104)	(-0.983)	(0.461)	(-1.116)	(-0.674)	(-0.642)	(0.421)	(-0.447)	(0.631)	(-0.888)
InstOwn_Perc	0.001	0.009*	-0.024**	-0.003	0.002	-0.019*	-0.003	0.021	-0.077**	0.007	0.013*	-0.024
	(0.314)	(1.713)	(-2.229)	(-0.815)	(0.456)	(-1.811)	(-0.211)	(0.925)	(-2.490)	(1.092)	(1.736)	(-1.641)
E-Index	-0.001**	-0.001*	0.000	-0.000	-0.000	-0.000	-0.003*	-0.004*	-0.002	-0.000	-0.001	-0.001
	(-2.144)	(-1.722)	(0.055)	(-0.805)	(-0.688)	(-0.089)	(-1.728)	(-1.735)	(-0.977)	(-0.774)	(-1.153)	(-1.337)
E-Index_d	-0.002**	-0.001	-0.004	-0.002*	-0.001	-0.006*	0.001	-0.001	0.006	-0.003**	-0.003*	-0.008
	(-2.137)	(-1.191)	(-1.355)	(-1.937)	(-1.011)	(-1.956)	(0.192)	(-0.111)	(1.378)	(-2.347)	(-1.786)	(-1.521)
Institution_Size	0.020***	0.024***	0.004	0.010*	0.015*	-0.007	0.050**	0.082**	0.034	0.024***	0.027***	-0.042
	(3.264)	(3.304)	(0.190)	(1.658)	(1.962)	(-0.205)	(2.220)	(2.576)	(1.040)	(2.742)	(2.816)	(-1.149)
Robo_Voter	-0.049***	-0.071***	0.035	-0.019	-0.036**	0.066	-0.123**	-0.161**	0.064	-0.032*	-0.056***	0.094
	(-3.511)	(-4.385)	(0.714)	(-1.393)	(-2.327)	(1.077)	(-2.193)	(-2.308)	(0.711)	(-1.667)	(-3.326)	(1.056)
ProMgmt	-0.007	-0.008	-0.060	-0.008	-0.016**	-0.046	0.134**	0.219***	0.140	0.002	-0.005	
	(-0.834)	(-0.875)	(-1.598)	(-1.246)	(-2.426)	(-0.726)	(2.188)	(2.860)	(1.381)	(0.218)	(-0.429)	

(*Continued*)

Table 3. Determinants of Disclosure of Voting Rationales (*—Continued from previous page*)

…(Continued from previous page)

Dep. Variable:	Rationale											
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Pension	0.007			0.070**			-0.073			0.013		
	(0.264)			(2.250)			(-1.371)			(0.269)		
US	-0.111***	-0.159***								-0.180***	-0.241***	-0.010
	(-4.635)	(-4.594)								(-3.928)	(-4.319)	(-0.095)
Own_TNA			-0.027							0.008**	0.010***	0.000
			(-0.562)							(2.418)	(2.666)	(0.065)
Own_SO										0.053	0.033	-0.280
										(1.075)	(0.977)	(-1.098)
Mean	0.081	0.077	0.126	0.043	0.030	0.120	0.229	0.316	0.162	0.081	0.078	0.130
Observations (mil)	818,585	503,335	158,784	596,219	388,205	94,397	133,239	68,879	38,666	417,252	315,483	59,059
Adjusted R-squared	0.092	0.158	0.038	0.044	0.037	0.047	0.122	0.162	0.109	0.132	0.211	0.081
Country	All	All	All	US	US	US	European	European	European	All	All	All
Investor type	All	FM	P	All	FM	P	All	FM	P	All (13F)	FM (13F)	P (13F)
Proxy Season FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Table 4. Labels for Director Elections

Label	Rationale refers to...	Example from rationales in the sample
Independence	Director independence, affiliates/insiders in the board	We expect the Lead Independent Director to be independent under our criteria, and will not support the election of relevant director where this is not the case.
Board diversity	Concerns over lack of diversity (gender, race and other minority ties) on the board.	WITHHOLD votes for incumbent Nominating Committee members Alan Holmer and Paris Panayiotopoulos are warranted for lack of diversity on the board.
Tenure	Excessive tenure of board members.	Directors with long board tenures should not serve on committees that require absolute independence. The audit committee should be fully independent and this director's membership could hamper the committee's impartiality and effectiveness. Given that this director is due to retire next year, we are supportive at this time.
Governance	Companies with dual class shares structures, adopt major governance changes without shareholder approval, hedging, board interlocks, excessive audit tenure, pledging of company shares by executives or directors	WITHHOLD votes are warranted all incumbent director nominees for the adoption of a new poison pill that has not been ratified by shareholders.
Busyness	Board members serving on "too many" boards, concerns over time commitments	A vote AGAINST Steven Roth is warranted for serving on more than three public boards while serving as CEO of at least one outside company.
Compensation	Excessive compensation or lack of pay-for-performance sensitivity.	We have concerns around the remuneration plans of the executives other than the CEO; this includes the absence of performance conditions, and the absence of a three year performance period.
CEO duality	The company has a combined Chairman and CEO.	The nominee serves on the nominating committee and the company has a combined Chairman and CEO.
Board structure	Issues related to board structure such as classified boards or lack of appropriate board committees.	Failure to remove the classified board and the supermajority vote requirement to enact certain changes to the charter, each of which adversely impacts shareholder rights.
Miscellaneous	Idiosyncratic cases that likely capture errors in rationales, or for which we cannot infer the rationale.	Please refer to the comments for director nominee, Mr. Lloyd Blankfein.

(Continued)

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Table 4. Labels for Director Elections (*—Continued from previous page*)

Label	Rationale refers to...	Example from rationales in the sample
Responsiveness	Failure to implement shareholder proposals with high support, directors failed to respond to shareholders concerns, or failed say-on-pay or low director support.	Votes AGAINST Compensation Committee members Mark D. Carleton, Robert Ted Enloe III, and Mark S. Shapiro are warranted in light of the company's insufficient disclosure of shareholder outreach following last year's low say-on-pay vote result.
Attendance	Failure to attend board meetings (typically 75% of them)	WITHHOLD votes are warranted for Alex Lieblong for attending less than 75 percent of the board and committee meetings held over the past fiscal year without disclosing an acceptable reason for the absences.
ESG/CSR	Concerns over environmental and social risks nor properly addressed by the board.	Vote against on the basis that there is no evidence of leadership on key ESG issues facing the business.
Company performance	Concerns over firm poor performance.	This company has underperformed its peer group for the past five years. Given that performance, a vote is cast to withhold authority for all nominees to the board with the exception of directors not previously submitted for shareholder election.
No reason	The rationale does not mention any specific reason for the vote.	A vote FOR new director John Sheridan is warranted.
No significant concern	The rationale states that they do not identify any reason for concern for the candidate.	NAA vote FOR this proposal is warranted as no significant concerns were identified.

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Table 5. Model Performance

Panel A reports the model performance based on Accuracy, Precision, Recall, and F1-score. Precision is the number of correctly predicted positives (TP), relative to the total number of predicted positives, where the total number of predicted positives is the sum of the number of correctly predicted positives (TP) and false positives (FP) (i.e., precision = $TP/(TP+FP)$). Recall is the correctly predicted positives relative to correctly predicted positives plus false negatives (FN) (i.e., recall = $TP/(TP + FN)$). F1-score is the harmonic mean of recall and precision (i.e., ($2\times$recall$\times$precision)/(recall+precision)). Support is the number of occurrences of each particular class in the true responses. Accuracy is the ratio of correctly predicted observation to the total observations, where correctly predicted observation is the sum of the number of correctly predicted positives (TP) and correctly predicted negatives (TN) (i.e., accuracy = $(TP + TN)/(TP + TN + FP +FN)$). Panel B presents the confusion matrix which is used to calculate values in Panel A. For Actual=0, then TN=388; TP=2,965; FN=30; FP=22. For Actual=1, then TN=2,965; TP=388; FN=22; FP=30.

Panel A. Model Performance

	0	1	Macro Average	Weighted Average	Accuracy
Precision	0.9926	0.9282	0.9604	0.9849	
Recall	0.9900	0.9463	0.9682	0.9847	
F1-score	0.9913	0.9372	0.9643	0.9848	0.9847
Support	2,995	410	3,405	3,405	

Panel B. Confusion Matrix

		Predicted	
		0	1
Actual	0	2,965	30
	1	22	388

Table 6. Cosine Similarity of Rationales

This table shows the average cosine similarity of institutional investors' rationales at the proposal, meeting, and investor level. N shows the number of observations used to calculate the average cosine similarity (proposals in Panel A, meetings in Panel B, and investor-proxy season in Panel C). We exclude proposals/meetings/investor-proxy seasons with less than five observations. For example, the first row of Panel A shows that there are 19,482 proposals for which at least five investors provided rationales for votes against, and the average cosine similarity across 19,482 proposals is 0.51.

	All Investors		ISS Robo Voters		Glass Lewis Robo Voters	
	Mean (1)	N (2)	Mean (3)	N (4)	Mean (5)	N (6)
Panel A. Proposal Level						
Votes against	0.51	19,482	0.82	893	0.98	2,179
Votes for	0.37	26,148	0.98	17,485	.	0
All votes	0.34	51,480	0.98	21,959	0.98	2,338
Panel B. Meeting Level						
Votes against	0.42	9,262	0.93	342	0.99	1,608
Votes for	0.27	5,960	0.96	2,570	.	0
All votes	0.34	12,125	0.95	2,908	0.98	1,738
Panel C. Investor Level						
Votes against	0.44	631	0.44	62	0.29	52
Votes for	0.67	409	0.80	78	0.81	7
All votes	0.51	694	0.72	86	0.31	54

Table 7. Rationales on Director Elections

This table presents the frequency of each rationale at the meeting level for against, abstain, or withheld votes (columns (1)–(3)), votes for (columns (4)–(6)), and all votes (columns (7)–(9)). Columns (1), (4), and (7) show the total number of times investors mention each rationale. For example, column (1) shows that the number of investor-meeting observations that mention independence is 42,581. Columns (3), (6), and (9) show the percent of meetings that have at least one investor mentioning each rationale, for meetings with at least one rationale. The number of such meetings are shown in columns (3), (6), and (9).

	Votes Against			Votes For			All Votes		
	# mention	% mention	% mtgs. with mention (N=19,326)	# mention	%	% mtgs. with mention (N=16,882)	# mention	% mention	% mtgs. with mention (N=20,499)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Independence	42,581	21.2	66.2	22,820	25.2	62.4	60,478	22.1	77.4
Board diversity	35,476	17.7	72.2	16,192	17.9	53.0	46,755	17.1	81.7
Tenure	26,283	13.1	43.7	2,281	2.5	10.4	27,945	10.2	42.0
Governance	25,908	12.9	44.8	4,945	5.5	17.8	28,423	10.4	45.6
Busyness	23,607	11.8	32.1	3,075	3.4	11.4	25,965	9.5	31.8
Compensation	13,161	6.6	31.2	1,257	1.4	5.4	13,928	5.1	31.0
CEO duality	11,466	5.7	19.6	7,231	8.0	24.2	18,594	6.8	24.6
Board Structure	9,838	4.9	27.0	4,992	5.5	21.6	12,532	4.6	32.6
Miscellaneous	5,048	2.5	14.9	3,273	3.6	17.2	8,144	3.0	24.3
Responsiveness	2,339	1.2	4.9	471	0.5	1.6	2,614	1.0	5.1
Attendance	2,056	1.0	2.5	417	0.5	1.3	2,325	0.8	2.7
ESG/CSR	1,627	0.8	4.8	487	0.5	2.0	1,886	0.7	5.4
Company performance	826	0.4	3.8	6	0.0	0.0	832	0.3	3.6
No reason	350	0.2	1.7	22,325	24.6	63.6	22,533	8.2	52.6
No significant concern	5	0.0	0.0	891	1.0	5.3	891	0.3	4.3
Total	200,571	100.0	.	90,663	100.0	.	273,845	100.0	.

Table 8. Heterogeneity in institutional investors' rationales: Votes Against

This table examines whether each individual rationale (e.g., independence, board diversity) for votes against is more likely to be mentioned by, pension funds vs fund managers, Big Three institutional investors vs. other investors, and US vs. European investors after controlling for institutional investor characteristics. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm level variables are defined in Appendix A and rationales in Table 4.

	Independence	Board diversity	Tenure	Governance	Busyness	Compensation	CEO duality	Board structure	Responsiveness	Attendance	ESG / CSR	Company performance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
US	-0.228***	0.321***	-0.314***	0.003	0.077	-0.056	-0.089***	-0.080**	-0.003	-0.003	-0.005	0.007**
	(-3.190)	(3.326)	(-5.561)	(0.113)	(1.498)	(-1.590)	(-2.731)	(-2.289)	(-0.825)	(-0.928)	(-1.022)	(2.202)
Big_Three	-0.148**	-0.223**	0.060	-0.111	-0.032	0.010	-0.029	-0.085***	0.018**	0.004	0.046***	-0.005
	(-2.039)	(-1.986)	(0.776)	(-1.471)	(-0.612)	(0.267)	(-0.808)	(-2.809)	(2.443)	(0.805)	(3.703)	(-1.645)
Pension	-0.059	-0.179**	0.055	0.004	0.003	0.023	-0.016	-0.013	-0.009**	-0.008**	-0.012**	0.004
	(-0.817)	(-2.119)	(0.926)	(0.144)	(0.060)	(0.574)	(-0.441)	(-0.544)	(-2.255)	(-2.443)	(-2.329)	(0.861)
Institution_Size	0.029	-0.009	0.002	-0.005	0.033	0.003	-0.004	0.017	-0.000	0.000	-0.003	-0.001
	(0.882)	(-0.314)	(0.050)	(-0.454)	(1.467)	(0.205)	(-0.233)	(1.372)	(-0.062)	(0.058)	(-1.124)	(-0.687)
Robo_Voter_ISS	-0.030	-0.294***	-0.074	0.064**	-0.073***	-0.001	-0.044*	0.092***	0.035***	0.016***	0.016	-0.006*
	(-0.587)	(-4.295)	(-1.621)	(1.997)	(-2.759)	(-0.039)	(-1.787)	(3.992)	(4.598)	(2.904)	(1.501)	(-1.929)
Robo_Voter_GL	0.029	-0.269***	-0.067	0.170***	-0.019	0.023	-0.029	-0.008	-0.006*	-0.024***	0.003	-0.020**
	(0.507)	(-3.290)	(-1.526)	(4.722)	(-0.400)	(0.547)	(-0.849)	(-0.420)	(-1.715)	(-5.422)	(0.852)	(-2.256)
ProMgmt	-0.211**	-0.355	0.050	-0.552***	0.063	0.019	-0.008	0.033	-0.001	0.332	-0.005	-0.001
	(-2.148)	(-1.544)	(0.589)	(-10.291)	(1.174)	(0.628)	(-0.234)	(0.996)	(-0.088)	(1.458)	(-0.632)	(-0.478)
Observations	117,189	117,189	117,189	117,189	117,189	117,189	117,189	117,189	117,189	117,189	117,189	117,189
Adjusted R-squared	0.227	0.328	0.260	0.338	0.379	0.194	0.237	0.293	0.306	0.584	0.069	0.266
Meeting FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

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Table 9. Are Concerns Well Grounded?

The table presents the regression of the proportion of rationales on a given topic on board characteristics reflecting those issues. Standard errors are clustered at the firm level. t-statistics are provided in parenthesis. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm level variables are defined in Appendix A and rationales in Table 4.

	Prop_board_diversity (1)	Prop_tenure (2)	Prop_busy (3)
Per_female	-0.614***		
	(-24.856)		
AvTenure		0.012***	
		(27.770)	
AvBusy			0.059***
			(12.366)
Ln(MktCap)	-0.025***	0.017***	-0.001
	(-16.667)	(15.805)	(-0.430)
ROA	0.059***	0.029***	-0.041***
	(4.546)	(4.577)	(-2.983)
Mkt_to_Book	0.000*	-0.000**	-0.000*
	(1.894)	(-2.300)	(-1.728)
Dividends	-0.236**	0.007	-0.055
	(-2.065)	(0.109)	(-0.583)
Leverage	0.002	-0.010	0.033***
	(0.207)	(-1.215)	(2.841)
InstOwn_Perc	0.068***	0.063***	0.052***
	(5.238)	(7.625)	(4.098)
Observations	11,141	11,141	11,141
Adjusted R-squared	0.239	0.262	0.108
Mean y	0.207	0.124	0.115
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

Table 10. Board Changes Following Investors' Concerns

The table presents the regression of changes in board characteristics on dissent voting and rationales related to those board characteristics (Equation 4). Standard errors are clustered at the firm level. t-statistics are provided in parenthesis. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm level variables are defined in Appendix A and rationales in Table 4.

	Δ(Per_female) (1)	Δ(AvTenure) (2)	Δ(AvBusy) (3)
Prop_board_diversity	0.007*		
	(1.804)		
Dissent × Prop_board_diversity	0.081**		
	(2.360)		
Prop_tenure		-0.493***	
		(-3.669)	
Dissent x Prop_tenure		-6.230***	
		(-3.462)	
Prop_busy			0.026
			(1.088)
Dissent × Prop_busy			-1.205***
			(-3.623)
Dissent	-0.012	0.746***	0.014
	(-1.538)	(4.729)	(0.414)
Ln(MktCap)	0.000	-0.031***	-0.009***
	(0.318)	(-3.376)	(-4.217)
ROA	-0.007	-0.022	0.104***
	(-1.617)	(-0.323)	(3.535)
Mkt_to_Book	0.000*	0.002*	-0.001**
	(1.710)	(1.842)	(-2.461)
Dividends	0.024	-1.307**	-0.009
	(0.881)	(-2.250)	(-0.066)
Leverage	-0.001	0.149**	-0.020
	(-0.433)	(2.456)	(-1.335)
InstOwn_Perc	0.013***	-0.138*	0.011
	(4.314)	(-1.772)	(0.692)
Observations	8,822	8,822	8,822
Adjusted R-squared	0.020	0.019	0.089
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

Table 11. Falsification Tests

The table presents the regression of changes in board characteristics on dissent voting and board characteristics at the time of the meeting. Standard errors are clustered at the firm level. t-statistics are provided in parenthesis. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm level variables are defined in Appendix A and rationales in Table 4.

	Δ(Per_female) (1)	Δ(AvTenure) (2)	Δ(AvBusy) (3)
Per_female	-0.172***		
	(-21.511)		
Dissent × Per_female	0.064		
	(1.264)		
AvTenure		-0.090***	
		(-15.435)	
Dissent × AvTenure		0.067**	
		(1.985)	
AvBusy			-0.097***
			(-14.274)
Dissent × AvBusy			-0.004
			(-0.081)
Dissent	-0.035***	0.029	-0.017
	(-3.379)	(0.144)	(-0.187)
Ln(MktCap)	0.003***	-0.042***	0.020***
	(7.528)	(-4.609)	(7.539)
ROA	-0.009*	0.298***	0.036
	(-1.874)	(3.836)	(1.326)
Mkt_to_Book	0.000*	0.002	-0.001***
	(1.872)	(1.268)	(-2.638)
Dividends	0.055**	-0.890	0.110
	(2.059)	(-1.615)	(0.861)
Leverage	-0.003	0.007	-0.015
	(-0.994)	(0.122)	(-1.101)
InstOwn_Perc	0.023***	-0.364***	0.012
	(6.840)	(-4.805)	(0.721)
Observations	8,986	8,986	8,986
Adjusted R-squared	0.106	0.092	0.152
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

Internet Appendix

A. Additional Tables

Table IA1. Heterogeneity in institutional investors' rationales: Votes For

This table examines whether each individual rationale (e.g., independence, board diversity) for votes for is more likely to be mentioned by, pension funds vs fund managers, Big Three institutional investors vs. other investors, and US vs. European investors after controlling for institutional investor characteristics. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm level variables are defined in Appendix A and rationales in Table 4.

	Independence	Board diversity	Tenure	Governance	Busyness	Compensation	CEO duality	Board structure	Responsiveness	Attendance	ESG/CSR	Company performance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
US	0.058	0.223**	-0.064***	-0.075***	-0.039***	-0.011	-0.229***	-0.138***	-0.002	0.000	-0.009	0.000
	(1.091)	(2.270)	(-4.371)	(-3.662)	(-3.038)	(-1.115)	(-4.397)	(-2.968)	(-1.035)	(0.224)	(-1.198)	(0.476)
Big_Three	-0.310***	-0.372**	-0.006	-0.045***	-0.005	0.010	-0.129*	-0.004	-0.002	-0.000	-0.007	0.000
	(-3.678)	(-2.411)	(-0.411)	(-2.735)	(-0.136)	(0.727)	(-1.959)	(-0.126)	(-0.507)	(-0.005)	(-0.614)	(1.347)
Pension	0.095	0.016	-0.005	0.025*	0.006	0.023*	-0.003	0.027	0.001	0.004*	0.001	0.000
	(1.307)	(0.137)	(-0.490)	(1.722)	(0.387)	(1.889)	(-0.085)	(0.836)	(0.755)	(1.917)	(0.243)	(0.810)
Institution_Size	0.000	0.086*	-0.002	0.010	0.010*	-0.002	0.049**	0.015	0.000	-0.001*	0.001	-0.000
	(0.016)	(1.858)	(-0.273)	(1.576)	(1.956)	(-1.041)	(2.092)	(0.969)	(0.081)	(-1.844)	(0.520)	(-1.552)
Robo_Voter_ISS	-0.388***	-0.234***	-0.034**	0.021	-0.019*	0.004	-0.031	-0.011	0.009***	0.003*	0.004	-0.000
	(-4.980)	(-3.103)	(-2.392)	(1.620)	(-1.804)	(0.626)	(-0.897)	(-0.592)	(5.682)	(1.719)	(1.253)	(-0.244)
Robo_Voter_ISS	-0.415***	-0.178	0.007	0.184	0.090*	0.005	-0.004	-0.015	-0.001	0.017	-0.011	-0.000
	(-4.331)	(-1.124)	(0.177)	(1.309)	(1.929)	(0.205)	(-0.088)	(-0.413)	(-0.562)	(0.792)	(-1.175)	(-1.358)
ProMgmt	0.524***	0.215	0.634***	0.075	-0.024	0.044**	0.118*	-0.035	0.000	-0.001	-0.016	-0.000
	(2.933)	(1.413)	(5.240)	(1.347)	(-0.631)	(2.346)	(1.746)	(-1.080)	(0.149)	(-0.648)	(-0.977)	(-1.372)
Observations	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023	67,023
Adjusted R-squared	0.221	0.198	0.040	0.293	0.191	0.147	0.292	0.340	0.265	0.319	0.077	-0.016
Meeting FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Table IA2. Board Changes Following Investors' Concerns

The table presents the regression of changes in board characteristics on the proportion of rationales related to those board characteristics. Standard errors are clustered at the firm level. Panel A presents the results excluding voting rationales from the Big Three institutional investors, and Panel B presents the results using only voting rationales from the Big Three institutional investors. *t*-statistics are provided in parenthesis. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm level variables are defined in Appendix A and rationales in Appendix B.

Panel A. Excluding Voting Rationales from the Big Three Institutional Investors

	Δ(Per_female) (1)	Δ(AvTenure) (2)	Δ(AvBusy) (3)
Prop_board_diversity	0.007* (1.775)		
Dissent × Prop_board_diversity	0.087** (2.469)		
Prop_tenure		-0.492*** (-3.660)	
Dissent × Prop_tenure		-6.190*** (-3.436)	
Prop_busy			0.027 (1.117)
Dissent × Prop_busy			-1.258*** (-3.760)
Dissent	-0.013 (-1.610)	0.752*** (4.781)	0.015 (0.443)
Controls	Y	Y	Y
Observations	8,822	8,822	8,822
Adjusted R-squared	0.020	0.019	0.089
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

Panel B. Voting Rationales from the Big Three Institutional Investors

	Δ(Per_female) (1)	Δ(AvTenure) (2)	Δ(AvBusy) (3)
Prop_board_diversity	-0.006 (-1.058)		
Dissent × Prop_board_diversity	0.014 (0.500)		
Prop_tenure		-0.341 (-1.363)	
Dissent × Prop_tenure		1.369 (0.730)	
Prop_busy			0.013 (0.434)
Dissent × Prop_busy			-0.282 (-1.143)
Dissent	-0.006 (-0.423)	-0.308 (-1.108)	0.034 (0.643)
Controls	Y	Y	Y
Observations	1,595	1,595	1,595
Adjusted R-squared	0.024	0.015	0.064
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

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