

Voting Rationales*

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Abstract

Why do institutional investors vote the way they vote? Using a novel dataset on the reasoning behind investors' voting decisions, we provide direct evidence on the main reasons for institutions' votes in director elections. The main reasons for opposition are independence and diversity. Concerns raised in rationales reflect firms' governance weaknesses: companies with low board gender diversity receive more rationales on diversity, similar results for independence, tenure, busyness, and CEO duality. Companies listen and address frequently raised concerns. Results reveal institutions cast informed votes, their rationales are well grounded, and can be an effective low-cost strategy to communicate investors' concerns.

Keywords: institutional investors, voting, voting rationales, corporate governance

JEL: G11, G23, G30

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“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 is a critical aspect of corporate governance, allowing shareholders to voice their views and influence the direction of the company (e.g., Hirschman, 1970; Yermack, 2010; McCahery, Sautner, and Starks, 2016). With institutional investors holding more than 70% of publicly traded companies’ outstanding shares 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 Although existing literature offers valuable insights into the determinants of institutional investors’ voting decisions, the underlying reasons for each vote remain elusive. Researchers typically rely on indirect inferences based on observable information to uncover why institutions vote the way they vote, such as voting patterns and the characteristics of companies, sponsors, proposals, or institutional investors (e.g., Iliev and Lowry, 2015; Bolton, Li, Ravina, and Rosenthal, 2020). However, because votes are binary—either for or against—and do not come with an explicit explanation (i.e., voting rationale), grasping the specific considerations that underlie each vote is challenging.

Studying a novel dataset containing 780,429 institutional investors’ voting rationales, we examine why institutional investors vote the way they vote on director elections and the impact of voting rationales on firms’ actions. Our main attention is on director elections, one of the most important decisions by shareholders, because directors are shareholder representatives in companies. It is also the most common item shareholders vote on, comprising 73% of shareholder votes. Institutional investors’ voting rationales offer valuable insights into institutional investors’ concerns, allowing companies and directors to take appropriate actions. Examples include *“A vote AGAINST incumbent Nominating Committee member William (Bill) Larsson*

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

is warranted for lack of diversity on the board” or “Nominee serves on an excessive number of boards.” As this example illustrates, voting rationales are vote-specific and have the potential to reveal valuable information beyond what is contained in votes alone.

Our investigation focuses on three main issues. First, we provide direct evidence on the main reasons institutional investors vote for or against directors. Next, we investigate whether voting rationales reflect companies’ governance issues or merely *rationale-washing*—investors’ attempts to project a particular narrative or image. Third, we examine whether companies address institutional investors’ concerns stated in voting rationales, and the consequences of addressing those concerns.

Our novel data on voting rationales, combined with our state-of-the-art machine-learning approach, uniquely position us to uncover important findings, some of which we highlight here. First, we are the first to systematically classify the main reasons institutional investors vote for and against directors and to quantify the relative importance of each reason. For example, we find that director independence and board diversity are the main reasons for voting against directors. Second, we find that rationales reflect investors’ independent assessment, not just the rationales of proxy advisors. That is, the main concerns of proxy advisors differ significantly from those emphasized by institutional investors in our sample. Third, we show that institutional investors’ rationales are well grounded on the aggregate and closely align with institutional investors’ voting behavior. Specifically, companies with low board gender diversity receive more rationales on board diversity, and investors who frequently mention board diversity in their rationales are more likely to vote against directors on less diverse boards, with similar results for other dimensions (i.e., tenure, busyness, CEO duality). Together, these results indicate that many institutional investors are active monitors that exert governance efforts when they vote, and voting rationales provide a crucial insight into understanding companies’ governance issues and the reasoning behind investors’ votes.

Fourth, although we are careful not to draw causal inferences, our results are consistent with the notion that companies address institutional investors’ concerns stated in voting rationales. Specifically, companies with high dissent voting related to board diversity increase the

fraction of females in the following year. We obtain consistent findings for tenure, busyness, and CEO duality. Further, companies that address concerns experience a meaningful reduction in shareholder dissent toward directors in the following year. These findings are important because they suggest that companies listen and address institutional investors' concerns stated in voting rationales. That is, voting rationales can be an effective low-cost tool to communicate reasons for dissent with companies.

As the first to analyze institutional investors' voting rationales, we begin by providing an overview of the data not only on director elections, but also on other management and shareholder proposals. Although voluntary, disclosing voting rationales is encouraged by the United Nations (UN) Principles for Responsible Investment (PRI) "*so that the company, fellow investors and other stakeholders are clear on why a decision is being taken*" (PRI, 2021, p.12); indeed, we find that it has become increasingly popular in recent years. The proportion of votes with a rationale went from 1.4% in 2014 to 5.6% in 2022. Providing rationales for each proposal can be prohibitively costly, because some investors cast votes on over 100,000 proposals each year; hence, the UN PRI suggests signatories prioritize disclosure when (i) the investor is voting against management or abstains from voting, (ii) the vote might be perceived as contradicting the investor's principles, and (iii) they vote against a shareholder proposal (PRI, 2021). Consistently, we find that votes are more likely to have a rationale when they go against management recommendations (14.5% in director election proposals, 18.9% in other management proposals) than when votes are in favor (1.7% in director elections, 1.8% in other management proposals). In line with this pattern, in shareholder proposals that management typically opposes, rationales accompany 12.1% of votes in favor and 3.2% of votes against. Despite a small proportion of votes with rationales, our data cover a broad range of meetings and proposals, with 78% of director election proposals and 84% of meetings with at least one, providing insight into institutional investors' considerations when casting their votes.

One of our main goals is to understand what makes investors vote for or against a given proposal, by examining the contents of the voting rationales. Because different proposals have different rationales, separating them by proposal type is essential.² We focus on director election

²For example, an argument such as "*Current practice is sufficient*" is often used to oppose shareholder

proposals, given their importance for corporate governance. To better understand the reasons behind the votes on director elections, we use Bidirectional Encoder Representations from Transformers (BERT), a natural language processing (NLP) technique developed by Google in 2019, to categorize institutional investors’ rationales into different topics. We first manually read and analyze a random sample of voting rationales on votes against directors to identify 12 non-mutually exclusive topics that encapsulate the main reasons behind institutional investors’ dissent. In identifying these topics, we draw upon factors emphasized in theoretical and empirical literature as significant determinants of votes in director elections (e.g., independence, tenure). After training the model, we use the supervised machine learning (BERT) on our test sample. Each rationale typically mentions one or two topics. The BERT model shows strong performance, achieving accuracy of 99%, precision of 97%, recall of 96%, and an F1-score of 96%. We are thus confident that we effectively identify the main reason behind institutional investors’ votes.

Our analysis reveals that independence is institutional investors’ most frequently mentioned reason, accounting for 21.2% of rationales.³ This finding is consistent with prior literature documenting the importance of independence (e.g., Gillan and Starks, 2000; Del Guercio, Seery, and Woitke, 2008). Notably, board diversity is the second most important reason for opposing directors, constituting 17.7% of rationales and mentioned in 71.5% of meetings. This concern was frequently mentioned even before the Big Three (i.e., BlackRock, Vanguard, and State Street) launched campaigns to promote gender diversity in 2017 (Gormley, Gupta, Matsa, Mortal, and Yang, 2022). Director tenure and busyness also appear among the main reasons for opposing directors. We also find that a small but growing fraction of institutional investors hold director nominees responsible for concerns over ESG/CSR (Aggarwal, Dahiya, and Yilmaz, 2023), 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). Likewise, we find that institutional investors do

proposals, but not management proposals. By contrast, “*Less than 75% attendance*” is a consideration for director election proposals but not other proposals.

³Independence includes, for example, a particular candidate’s lack of independence, a low fraction of independent directors on the board, and a lack of independent directors in key committees.

not frequently mention firm performance. Although prior literature provides indirect evidence on the determinants of support for directors (e.g., Cai, Garner, and Walkling, 2009; Choi, Fisch, and Kahan, 2013), this paper is the first to provide direct evidence and document the relative importance of institutional investors’ concerns when casting their votes.

A natural question is what makes institutional investors support director candidates. We categorize the rationales for votes in favor of directors into nine categories, following a similar procedure to that used for votes against. We find that institutional investors are much less likely to provide rationales when they support director nominees (1.7% for votes for vs. 14.5% for votes against directors), and even when they do, the rationales usually lack significant information (e.g., “*A vote FOR director nominee Thomas A. Edwards is warranted*”). In fact, this category emerges as the most common one, accounting for 29% of rationales on votes in favor, which we refer to as the no-reason category. The second most common rationale notes concern or lack thereof, often coupled with a note that the issues are not significant enough to oppose the nominee. Less frequently, we encounter rationales that justify reasons for support, such as satisfactory board independence, tenure, and diversity. Despite their value, such rationales are infrequent in our sample, posing challenges for our BERT model to accurately identify relevant rationales in the full sample. Given the low frequency of rationales with information content, and the inability of the model to provide stable results, most of our analysis focuses on rationales for votes against director nominees.

Our findings indicate that rationales are not merely a reflection of proxy advisors’ rationales. Although we cannot directly observe ISS or Glass Lewis rationales, we infer them from robo-voters, defined as investors who vote with ISS or Glass Lewis at least 99% of the time in a proxy season. At the investor-proxy season level, approximately 18% and 8% of investors are ISS and Glass Lewis robo-voters, respectively, contributing 14% of all rationales. Robo-voters’ rationales are essentially identical, with an average cosine similarity of 0.96 and 0.99 for ISS and Glass Lewis robo-voters, respectively. By contrast, the average cosine similarity across all investors is 0.44, indicating a broader range of topics and perspectives. Further, robo-voters rarely mention some of the most common rationales, such as director tenure, which is the third most common reason for votes against. Overall, we conclude that voting rationales are not solely

a reflection of proxy advisors' rationales, despite concerns about their significant influence in shareholder voting (Iliev and Lowry, 2015; Malenko and Shen, 2016).

Although 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 low board independence, long director tenure, busy directors, and CEO duality.⁴ These results indicate that institutional investors tend to cast informed votes, despite recent concerns about their lack of incentives to exert sufficient governance (Bebchuk and Hirst, 2019; Iliev, Kalodimos, and Lowry, 2021).

While our analysis highlights how rationales reflect companies' governance weaknesses, it naturally leads to the question of whether these rationales genuinely reflect the true motivations behind institutional investors' votes. Our findings reveal a clear connection between these stated rationales and the voting patterns of institutional investors. For example, investors who frequently mention board diversity in their rationales are more likely to vote against directors on less gender-diverse boards. Likewise, concerns about long tenure, director busyness, and CEO duality are reflected in their voting; however, we do not observe similar patterns for concerns about independence.⁵ Although rationale-washing, conflicts of interest, or motivation to pursue a private interest may influence institutional investors' incentives to truthfully disclose their voting rationales (e.g., Del Guercio and Hawkins, 1999; Cvijanović, Dasgupta, and Zachariadis, 2016; Matsusaka, Ozbas, and Yi, 2021), our results suggest that truthful rationales dominate.

Our findings so far indicate that rationales reflect companies' governance issues. A crucial question remains: Do these rationales influence corporate policies? To this end, we analyze

⁴We focus on these three rationales given that they are among the most commonly mentioned rationales, and we can directly connect them to firm outcomes.

⁵Our proxy, the percentage of independent directors, does not fully reflect the complexity of independence issues stated in investors' rationales. For example, many rationales mention the lack of independent directors in key committees, which our proxy does not capture. This fact can potentially explain this variable's lack of significance.

whether companies that receive rationales on a specific issue exhibit changes in that issue in the following year, which would suggest that companies address investors' 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, busyness, and CEO duality address relevant issues. Importantly, dissent alone cannot explain changes in these variables; these changes occur only when rationales refer to these issues. These results suggest the possibility that directors are willing to address concerns that result in high shareholder dissent, because it can have serious consequences (Cai et al., 2009; Ertimur, Ferri, and Oesch, 2018; Aggarwal, Dahiya, and Prabhala, 2019), and voting rationales can be effective tools to communicate the source of this dissent.

We further show that our results are not likely driven by companies inferring the source of dissent from their board characteristics alone. In particular, we test whether companies with high dissent voting and a low fraction of females on the board also improve gender balance in the following year (and similar for low board independence, long director tenure, busy directors, and CEO duality). We do not find significant effects, suggesting that while companies may possess some capacity to identify the sources of dissent, providing rationales offers managers additional incentives to adjust governance in the directions suggested by institutional investors. Furthermore, we find that adjusting corporate governance in a direction suggested in institutional investors' rationales has advantages: firms taking action on issues identified in voting rationales exhibit reduced dissent toward directors in the following year.

Our paper contributes to the literature on the governance role of institutional investors (Hirschman, 1970; McCahery et al., 2016; Iliev et al., 2021; Lewellen and Lewellen, 2022). We provide the most direct and comprehensive evidence on the main reasons institutional investors vote against directors, and uncover the relative importance investors place on different issues. In addition, our findings are consistent with companies addressing the governance concerns stated in institutional investors' voting rationales. This result adds to the literature on the effectiveness of low-cost activist strategies, such as "just vote no" campaigns (Del Guercio et al., 2008), voting-policies disclosure (Couvert, 2020), expectation documents (Aguilera, Bermejo, Capapé, and Cuñat, 2024), or shareholder proposals (Gantchev and Giannetti, 2021).

Our paper also adds to the literature on the limits to effective governance by institutional investors. Prior literature documents mutual funds' overreliance on proxy advisors (Iliev and Lowry, 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 institutional investors' conflicting incentives (Woidtke, 2002; Matsusaka, Ozbas, and Yi, 2019; Heath, Macciocchi, Michaely, and Ringgenberg, 2022) might hinder effective governance of portfolio companies. Our results indicate that many institutional investors make informed decisions when casting their votes, and attention to voting decisions by institutional investors is probably more widespread than previously documented (Iliev et al., 2021).

Finally, our paper contributes to the recent policy debate on the importance of fund voting and accountability around the voting process. Our results are consistent with companies listening to institutional investors' concerns, suggesting that disclosing voting rationales can be an effective low-cost strategy to communicate with companies and promote good governance practices. The UN PRI recommends that their signatories publicly disclose voting rationales, particularly for high-profile or controversial votes (PRI, 2021). Our results suggest that institutional investors can use voting rationales to effectively communicate with companies, bringing transparency to the decision-making process. Disclosing voting rationales could also help clients understand their funds' voting decisions, especially when fund voting seems to conflict with fund shareholders' interests (Cvijanović et al., 2016; Michaely, Ordonez-Calafi, and Rubio, 2023).

2. Data and Descriptive Evidence

2.1. Data

We collect data on votes, proxy advisors' and management recommendations, voting rationales, and meeting and proposal characteristics from Diligent (formerly Insightia and Proxy Insight) for annual meetings at US publicly traded companies between July 2013 and June 2022.⁶ Diligent collects information on votes and voting rationales from publicly available

⁶We exclude special meetings and proxy contests because the type of proposal up for a vote in these meetings differs substantially from those voted on during annual meetings (e.g., mergers and acquisitions). They are

sources, including NP-X files and mutual fund web pages. 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.⁷ Therefore, we aggregate votes at the voting-manager level (institutional investor, hereafter) and drop any individual fund-level information, similar to Bubb and Catan (2022).⁸

Our sample includes 1,607 institutional investors from around the world that vote in at least 20 annual meetings in US publicly traded companies in at least one proxy season. Our study provides a comprehensive analysis of institutional investors worldwide, covering a broad range of investor types often overlooked in many other studies that focus solely on US investors or mutual fund managers. In our sample, 68% of institutional investors are located in the US, but we also have some large institutional investors outside the US, including 111 from the UK, 106 from Canada, and 293 from all other countries. Institutional investors in our study comprise 1,020 fund managers, 158 pension funds, and 429 other institutional investors (e.g., investment firms, banks, labor unions), with fund managers representing 59.4% of the votes, followed by pension funds at 20.5% and other institutional investors at 20.1%. Information on institutional investor country and investor type comes from Diligent.

Our sample includes over 34 million votes cast on 280,344 distinct proposals, which we categorize into director election proposals, other management proposals, and shareholder proposals. Although our primary focus is on the 198,467 director election proposals, we also report descriptive evidence for the 77,401 other management proposals and 4,476 shareholder proposals (Table 1). Our findings indicate that director election proposals constitute most votes in publicly traded US firms, accounting for 73%. Director election proposals and other management

relatively uncommon (represent only 10% of the meetings and 1.7% of votes in our sample), and not all firms have at least one in our sample period.

⁷In our sample, only 0.38% of investor-proposal observations have at least one fund voting differently from the rest of the funds from the same voting manager. For instance, in Diligent, BlackRock funds have three different voting managers: BlackRock, BlackRock Sustainability 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 the same (e.g., Dimensional Fund Advisors).

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

proposals receive greater support than shareholder proposals, with average levels of 98.5% and 94.1% in our sample, respectively, where vote support is calculated as the for votes by the total of for and against votes. By contrast, the average level of support for shareholder proposals is significantly lower, at 32.5%.

We obtain information on institutional ownership from Thomson Reuters, companies' financial information from Compustat, and board characteristics from the ISS Governance database and BoardEx (see Appendix A for definitions and summary statistics). Diligent reports voting data for 6,205 US firms during our sample period. The number of firms drops to 4,422 after merging with Compustat and Thomson Reuters.

We show the largest institutional investors in the 2022 proxy season, proxied by the number of worldwide meetings in which institutional investors cast their votes (Table 2). The largest investors in our sample are US fund managers: Dimensional Fund Advisors, Vanguard, and State Street voted in more than 19,000 meetings and over 170,000 different proposals. BlackRock voted in more than 17,000 meetings and more than 160,000 proposals. These figures are similar for the largest pension funds in our sample, New York City Pension Funds. The largest non-US institutional investors is with Legal & General Investment Management (from the UK), which voted in more than 13,000 meetings and in more than 126,000 unique proposals.

The extent of diversification by these institutional investors suggests that they cannot engage individually with each firm they hold in their portfolio, because doing so could be prohibitively costly (Bebchuk and Hirst, 2019).⁹ Voting rationales can become a low-cost strategy to communicate the reasons behind their votes to their portfolio firms. Consistently, 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.”* (see Appendix B for further details). In contrast to other low-cost strategies, such as voting policies (Couvert, 2020) and expectation documents (Aguilera et al., 2024), which provide general guidelines over governance issues, voting rationales offer specific explanations

⁹Bebchuk and Hirst (2019) show that the Big Three investors have on average 26 investment stewardship personnel to cover 12,221 firms in their portfolio.

related to individual companies and proposals. Specifically, many rationales expand the scope of standard voting policies¹⁰ or include explicit statements about deviating from their established proxy voting guidelines.¹¹

2.2. Descriptive Evidence on Voting Rationales

This section provides an overview of voting rationales: the time trend in the disclosure of voting rationales, as well as which institutional investors provide rationales and for which type of proposals and voting choice.

While the disclosure of voting rationales is voluntary, it is encouraged by the UN PRI and has been gaining momentum in recent years. Figure 1 shows that the proportion of votes with rationales has increased over time, from 1.4% of votes in 2014 to 5.6% in 2022. Some of the largest institutional investors, such as Norges Bank, only started to disclose their rationales in the 2020 proxy season, whereas others (e.g., BlackRock) have increased the proportion of votes for which they disclose rationales in recent years.

In Figure 2, we present the proportion of votes with rationales as a function of investor country. Our sample comprises rationales for votes cast in US firms by US and non-US institutional investors. The decision to disclose by institutional investors from different countries may vary in many ways, potentially influenced by distinct regulatory environments, governance practices, and cultural norms (Cziraki, Renneboog, and Szilagyi, 2010; Dasgupta, Fos, and Sautner, 2021). Figure 2 and Panel A of Table 1 reveal that European investors disclose voting rationales more frequently than their US and Australian counterparts. 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 (83%), including Fidelity (US),

¹⁰For example, “Upon engagement with the company, we learned that board refreshment was delayed because of COVID. We expect the number of independent directors who have served less than 12 years to outnumber those who have served for more than 12 years in 2022. Should this not be the case, we might consider voting against long-serving directors in 2022.”

¹¹For example, “SMA: we are deviating from the NBIM policy on combined chairman/CEO under the exemption that the CEO can be regarded as part of the “founding” family and the fact that we accepted his role as part of our anchor investment in the IPO.”

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 (e.g., BlackRock and Vanguard) disclose rationales for about 0% to 10% of the votes.

Considering that disclosing rationales can be costly for investors, the UN PRI recommends that signatories prioritize disclosure under the following circumstances: (i) when the investor is voting against management or abstains from voting, (ii) when the vote might be perceived as contradicting the investor’s principles, and (iii) when they vote against a shareholder proposal (especially if submitted by a PRI signatory) (PRI, 2021). On average, we find that shareholder proposals feature voting rationales more frequently (8.1%) than director election proposals (3.1%) and other management proposals (4.0%) (Table 1). However, a different pattern emerges when we break down the pattern by voting choices (i.e., for, against, abstain, withhold). For director election proposals, institutional investors are more likely to disclose voting rationales when voting against (18.1%), abstaining (4.5%), or withholding (12.2%)—collectively referred to as against hereafter—than when voting in support (1.7%). The pattern is similar for other management proposals.¹² By contrast, for shareholder proposals, a vote is more likely to have a rationale if it is in favor (12.1%) rather than against (around 3.2%). Given that most shareholder proposals are opposed by management, our results suggest that institutional investors tend to disclose voting rationales more frequently when they vote against management’s recommendations.

Our evidence suggests that disclosure is more likely an institution’s established policy, rather than decisions made for each vote. The decision to disclose rationales can be largely explained by (i) the decision to vote against and (ii) the decision to vote in favor if the proposal is sponsored by a shareholder. For institutional investors that disclose at least once, a regression that includes these two factors, along with investor-proxy season fixed effects, achieves an R-squared of 58%. We estimate that approximately 10% to 15% of institutional investors choose to exclusively disclose when they vote against management. In addition, we find that the disclosure of rationales is persistent among institutional investors. We find that institutional

¹²For all management proposals, conditional on institutional investors disclosing at least one rationale during the proxy season, 71% (11%) of votes against (for) management have a rationale.

investors who provide at least one voting rationale in a given proxy season tend to disclose their rationales in the following season 84% of the time. Conversely, those who do not provide any rationales in a given proxy season continue to not provide rationales in the following season 97% of the time.

We partition our sample of institutional investors to investigate potential variations in disclosure incentives (Table 1 Panel A). We first examine the disclosure practices of robo-voters, defined as investors who vote in line with ISS or Glass Lewis at least 99% of the time during a proxy season (Iliev and Lowry, 2015; Matsusaka and Shu, 2022). Because robo-voters tend to exert minimal effort in voting, they might have limited incentives to engage and be less inclined to provide detailed explanations for their voting decisions. Our findings indicate that robo-voters are less likely than non-robo-voters to provide rationales. Specifically, ISS robo-voters and Glass Lewis robo-voters disclose rationales for only 2.4% and 0.8% of their votes on director elections, respectively, in contrast to 3.5% for non-robo-voters, with similar patterns for other management proposals and shareholder proposals. This evidence supports the notion that robo-voters lack engagement incentives and tend to minimize voting efforts.

Next, we investigate whether fund managers and pension funds exhibit differences in their disclosure practices, as the literature suggests that they may have different motivations for engagement (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002; Matsusaka et al., 2021), which could be linked to different disclosure practices. Our analysis shows that pension funds are more likely than other types of institutional investors to provide rationales for their votes. For instance, 4.4% of pension funds' votes on director elections include rationales, compared with 3.1% for fund managers and 1.8% for other investors, with similar patterns for other types of proposals (Table 1 Panel A). We find that PRI signatories are more likely to disclose rationales in all types of proposals, consistent with their stewardship principles. Furthermore, although the Big Three are not more likely than other types of investors to provide rationales in general, they provide rationales for a significantly higher proportion of shareholder proposals (25.1% of votes for the Big Three and 8.0% for the Non-Big Three).

Overall, our analysis demonstrates heterogeneity in the disclosure of voting rationales among

different institutional investors, proposal types, and vote choices. Unlike most studies that focus almost exclusively on fund managers, we have a comprehensive sample including a variety of institutional investors. While this section provides an overview of which votes have voting rationales, in the following sections, we focus on the content of those rationales.

3. Classification of Rationales on Director Elections

We now turn our 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 content of the voting rationales. Different types of proposals typically have different types of rationales, depending on the topic up for a 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 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; however, they would not appear as reasons for supporting or opposing other management or shareholder proposals. Hence, voting rationales have to be separated by proposal type. Because 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 CEOs, firms governance, and directors (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019)—we focus on the subsample of director election proposals at annual shareholder meetings. Moreover, this proposal type is the most common, accounting for 73% of votes in our sample. Importantly, director elections take place in every company on an annual basis, allowing us to provide insights for all companies.

We also need to separate the rationales for votes against and votes for. Different from other types of proposals, rationales for director election proposals sometimes consolidate the reasons into a single account, for both votes in favor of some candidates and votes against others. For example, consider *“Votes against nominating committee member G. Stacy Smith are warranted for lack of diversity on the board. A vote for the remaining director nominees is warranted.”*

In this example, provided at the board level rather than the director level, the vote against is based on board diversity concerns, whereas the reason for the vote in favor remains unspecified. Therefore, it is important to separately analyze the rationales for votes for and against.

Our objective is to categorize voting rationales by grouping those with similar reasoning. We use the term “categorize” to describe this process, because it succinctly conveys our aim to organize the data. For director elections, our sample contains 780,429 votes with rationales across all voting options (i.e., for, against/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 71,898 unique rationales for votes against and 17,986 unique rationales for votes in favor on director elections in our sample. Given the large number of unique rationales, manually categorizing all of the rationales would be challenging, so we employ some 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). A supervised model is optimal for this task because it allows researchers to define the categories and train the model on correctly labeled data, thereby leading to more precise categorization. By contrast, unsupervised models, such as latent Dirichlet allocation (LDA), can group observations based on broad topics or keywords, without the nuanced understanding of specific reasons for voting.

We first discuss the process for votes against director elections. To implement the supervised classification model, we start by selecting a random sample of distinct rationales (about 2% of the distinct rationales – 1,438 unique rationales) and categorizing each of them. Two authors independently read over the random sample of rationales and agreed on 12 categories, as presented in Table 3 Panel A: independence, board diversity, tenure, other governance issues, busyness, compensation, CEO duality, board structure, responsiveness, ESG/CSR, attendance, and miscellaneous. Table 3 explains and offers examples for each category. In creating these 12

categories, we focus on identifying factors that theoretical and empirical literature has found to be important determinants of votes in director elections while taking into account the frequency of each category and the content 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 other important factors in voting outcomes, we do not create separate categories for these rationales when we observe fewer than 10 instances of these topics in the random sample and assign such rationales to the miscellaneous category. Notably, we only observe one rationale on proxy advisors’ recommendations,¹³ five instances of firm performance,¹⁴ and three on director skills, experience and expertise.¹⁵

After creating the 12 categories for votes against, the two authors independently assigned labels to each of the 1,438 rationales in the random sample. In the case of a disagreement, they had a discussion to agree on the appropriate label. In this context, a label 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 nominee serves as the nominating committee chair and board is only 11% women.*” In this case, the reason behind the vote is board diversity, so we accordingly assign the “board diversity” label to this rationale. Consider another rationale: “*A vote against is warranted because: -The nominee serves as the company’s CEO/Chair. -To signal to the board*

¹³Some institutional investors may blindly follow proxy advisors’ recommendations without explicitly stating that the reason behind their voting decision is the advice from proxy advisors. In section 4.2, we further explore this issue by looking at robo-voters’ voting rationales.

¹⁴This observation is consistent with McCahery et al. (2016), who show that corporate performance is not a key driver of institutional investors’ engagement with companies. Yi (2021) also shows that firm performance does not strongly influence mutual funds’ voting behavior, in a sample of shareholder-sponsored governance proposals.

¹⁵Although theory recognizes directors’ dual roles as advisors and monitors (Adams and Ferreira, 2007), and empirical research shows the importance of directors’ skills and experiences (e.g., Adams et al., 2018), institutional investors do not frequently use this rationale. Consistently, Ertimur et al. (2018) find that this motivation does not appear in ISS rationales for voting against directors, which might suggest directors’ skill set and experience receive insufficient attention during the election process.

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 this example demonstrates, some rationales might mention multiple reasons behind a vote, so we allow each rationale to have multiple labels.

We then use BERT, a deep-learning-based language model, to assign each rationale into 12 non-mutually exclusive categories. BERT is a state-of-the-art NLP method for training a multipurpose language model on a large text corpus, released as an open-sourced project by Google in 2019, and has been recently used in the finance literature (e.g., Acikalin, Caskurlu, Hoberg, and Phillips, 2022; Rajan, Ramella, and Zingales, 2023; Yang and Yasuda, 2023). It is an autoencoder language model that is trained by 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.¹⁶ Because 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 category.

We separate the labeled data into three distinct subsets: train, validation, and test. The model uses the train set to learn the classification pattern, and the validation set fine-tunes the hyperparameters, such as the number of epochs or the batch size of the training loop.¹⁷ We select 0.64, 0.16, and 0.2 as the proportions of the train, validation, and test sets, respectively, which we argue are reasonable choices in many machine-learning applications (e.g., Hastie, Tibshirani, Friedman, and Friedman, 2009; Karpathy, Johnson, and Fei-Fei, 2015).

After completing the training, we calculate the model performance using the test set. We

¹⁶We considered other widely accepted neural architecture models, including older models such as long short-term memory (Hochreiter and Schmidhuber, 1997), as well as state-of-the-art giant models such as 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 considering computational costs, performance, and trainability, we conclude that BERT is the ideal model for our purpose.

¹⁷We select the following hyperparameters: batch size=32, epoch=50, learning rate= 2e-05.

report the aggregate model-performance metrics in Table 4. Accuracy, the ratio of correctly predicted observations to the total observations, is 0.99. 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 from 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 1,438 rationales, only 40 relate to director attendance). When such imbalance occurs, balanced accuracy, precision, recall, and F1-score provide more informative measures of how well the model performs for the minority class. In our model, precision—the correctly predicted positives relative to the correctly predicted positives plus false positives—is 0.97, while recall—the correctly predicted positives relative to the correctly predicted positives plus false negatives—is 0.96. Balanced accuracy, which is the average of recall across all binary outcomes, is 0.98. Finally, the weighted average of all labels’ F1-scores is 0.96, where the F1-score is the harmonic mean of recall and precision. Because we achieve high recall, precision, and F1-score, in addition to high accuracy, we conclude that our model performs very well and accurately classifies instances in the minority class.

Before moving onto votes in favor, we provide some summary statistics. Conditional on having a rationale, at the vote level (i.e., proposal-investor level), we find that each vote for votes against has 1.42 labels, on average. At the meeting level, each company receives rationales from 6.15 institutional investors, on average, and 3.81 distinct issues are raised, conditional on the meeting having at least one rationale on director elections.

To classify votes in favor, we focus on a random sample of 719 distinct rationales, representing about 4% of the total distinct rationales.¹⁸ Using a similar procedure to the one with votes against, we categorize the rationales for votes in favor into nine non-mutually exclusive categories: no reason, cautionary vote, independence, board diversity, other governance issues, tenure, miscellaneous, new director, and responsiveness. We explain each label and provide examples in Table 3 Panel B. Many rationales are used for both voting in favor and against,

¹⁸While 89.2% of director election votes are in favor, the pool of unique rationales for votes in favor is smaller (17,986 vs. 71,898 for votes against). To address this imbalance, we select a larger fraction of distinct rationales.

but as a mirror image; for example, lack of board diversity is often cited as a reason for voting against, whereas sufficient board diversity is a reason for supporting directors. We also observe three unique categories for votes in favor: no reason, cautionary vote, and new director. We no longer have categories for attendance, busyness, CEO duality, board structure, compensation, and ESG/CSR, because investors rarely mention these issues as reasons for votes in favor of directors (we only have one instance of board structure, four of ESG/CSR, two of CEO duality, two of busyness, and five of compensation in the random sample). On the rare occasions these rationales are mentioned, we categorize them under other governance issues. Two authors then assign labels to each of the 719 unique rationales, and use BERT to classify the 17,804 unique rationales for votes in favor in our sample. Our model for votes in favor also provides strong performance, with an accuracy of 98%, balanced accuracy of 95%, precision of 94%, recall of 91%, and an F1-score of 91% (Table 4). Despite the overall strong performance, the performance is weaker for minority categories, especially in cases where justifications for support are provided (e.g., recall is 0.5 for board diversity). We further discuss this limitation and its impact on our findings in section 4.1.2.

4. The Rationale behind Institutional Investors’ Votes

In this section, we investigate 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 meeting level (i.e., which issues were raised during the annual meeting for all directors up to vote), for two reasons. First, in many cases, institutional investors vote for or 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 typically director specific, institutional investors sometimes provide the same rationale for all directors up for election in a given meeting (as seen in our previous example on page 15 involving the rationale for “G. Stacy Smith”). 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 remainder of the paper, we aggregate rationales at the meeting level to measure how many different institutional investors raised each issue.

4.1. Relative Importance of Different Rationales

4.1.1. Votes against

Our objective is to investigate the key factors that determine institutional investors' votes on director elections. Table 5 provides a breakdown of the frequency of different reasons behind votes against (including abstentions and withheld), based on data at the institutional investor-meeting level.¹⁹ Column (2) shows that a lack of independence is the top concern raised by institutional investors, accounting for 21.2% of all mentions across the 12 categories we examine. Independence typically includes a combination of independence concerns. In our random sample, 59% of rationales related to independence refer to the fraction of independent directors in the board, 68% discuss insufficient independence in key committees, and 15% are about the lack of a lead independent director. Additionally, column (4) shows that at least one institutional investor mentioned independence in 67.1% 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 enactments of the Sarbanes-Oxley Act in 2002 and exchange regulations in 2003, which mandated that companies have a higher representation of outside directors. This observation aligns with an extensive literature documenting the importance of board independence for institutional investors (e.g., Gillan and Starks, 2000; Del Guercio et al., 2008).

We find that board diversity is the second most common reason for votes against, accounting for 17.7% (column (2)). In fact, board diversity is mentioned in more meetings than independence, among the meetings with at least one rationale for votes against (71.5% vs. 67.1%, column (4)). This finding is noteworthy for several reasons. First, it indicates that insti-

¹⁹A description of each label and examples of rationales are provided in Table 3.

tutional investors consider board diversity 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' dissent or ISS withhold recommendations for directors (e.g., Choi et al., 2013, Ertimur et al., 2018). Finally, this analysis shows that institutional investors have been taking into account board diversity since at least the 2014 proxy season, even before the Big Three's board gender diversity campaign began in 2017 (Gormley et al., 2022).²⁰ In our sample, the percentage of rationales on board diversity increased from approximately 11.1% in the 2014 proxy season to 19.2% in the 2022 proxy season. This trend is illustrated in Figure 4, where we document the relative frequency of different voting rationales over time.

Our study is unique in that we uncover institutional investors' voting rationales and quantify the relative importance of each issue. While many of the governance issues we uncover in Table 5, such as excessive tenure, other governance issues (including dual-class share structures, adopting major governance changes without shareholder approval, or board interlocks), director busyness, 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 of the relative importance of these factors from institutional investors' perspectives. Some factors, such as excessive tenure and other governance issues, are among the most frequently mentioned rationales behind votes against directors, each accounting for 11.8% and 13.6% of rationales, respectively. Other factors, such as lack of regular attendance at board meetings, only account for 0.9% rationales for votes against directors, consistent with directors typically exhibiting good attendance records (Cai et al., 2009). Lack of responsiveness to shareholders accounts for 1.9% of voting rationales – relatively less important compared with what was previously documented for ISS (Ertimur et al., 2018), as discussed also in section 4.2. 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. Naturally, the issue of truth-telling, rationale-washing, and proxy advisors' influence looms over our interpre-

²⁰Concurrent work by Aggarwal et al. (2023) and Gow, Larcker, and Watts (2020) document increased vote support for directors on boards that exhibit greater diversity.

tation, yet our subsequent evidence suggests that none of these factors can fully explain what we observe in the data.

We also find that some institutional investors hold directors accountable for ESG/CSR issues when casting their votes. This voting rationale is still relatively uncommon—accounting for only 1.2%—mentioned in 7.1% of meetings with rationales for votes against, and is becoming more important in recent years (Figure 4), consistent with recent anecdotal and academic evidence suggesting that some ESG dimensions are associated with voting outcome in director elections (Aggarwal et al., 2023).²¹ At the same time, we identify no clear time-series pattern in the relative importance of rationales, as shown in Figure 4. If anything, independence became relatively less important over time.

One caveat when interpreting our results is the voluntary nature of rationale disclosure, which could lead to an over- or under-representation of certain investors’ perspectives. For example, European investors are more likely to disclose voting rationales, potentially leading to their views being over-represented. To address this issue, we apply propensity score weighting (Rosenbaum and Rubin, 1983), a method that accounts for factors influencing disclosure decisions, such as investor, firm, and vote characteristics. For instance, the contributions from European investors are assigned a lower weight in our analysis. On the other hand, rationales from more representative investors (e.g., US investors) receive higher weight, ensuring that the frequency of disclosure does not influence the overall results. That is, this methodology allows us to more accurately estimate the importance of different rationales within the larger investor community. Upon implementing the propensity score weighting, we find that the relative importance of various rationales remains largely consistent (column (3) of Table 5), indicating the robustness of our results despite the voluntary nature of disclosure. Please refer to section B of the Internet Appendix for further details on our propensity score weighting procedure.

²¹See Dieter Holger, “More Investors Vote Against Corporate Directors Over Climate Change,” *Wall Street Journal*, July 21, 2022. Available [here](#).

4.1.2. Votes in Favor

Next, we discuss the rationales behind votes in favor of directors. Column (7) of Table 5 shows that the most frequent rationale associated with votes in favor is “no reason” (29.4%), a label that we use to classify rationales that lack any substantive informational content (e.g., “*A vote FOR new director John Sheridan is warranted*”). Such instances, although technically providing a rationale, do not shed light on the decision-making process of the institutional investor in supporting the candidate. The second most common category, comprising approximately 24.6% of rationales, is labeled “cautionary vote.” This category includes instances in which the institutional investor has some concern about the director candidate, the board, or the company but still decides to support the candidate (e.g., “*We will support the board in this year proxy, but we have communicated that we expect them to look again at the right of shareholders to amend bylaws for next years proxy and we will continue to engage with the company on the issue.*”).

There are also informative rationales that clearly state the reasons for support. These rationales include factors such as sufficient independence, board diversity, and tenure (or efforts toward them), which are sometimes cited as reasons for voting in favor of directors. These account for 18.6%, 11.0%, and 3.8% of the rationales, respectively. These figures have to be interpreted with caution, because the model performance for these minority categories is relatively poor. We also find that a small fraction (0.9%) of investors express support for directors who have recently joined the board, arguing that they should not be held accountable for existing company issues.

Overall, investors are not only more likely to disclose rationales for votes against a director (as discussed in section 2.2), but the rationales for votes against are typically more informative than the rationale for votes in favor. This finding suggests that institutional investors use rationales to communicate their concerns with management, rather than to explain why they support them. Given this pattern and the challenges in classifying informative rationales due to their limited instances in the sample, we focus on votes against directors in the following sections of the paper.

4.2. Proxy Advisors’ Rationales

Several papers document the influence of proxy advisors on voting (Iliev and Lowry, 2015; Malenko and Shen, 2016), potentially raising concerns regarding whether our voting rationales are just capturing the voting rationales provided by these proxy advisors rather than institutional investors’ assessment of firms’ corporate governance.

Ideally, we would like to have voting rationales provided by ISS and Glass Lewis, use the same algorithm used for institutional investors’ voting rationales, and compare to what extent the issues raised by proxy advisors match those disclosed by institutional investors. However, this approach is not possible, because proxy advisors are unwilling to make their data available to academics at the time of writing this paper. We therefore adopt another approach. We examine the rationales of “robo-voters,” defined as institutional investors who follow proxy advisors’ recommendations—either from ISS or Glass Lewis—at least 99% of the time in a proxy season.

We examine whether their voting rationales reflect the rationales of their proxy advisors, focusing on rationales for votes against directors. If robo-voters minimize their voting efforts, we would expect them to just disclose the rationale provided by their proxy advisors, leading 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, adding weight to the view that these 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 0.96 (column (3) of Table 6), much higher than 0.44 for all investors (column (1) of Table 6). For Glass Lewis robo-voters, the average cosine similarity is 0.99 (column (5) of Table 6).

In Figure 5, we present the voting rationales of robo-voters and compare them with non-robo-voters’ rationales. The figure shows that the voting rationales of ISS and Glass Lewis robo-voters are substantially different from non-robo-voters’ rationales. Notably, other governance issues are the main topic mentioned by ISS robo-voters, followed by independence. Board diversity, the second most important rationale in the full sample, is not frequently mentioned

in this subsample. In unreported analysis, we find that board diversity only appeared for the first time in 2019, and it still shows a very low frequency compared with the full sample. Other common rationales, such as tenure and CEO duality, are rarely mentioned by ISS robo-voters, whereas others, such as responsiveness and board structure, are very common for these investors, similar to Ertimur et al. (2018).

Regarding Glass Lewis robo-voters, the number of distinct rationales in this subsample is notably lower than for the ISS robo-voters or the full sample; most rationales seem to focus on a few issues, such as other governance issues, independence, busyness, and compensation. Similar to ISS robo-voters, Glass Lewis robo-voters only began mentioning board diversity in 2018.

Overall, while many of the voting rationales in our sample are typically mentioned by ISS as a reason to oppose directors (Ertimur et al., 2018), we show that the rationales disclosed by institutional investors differ from the rationales disclosed by ISS and Glass Lewis, suggesting that these rationales do not purely reflect proxy advisors' rationales.

4.3. Heterogeneity in Institutional Investors' Voting Rationales

Different investors may have varied reasons for voting against directors, potentially reflecting the heterogeneous preferences or motivations of institutional investors (e.g., Del Guercio and Hawkins, 1999; Bolton et al., 2020). In section C of the Internet Appendix, we document which issues are most important for each investor type. A comparison of US and European institutional investors (Figure IA.1 Panel A) shows that European investors focus more on independence, tenure, and CEO duality, whereas diversity and busyness are of greater concern to US investors.

We next show that the Big Three institutional investors have particularly emphasized board diversity since 2017 (Figure IA.2), coinciding with the launch of campaigns by the Big Three to increase board diversity (Gormley et al., 2022). Notably, they started to vote against directors for ESG/CSR concerns since 2020, reaching its height in 2021 before declining in 2022, which

could be related to their backlash against ESG strategies.²²

Panel C shows that UN PRI signatories mention board diversity and ESG/CSR concerns more frequently than non-PRI signatories, potentially reflecting the UN PRI’s guiding principles. Despite the debate in the literature regarding the motivation of pension fund activism (e.g., Del Guercio and Hawkins, 1999), Panel D shows that pension funds’ voting rationales are not substantially different from rationales in the full sample. Overall, our evidence on varied rationales among different types of institutional investors underscores the heterogeneity in institutional investors’ preferences.

5. The Substance behind Voting Rationales

In this section, we examine whether the concerns institutional investors express in the rationales reflect actual weaknesses in a company’s corporate structure. There are good a priori reasons to believe they do. First, institutional investors have a reputation to maintain, and an inaccurate representation of actual reasons might have a negative impact on their reputation. Second, and relatedly, they have a fiduciary responsibility to act in the best interests of their shareholders, which implies pointing out real pain points in firms rather than inventing them. Lastly, they always have the option not to reveal their voting rationales, rather than intentionally providing misinformation.

However, discrepancies between reported rationales and a company’s characteristics can arise due to several factors. First, institutional investors may resort to *rationale-washing*—the practice of misrepresenting their voting rationales to project a certain narrative or image (e.g., Gibson Brandon, Glossner, Krueger, Matos, and Steffen, 2022). Second, institutional investors may aim to conceal the true motive, due to conflicts of interest with portfolio companies or clients (Davis and Kim, 2007; Cvijanović et al., 2016; Michaely et al., 2023). Third, institutional investors might use voting rationales to pursue their own agendas and achieve goals not shared by other investors (e.g., Woidtke, 2002; Matsusaka et al., 2019).²³ Any one of these motives

²²<https://fortune.com/2023/10/31/blackrock-vanguard-state-street-esg-proposals-voting/>

²³For instance, Matsusaka et al. (2019) find that unions strategically use shareholder proposals to influence contract negotiations, thereby benefiting unionized employees.

results in a disconnect between the stated motives for the vote and the actual state of the firm.

5.1. Are Concerns Well Grounded?

We first examine whether voting rationales reflect firms' governance weaknesses. For each meeting, we estimate the proportion of rationales on votes against directors related to independence, board diversity, tenure, busyness, or CEO duality and study whether they are correlated with board independence, board gender diversity, tenure, and busyness, or CEO duality at the firm level. We focus on these dimensions because they are board characteristics observable at the firm level. They are also five of the seven main rationales (Table 5). While other governance issues and compensation appear very often in our sample, these categories include several dimensions for which no suitable proxy effectively captures all these issues. For instance, the other-governance-issues category includes dual-class share structures or changes in governance provisions without shareholders' approval. Likewise, compensation can capture concerns over excessive pay or that the company did not provide shareholders with a vote on executive compensation. Therefore, we focus only on the five concerns mentioned above.

To formally evaluate whether the concerns are well grounded, we examine whether firms that have lower board diversity (in particular, a lower proportion of females) have a higher fraction of rationales related to board diversity, after controlling for other firm characteristics.²⁴ Likewise, we test if companies with a low proportion of independent directors, long-tenured and busy boards, and CEO duality receive more concerns about independence, tenure, busyness, and CEO duality, respectively. Specifically, we estimate the following equation:

$$Prop_Rationale_{jt} = \beta_0 + \beta_1 BoardCharacteristics_{jt} + \beta_2 Dissent_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{jt}, \quad (1)$$

where $Prop_Rationale_{jt}$ is the proportion of rationales on each issue (independence, board diversity, tenure, busyness, and CEO duality) for firm j in proxy season t . This value is estimated as the number of institutional investors mentioning the rationale relative to all the

²⁴While board diversity generally refers to gender, it might also refer to other directors' characteristics. In section D of the Internet Appendix, we consider both gender and ethnic diversity for a smaller sample of firms using an alternative dataset.

rationales mentioned by all institutional investors in that same meeting, and it is intended to capture the relative importance of that rationale for all investors in that firm-year. That is, the proportion of rationales on board diversity is calculated as $Prop_board_diversity = \frac{\sum_i \mathbb{1}(board_diversity=1)}{\sum_i Rationales}$. For instance, if Investor A mentions board diversity, tenure, and ESG/CSR, and Investor B mentions board diversity and busyness, 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. $BoardCharacteristics_{jt}$ is either the percentage of independent directors, percentage of female directors, average tenure, average number of boards held by directors, or a dummy equal to 1 if the CEO is the chairman of the board, and 0 otherwise. $Dissent_{jt}$ is the mean dissent voting of all candidates on the ballot. X includes firm- and meeting-level controls. The former include $Ln(MktCap)$, ROA , Mkt_to_Book , $Dividends$, $Leverage$, and $InstOwn_Perc$. We also include meeting-level controls, $Contentious_ISS$ and $Contentious_GL$, to account for proxy advisors' recommendations. τ_t accounts for proxy-season fixed effects, and θ_l are industry-level fixed effects. Standard errors are clustered at the firm level. The average number of distinct labels for meetings with at least one rationale is 3.81.

Table 7 presents the results. Column (1) shows that firms with a higher proportion of independent directors on the board have fewer rationales on director independence after controlling for other firm and meeting characteristics. The coefficient indicates that a 10% increase in the percentage of independent directors is associated with a decrease of 1.9% in the proportion of rationales on independence, and it is statistically significant at conventional levels (t-stat = -5.8). Similarly, the coefficient on column (2) indicates that when the firm has a higher fraction of female directors on the board, they receive fewer rationales regarding board diversity. The coefficient is highly statistically significant (t-stat = -25.6), and the economic impact is also large: a 10% increase in the percentage of female directors reduces the fraction of rationales related to board diversity by 7%.²⁵ Columns (3) and (4) show that firms with board members with a longer average tenure and busier directors, respectively, receive more rationales that reflect concerns about tenure and busyness. These coefficients are statistically significant (t-stat

²⁵We find qualitatively similar results for ethnic diversity, using data from ISS (see section D of the Internet Appendix). For ethnic diversity, the coefficient is economically smaller than gender but statistically significant, suggesting that companies with lower ethnic diversity receive more rationales related to board diversity.

= 31.8 and 22.2, respectively). A unit increase in average tenure increases the proportion of tenure-related rationales by 1.1%, and a unit increase in average busyness increases the fraction of concerns on busyness by 10.5%. Finally, column (5) shows that firms in which the CEO is the chairman of the board receive a 7.1% higher fraction of rationales related to CEO duality, and the coefficient is highly significant (t-stat = 38.0).²⁶

Because institutional investors care about their portfolio performance, the finding that poor firm performance does not appear as a rationale for votes against directors is surprising. One would have expected, especially for the renewal of directors, that performance would be a consideration. As we show in Table 5, it is not. We might further expect that even when performance is not explicitly mentioned, it is among institutional investors' considerations when deciding about their votes and stated rationales. In other words, institutional investors could exert governance and show a weaker level of trust in management recommendations in firms with poor performance. Thus, stated rationales might depend indirectly on firm performance. For example, if two firms have issues with diversity, a firm with poor performance will hear concerns about board diversity, but a firm with good performance will not, simply because institutional investors have a higher level of trust in well-performing firms' management.

We formally evaluate this possibility by augmenting equation (1) to include an interaction term of firms' market-adjusted returns and firm characteristics. In Panel B of Table 7, we find that the coefficient on the interaction term is generally insignificant, except for the interaction of firm performance and busyness. We find a negative and significant coefficient in this case, suggesting that institutional investors are less concerned about directors' busyness when the firms perform well. This finding is robust to alternative proxies of firms' past performance. The interaction between board diversity and performance goes in the opposite direction (and is sensitive to the proxy of performance used). Consistent with Iliev et al. (2021), we find that institutional investors' monitoring efforts are not related to firms' past performance.

²⁶In untabulated results, we find that the coefficients on board characteristics remain unchanged in regressions that include all five board characteristics in columns (1) to (5).

5.2. Are Rationales Consistent with Investors' Voting Behavior?

In section 5.1, we show that voting rationales are informative about companies' governance characteristics, indicating that institutional investors cast informed votes. This finding is important because it implies a level of sophistication and deliberation in institutional investors' decision-making process. Thus, particularly in light of the potential for rationale-washing, investigating whether institutional investors' words translate into actions, that is, whether the stated rationales are reflected in institutional investors' voting behavior, becomes imperative.

In this section, we examine the consistency between stated rationales and institutional investors' voting behavior. Specifically, we examine whether investors who frequently mention certain rationales (e.g., board diversity) are more likely to vote against directors in firms with those issues (e.g., low proportion of female directors on the board), compared with those who mention these rationales less often. We estimate the following regression:

$$\begin{aligned} Vote_Against_{ijt} = & \beta_0 + \beta_1 BoardCharacteristics_{jt} + \beta_2 HighMention_{it} + \beta_3 NoRationales_{it} \\ & + \beta_4 BoardCharacteristics_{jt} \times HighMention_{it} + \beta_5 BoardCharacteristics_{jt} \times NoRationales_{it} \\ & + \delta X_{jt} + \gamma_i + \tau_t + \epsilon_{it}, \quad (2) \end{aligned}$$

where $Vote_Against_{ijt}$ is the fraction of votes against directors that investor i cast at firm j in proxy season t , and γ_i represents investor fixed effects. For each of the five issues examined in section 5.1 (i.e., independence, board diversity, tenure, busyness, and CEO duality), we categorize investors based on the frequency with which they mention each issue in their voting rationales. An investor is classified into the *HighMention* group if the proportion of meetings where they highlighted a specific issue (i.e., the number of meetings where they mentioned a specific issue, divided by the total number of meetings for which they provided rationales), exceeds the median proportion among all investors within a given proxy season. By the same analogy, those falling below the median are categorized into the *LowMention* group, which serves as the baseline category in equation (2). Investors who did not provide rationales or provided rationales in fewer than 10 meetings within a proxy season fall into the *NoRationales*

group. Taking board diversity during the 2022 proxy season as an example, an investor would fall into the *HighMention* group if board diversity is mentioned in more than 18% (i.e., the median percentage) of meetings for which they provided a rationale.

Our main coefficient of interest is the interaction term between *BoardCharacteristics* and *HighMention*. Table 8 column (2) shows that the coefficient on the interaction between the percentage of females on the board, *Per_female*, and the *HighMention* group is negative and statistically significant. This finding indicates that investors who frequently mention board diversity in their rationales are more likely to vote against directors on less gender-diverse boards than those who mention board diversity less frequently, suggesting a lack of board diversity is likely the reason behind votes against directors for these investors. Specifically, for every unit increase in the percentage of female directors, the fraction of votes against directors decreases by an additional 0.272 units for these investors, and the coefficient is statistically significant (t-stat = -2.8). We observe the same pattern for tenure, busyness, and CEO duality, supporting the view that stated rationales likely represent the reasons behind investors' votes. However, for independence in column (1), the coefficient on the interaction term is statistically insignificant. The statistical insignificance can be explained by the broad scope of the independence category, which includes reasons such as nominating committee chair independence or the lack of a lead independent director. The coefficients for the interaction term between *BoardCharacteristics* and *NoRationales* are statistically insignificant in four out of five columns. This finding suggests that the influence of board characteristics on voting patterns appears to be similar between investors who do not provide rationales and those who infrequently mention a specific issue.

The key takeaway from section 5 is that institutional investors, in the aggregate, cast informed votes. This finding is especially relevant in light of recent concerns suggesting that these investors might lack sufficient incentives to engage with portfolio companies (Bebchuk and Hirst, 2019; Iliev et al., 2021). Moreover, our results help alleviate the concern that institutional investors may primarily resort to *rationale-washing*. Although some investors may have incentives to distort their true rationale, our findings indicate that this practice is not common, and the stated rationales align with investors' voting behavior. Lastly, although some activist strategies may be cost prohibitive for institutional investors (Gantchev, 2013; Lewellen

and Lewellen, 2022), the relatively lower cost of disclosing voting rationales enables engagement with portfolio companies even for highly diversified investors.

6. Do Firms Listen When Institutional Investors Talk?

In this section, we analyze whether voting rationales are likely to bring change in portfolio companies. We also present falsification tests to reduce concerns that we might be capturing firms’ reactions to institutional investors’ concerns, not general corporate governance trends that might have driven company changes regardless of institutional investors’ votes and rationales. Finally, we examine whether companies addressing the issues outlined in voting rationales experience a reduction in shareholder dissent toward directors in the following year.

6.1. Do Boards Address Investors’ Concerns?

Voting is the key mechanism through which shareholders can hold the board of directors accountable. A considerable body of research documents that directors typically receive over 90% of votes cast, but even moderate levels of dissent voting carry severe consequences for CEOs, firms’ governance, and directors (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019).

In this section, we examine whether the disclosure of voting rationales could be an effective mechanism to communicate reasons for investors’ disagreement with management, in that it contributes to the likelihood that firms will adjust their governance in accordance with the stated rationales. For example, we investigate whether high dissent explained by the lack of female representation is associated with increased female representation in the following year. Similarly, we examine high dissent related to concerns over board independence, tenure, busyness, and CEO duality. We estimate the following equation:

$$\begin{aligned} \Delta BoardCharacteristic_{j,t+1} = & \beta_0 + \beta_1 Prop_rationales_{jt} \times Dissent_{jt} + \\ & \beta_2 Prop_rationales_{jt} + \beta_3 Dissent_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{j,t+1}, \end{aligned} \tag{3}$$

where $\Delta BoardCharacteristic_{j,t+1}$ is the change in the percentage of independent directors, the

proportion of females on the board, the change in the average director tenure, the change in the average busyness of all directors, or the change in CEO duality 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 independence, board diversity, tenure, busy directors, or CEO duality (i.e., $Prop_independence$, $Prop_board_diversity$, $Prop_tenure$, $Prop_busyness$, or $Prop_CEO_duality$). 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 equation (1). τ_t and θ_i account for proxy season and industry fixed effects, respectively. Including proxy-season fixed effects addresses concerns related to potential time-related trends, such as the growing emphasis on gender diversity, allowing us to better isolate the effects of variables of interest from the effects of broader societal movements.

Columns (1) to (3) of Table 9 present the results. Columns (1) and (2) present the results for changes in governance characteristics from year t to year $t + 1$, and column (3) shows the results for changes in governance characteristics from year t to $t + 2$. Different panels exhibit results for different governance issues. Panel A presents the results for board independence. We find that neither dissent nor dissent related to independence concerns seem to affect changes in board independence, as indicated by the statistically insignificant coefficient on dissent and interaction term, respectively. This finding contrasts with the rest of the governance variables, which seem to change in future years when high dissent is related to these other governance weaknesses. For instance, in Panel B, we present the results for board diversity. While column (1) shows that high dissent alone is not significantly related to changes in the proportion of female directors on the board in the following year, column (2) shows that high dissent driven by lack of board diversity is positively associated with future changes in the percentage of females on the board. Specifically, the coefficient on the interaction term is positive and significant (t-stat = 3.0), and the economic impact is large. When evaluating the effect for dissent of 12% (75th percentile of dissent), a 10% increase in the proportion of rationales on board diversity is associated with a 10.2% change in the proportion of females. We find that the results are stronger when we consider changes in board diversity after two years, because firms

may have difficulty securing more female directors in the short term (column (3)). This result suggests that voting rationales are informative of the reason for voting against directors, and that directors seem to subsequently address these concerns, probably due to career concerns (Aggarwal et al., 2019).

Panels C, D, and E of Table 9 present the results for directors' tenure, business, and CEO duality, respectively. Results in column (2) of these panels indicate that high dissent related to tenure, business, and CEO duality are associated with changes in these governance characteristics in the following year. The coefficients are statistically significant at conventional levels (t-stats = -2.7, -4.1, and -2.8, respectively). Furthermore, results in column (3) indicate that changes are larger after two years, suggesting that finding suitable replacements for board members might take some time.

Our results are consistent with companies addressing institutional investors' concerns expressed through voting rationales. Although earlier studies have explored expectation documents and voting policies (Couvert, 2020; Aguilera et al., 2024), they address several corporate governance provisions at the same time; hence, disentangling the role of each of those provisions is hard for the researcher. Our unique dataset enables us to link these vote-specific rationales to changes in board composition, underscoring the importance of effective communication between firms and shareholders for improving governance practices in portfolio firms.

6.2. Robustness Tests

In this section, we present three robustness tests to examine the validity and implications of our finding. First, some concerns might still remain regarding 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 its board composition accordingly. To formally test this possibility, we run a specification similar to equation (3), but we replace voting rationales with board characteristics at the time of the meeting: percentage of independent directors, percentage of

female directors, average tenure, average busyness of the directors, and CEO duality.

We present the results in columns (4) and (5) of Table 9. We find that the interaction terms are statistically significant for directors' independence, tenure, and CEO duality, but the coefficients go in the opposite direction. For instance, the results in column (4) of Panel A indicate that high dissent in firms with a high fraction of independent directors seem to increase independence to a larger extent in $t+1$, contrary to what would be expected. The results are statistically insignificant for board diversity. The results are significant in the right direction for directors' busyness, but the economic impact is smaller than the results reported in column (2) of Table 9, when using rationales instead of firm characteristics. These findings provide support to the interpretation that rationales can clarify the reason for opposing directors, potentially allowing companies to better learn the reasons behind dissent votes, and give managers additional incentives to change governance policies in the direction suggested by institutional investors.²⁷

Another potential concern is whether our results are driven by proxy advisors' rationales, given the influence they have in the average company (Iliev and Lowry, 2015; Malenko and Shen, 2016). To test this possibility, we run the same specification presented in equation (3), excluding voting rationales by ISS and Glass Lewis robo-voters. We find that high dissent related to board diversity is positively associated with the proportion of female directors on the board in the following year when considering the rationales of non-robo-voters only. We find consistent results for directors' tenure, busyness, and CEO duality (see section E of the Internet Appendix).

Gormley et al. (2022) show that the Big Three's campaigns launched in 2017 to increase board gender diversity were successful: companies with higher Big Three ownership increased board gender diversity more 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

²⁷Note that firms with a lower percentage of independent directors, a lower percentage of female directors, directors with longer tenure, busier directors, and firms with CEO duality tend to address these concerns in $t+1$, as indicated by the standalone coefficients in column (4) of their respective panels: all coefficients have the right sign and are statistically significant at conventional levels; however, dissent does not seem to play a role in this case.

Three investors in our sample, as discussed above. Then, our results could be 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 the Big Three and find a positive and significant relationship between dissent related to board diversity and changes in the percentage of females on the board in the following year (see section E of the Internet Appendix). Likewise, we find that the main results hold for changes in board tenure, busy directors, and CEO duality when excluding the Big Three.

6.3. Does Addressing Concerns Relate to Future Dissent?

Our analysis in section 6.1 is consistent with firms addressing institutional investors' concerns stated in voting rationales. In this section, we investigate whether addressing these concerns is associated with changes in dissent voting in the following year. We estimate the following regression:

$$\Delta Dissent_{j,t+1} = \beta_0 + \beta_1 AddressScore_{jt} + \delta X_{jt} + \tau_t + \theta_l + \epsilon_{j,t+1}, \quad (4)$$

where $\Delta Dissent_{j,t+1}$ represents the change in dissent voting the year after the meeting, measured at the board level (i.e., average across all candidates on the ballot), and $AddressScore_{jt}$ measures the extent to which concerns from year t , as outlined in the voting rationales, were addressed by the firm before the meeting in $t + 1$. We construct $AddressScore_{jt}$ as follows: for each of the five issues under examination, we create an indicator variable based on whether the firm made policy adjustments that align with shareholders' preferences. For example, if the proportion of females on the board increases, this indicator becomes 1; otherwise, it remains 0. We derive the $AddressScore_{jt}$ from these indicators, with values ranging between 0 and 1. This score quantifies the degree to which concerns expressed during the proxy season t for firm j have been addressed. To illustrate, consider a scenario where 60% of the rationales are about board diversity, 30% are about tenure, and 10% are about responsiveness. If the firm increases female representation on the board without reducing average tenure, the $AddressScore_{jt}$ becomes 0.6. Because we do not observe whether the firm addressed responsiveness, we create an alternative

version of address score, *AddressScore_alt*, focusing on five categories where it is possible to quantify whether the firm addressed investor concerns. Therefore, if a firm enhances female representation on its board without reducing average tenure, the *AddressScore_alt* would be 0.67 (0.6 divided by the sum of 0.6 and 0.3).

Table 10 provides insights into the relationship between firms addressing concerns stated in rationales and the subsequent reduction in dissent in the following year. Column (1) shows that when all concerns in voting rationales are adequately addressed, the average dissent decreases by about 2% from the previous year (t-stat = -9.7). In column (2), which includes firm-level controls, the magnitude of dissent reduction is 1.1%, and in column (3), which further incorporates controls for average dissent and board characteristics, shows a reduction of 0.6% (t-stat = -4.8 and -2.8, respectively). This finding suggests that even when accounting for various influencing factors, addressing concerns consistently leads to a decrease in dissent. Given that the average and median dissent across all companies in our sample is 10% and 5.5%, respectively, a reduction of 0.6% still represents a substantial magnitude. Columns (4) to (6) present the results using an alternative version of the address score, *AddressScore_alt*, with similar patterns observed.

Overall, our findings imply that companies might be responding to dissent related to concerns raised in voting rationales. While various factors might influence companies' reactions, our analysis emphasizes a salient benefit: by addressing these concerns, companies might achieve a meaningful reduction in shareholder dissent in the subsequent election.

7. Conclusion

In this paper, we study why institutional investors vote the way they vote on director elections. Whereas prior evidence has relied on indirect evidence based on firm, proposal, and meeting characteristics, this paper provides direct evidence by studying voting rationales of institutional investors from across the world, for votes cast in US companies' annual shareholder meetings between July 2013 and June 2022.

We employ the BERT algorithm, a supervised NLP method, to assign rationales on votes in

favor of and against directors in uncontested elections and uncover the main rationale behind institutional investors' votes, along with the relative importance of each rationale. Our analysis reveals that institutional investors vote against directors mainly because of lack of independence and board diversity. We also find evidence of some well-known reasons for opposing directors, such as tenure, busyness, or firm governance. Moreover, our results indicate that institutional investors are increasingly voting against directors due to concerns over environmental and social issues. Voting rationales for votes in favor are less common and are typically less informative of institutional investors' reason for support (e.g., the most common reason for voting in favor is actually "no reason"). Our results indicate that voting rationales are unlikely to capture proxy advisors' rationales, but rather the independent assessment of institutional investors. We also find heterogeneity in voting rationales among different types of institutional investors.

Further, our results suggest that these rationales are well grounded and consistent with institutional investors' voting behavior: companies with fewer women on the board receive a higher fraction of voting rationales related to board diversity, and investors that frequently mention board diversity in their rationales are more likely to vote against directors on less diverse boards than investors who mention board diversity less frequently. We document similar results for tenure, busyness, and CEO duality. Finally, we examine whether firms listen to institutional investors when they communicate via voting rationales. Our evidence suggests that companies that receive a higher proportion of voting rationales related to board diversity increase the fraction of females on board in the following year, and the results are driven by companies that receive high shareholder dissent. Results are similar for other governance issues. In other words, companies seem to react to the issues raised by institutional investors. Finally, companies that address concerns in rationales experience a meaningful reduction in shareholder dissent toward directors in the following year. Taken together, our results suggest that disclosure of voting rationales can be an effective, low-cost strategy that institutional investors can use to influence corporate governance in their portfolio companies.

Appendix A. Variable Definitions

Variable	Definition (Source)	Mean	Median	SD	N
<i>Meeting Level AddressScore</i>	The degree to which a firm has responded to shareholder concerns during the proxy season, with values from 0 to 1. This is based on observable policy changes in the following dimensions: independence, board diversity, director tenure, director busyness, and CEO duality. These changes are evaluated relative to all 12 dimensions in Table 3 Panel A. (BoardEx)	0.12	0.00	0.24	31,013
<i>AddressScore_alt</i>	A modified version of <i>AddressScore</i> , calculated with the same approach but relative to concerns in only five dimensions: independence, board diversity, director tenure, director busyness, and CEO duality. (BoardEx)	0.17	0.00	0.31	30,572
AvBusy	Average number of seats held by all directors. (BoardEx)	1.69	1.60	0.59	25,160
AvTenure	Average tenure of all directors. (BoardEx)	7.60	7.13	4.87	25,160
CEO_Duality	Dummy equal to 1 if the CEO is the chairman of the board, and 0 otherwise. (BoardEx)	0.37	0.00	0.48	25,160
Contentious_ISS	Dummy equal to 1 if ISS recommends voting against one or more directors, and 0 otherwise. (Diligent)	0.23	0.00	0.42	25,797
Contentious_GL	Dummy equal to 1 if Glass Lewis recommends voting against one or more directors, and 0 otherwise. (Diligent)	0.19	0.00	0.40	22,011
Dissent	Mean dissent voting for 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. (Diligent)	0.10	0.05	0.12	32,299
Dividends	Total dividends divided by total equity as of the end of the fiscal year. (Compustat)	0.02	0.00	0.03	26,722
InstOwn_Perc	Percentage of shares outstanding owned by institutional investors. (Thomson Reuters)	0.67	0.75	0.30	25,377
Leverage	Ratio of long-term and short-term debt to total assets as of the end of the fiscal year. (Compustat)	0.28	0.22	0.28	26,779
Ln(MktCap)	Natural logarithm of market capitalization as of the end of the fiscal year. (Compustat)	7.00	7.04	2.12	26,806
Mkt_to_Book	Market to book value of equity as of the end of the fiscal year. (Compustat)	3.28	1.94	8.00	26,797
Per_female	Percentage of females on the board of directors, ranging from 0 to 1. (BoardEx)	0.16	0.14	0.13	25,159

(Continued)

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Variable	Definition (Source)	Mean	Median	SD	N
<i>Meeting Level (cont.)</i>					
Per_independent	Percentage of independent directors on the board, ranging from 0 to 1. (BoardEx)	0.84	0.86	0.09	25,160
Prop_board_diversity	Proportion of rationales related to board diversity. It is the number of times this rationale is mentioned by institutional investors relative to all rationales mentioned by all institutional investors for the same firm. (Diligent)	0.26	0.17	0.30	26,492
Prop_CEO_duality	Proportion of rationales related to CEO duality. Defined the same way as Prop_board_diversity (see above). (Diligent)	0.03	0.00	0.08	26,492
Prop_busyness	Proportion of rationales related to busy directors. Defined the same way as Prop_board_diversity (see above). (Diligent)	0.09	0.00	0.18	26,492
Prop_independence	Proportion of rationales related to independence. Defined the same way as Prop_board_diversity (see above). (Diligent)	0.21	0.18	0.22	26,492
Prop_tenure	Proportion of rationales related to tenure. Defined the same way as Prop_board_diversity (see above). (Diligent)	0.09	0.00	0.13	26,492
ROA	Return on assets as of the end of the fiscal year. (Compustat)	-0.05	0.02	0.38	26,491
<i>Investor-Proxy Season Level</i>					
Robo_Voter_GL	Dummy equal to 1 if the investor votes with Glass Lewis 99% of the times or more, and 0 otherwise. (Diligent)	0.08	0.00	0.27	9,942
Robo_Voter_ISS	Dummy equal to 1 if the investor votes with ISS 99% of the times or more, and 0 otherwise. (Diligent)	0.18	0.00	0.38	9,942
PRI_Signatory	For summary statistics, dummy equal to 1 if the investor was a signatory at any point during the proxy season. In regressions, it indicates whether the investor is a UN PRI signatory on a given date. (UN PRI website)	0.25	0.00	0.44	9,942
<i>Investor Level</i>					
Big_Three	Dummy equal to 1 if the investor is BlackRock, Vanguard, or State Street, and 0 otherwise. (Insightia)	0.00	0.00	0.04	1,607
European	Dummy equal to 1 if the investor's country is in Europe, and 0 otherwise. (Diligent)	0.13	0.00	0.34	1,607
Fund_Manager	Dummy equal to 1 if the investor type is fund manager, and 0 otherwise. (Diligent)	0.63	1.00	0.48	1,607
Pension	Dummy equal to 1 if the investor type is pension fund, and 0 otherwise. (Diligent)	0.10	0.00	0.30	1,607
US	Dummy equal to 1 if the investor country is the US, and 0 otherwise. (Diligent)	0.68	1.00	0.47	1,607

Appendix B. Why Do Institutional Investors Disclose Voting Rationales?

NEI Investments²⁸

“Proxy voting is most meaningful when 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.” This is when we write to corporate boards of select number of companies 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 managers reach out to provide detailed proxy feedback, so we encourage more investors to adopt this stewardship practice.

Norges Bank²⁹

“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 Berman³⁰

“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.”

AllianzGI³¹

“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.

²⁸ Available here.

²⁹ Available here.

³⁰ Available here.

³¹ Available here.

Appendix C. Cosine Similarity of Rationales

Each investor’s rationale is a vector with 12 elements indicating whether each issue (e.g., independence, tenure, board diversity) was raised during the annual meeting for a particular director. We exclude rationales in the “Miscellaneous” category and focus on the remaining 11 categories. Investor i ’s rationale is defined as $R_i = [r_i^1, r_i^2, \dots, r_i^{11}]$, where r_i^1 is a dummy equal to 1 if investor i mentions independence for a given director in a given meeting, and 0 otherwise. For any two investors who provided rationales for a given vote, the pairwise cosine similarity of their rationales can be calculated as follows:

$$\text{Pairwise cosine similarity} = S_C(R_i, R_k) = \frac{\sum_{n=1}^{11} r_i^n r_k^n}{\sqrt{\sum_{n=1}^{11} r_i^n} \sqrt{\sum_{n=1}^{11} r_k^n}}.$$

If N investors 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 and call this proposal-level cosine similarity. The cosine similarity takes a value between 0 and 1, where higher values indicate higher similarity.

We also calculate meeting-level cosine similarity: in this case, we define R_i at the meeting level instead of the proposal level. That is, r_i^1 is a dummy equal to 1 if investor i mentions independence for at least one director in a given meeting, and 0 otherwise.

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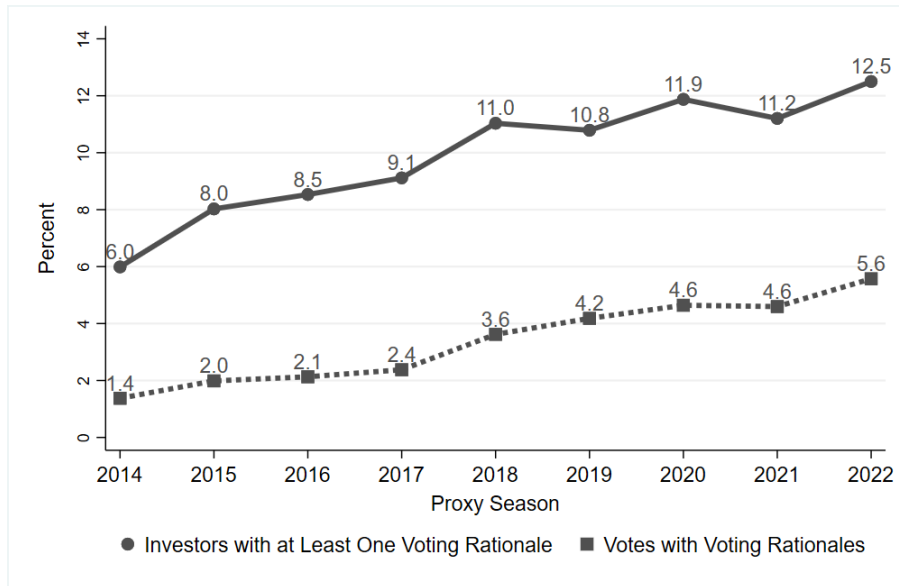


Figure 1. Fraction of Votes with Voting Rationale over Time. The figure shows the trend in voting rationale disclosures over time. While the disclosure was relatively uncommon at the beginning of the sample period, the fraction of votes with rationales increased over time, reaching 5.6% in 2022.

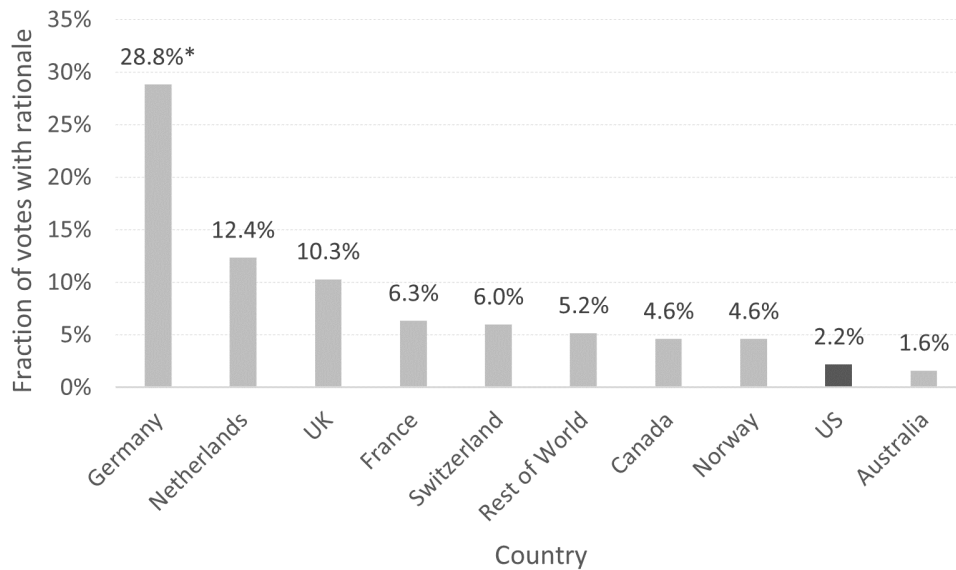


Figure 2. Fraction of Votes with Voting Rationale: By Institutional Investor Country. The figure shows the variation in the disclosure of voting rationales among institutional investors from different countries. The “Rest of World” group encompasses 25 countries, including Denmark, India, Japan, the Republic of Korea, South Africa, Sweden, and Thailand. Evidence from Germany is based on only six voting managers, because institutional investors are not required to disclose actual votes in this country; thus, this figure has to be interpreted with this caveat in mind.



Figure 3. Percent of Votes With Voting Rationale: By Institutional Investors. This figure categorizes institutional investors based on the average percentage of votes with rationales for the full sample period (July 2013 to June 2022). The figure shows that while most institutional investors do not disclose any rationales for their votes (Fidelity, CalSTRS), some of them disclose rationales for most of them (NEI Investments, Calvert).

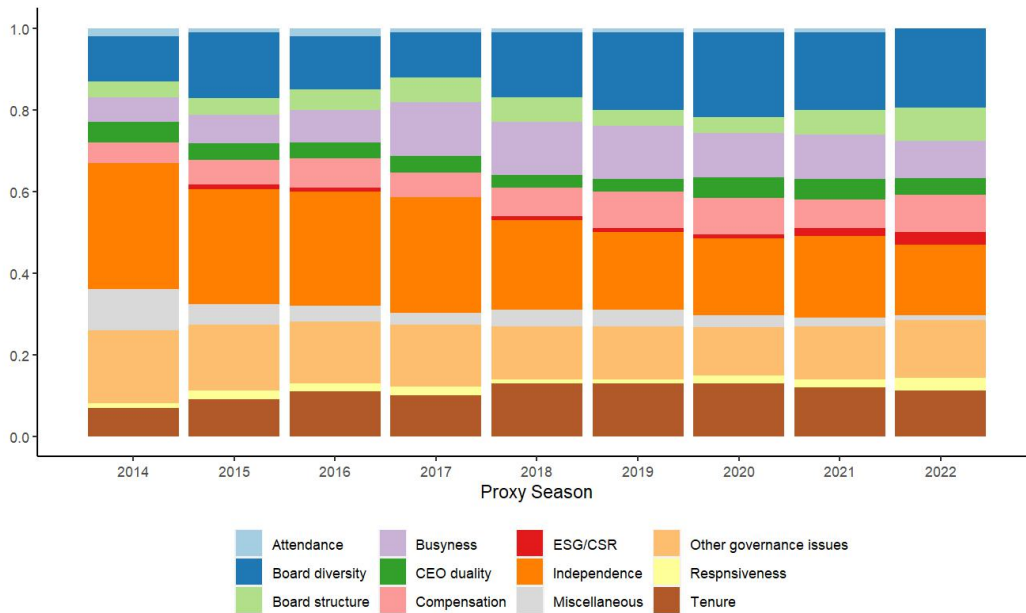


Figure 4. Relative Frequency of the Various Rationales over Time. The figure shows the relative frequency of the different rationales for votes against directors over the 2014–2022 proxy seasons.

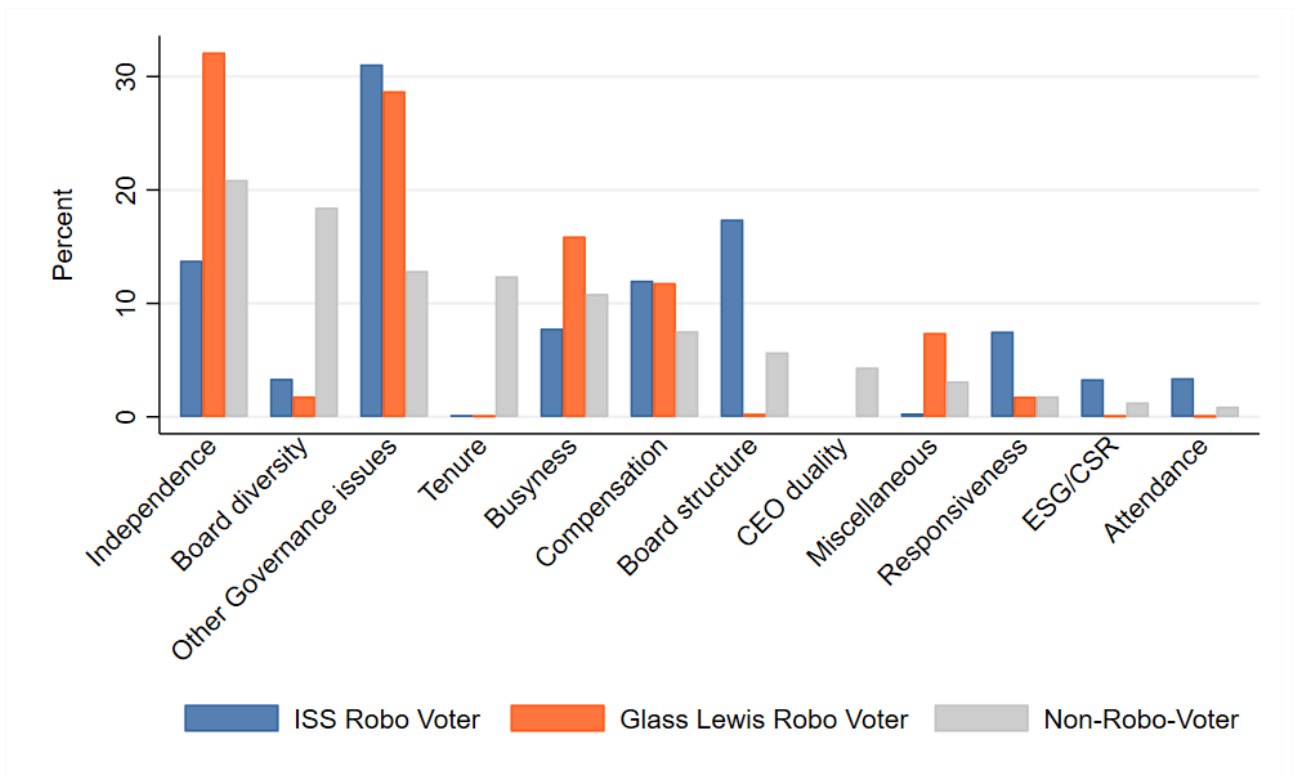


Figure 5. Proxy Advisors' Rationales. This plot shows the relative frequency of the different rationales on votes against directors by ISS and Glass Lewis robo-voters for the full sample period (July 2013 to June 2022).

Table 1. Disclosure of Voting Rationales

The table displays the proportion of votes cast with rationales, sorted by investor type (Panel A) and voting pattern (Panel B). The data are based on 34,790,051 votes, comprising 25,297,233 votes for director elections, 8,207,334 for other management proposals, and 1,285,484 for shareholder proposals. Column (1) in Panel A shows the number of investors in each category. Note that categories with an asterisk (*) indicate that the investor classification can vary over time. Accordingly, an investor may be classified as a certain type of investor in one year but a different type in another year.

Panel A. Investors

	All Proposals (N=280,344)			Director Election Proposals (N=198,467)	Other Management Proposals (N=77,401)	Shareholder Proposals (N=4,476)
	N	% Votes	% Votes with Rationales	% Votes with Rationales		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>By Institutional Investor Type</i>						
Fund Managers	1,020	59.4	3.4	3.1	3.8	8.1
Pension Funds	158	20.5	5.1	4.4	6.2	12.9
Other Investors	429	20.1	1.9	1.8	2.0	3.8
Total	1,607	100.0	3.5	3.1	4.0	8.1
<i>By Robo-Voter Status</i>						
ISS Robo-Voters*	489	20.2	2.0	2.4	0.8	3.3
Glass Lewis Robo-Voters*	282	6.0	1.0	0.8	1.1	5.7
Non-Robo-Voter*	1,417	73.8	4.1	3.5	5.1	9.6
<i>By Other Investor Attributes</i>						
US Investors	1,097	76.9	2.2	2.1	2.2	4.0
European Investors	214	13.3	11.1	9.1	15.2	25.0
Big Three	3	2.2	1.7	1.5	0.7	25.1
Non-Big Three	1,604	97.8	3.5	3.1	4.0	8.0
UN PRI Signatory*	470	38.6	6.2	5.5	7.2	14.9
Non-UN PRI Signatory*	1,369	61.4	1.8	1.6	1.9	4.2

Panel B. Voting Patterns

	Director Election Proposals (N = 198,467)		Other Management Proposals (N=77,401)		Shareholder Proposals (N = 4,476)	
	% Votes	% Votes with Rationales	% Votes	% Votes with Rationales	% Votes	% Votes with Rationales
	(1)	(2)	(3)	(4)	(5)	(6)
<i>By Vote</i>						
For	89.2	1.7	87.3	1.8	55.2	12.1
Against	4.6	18.1	12.2	19.6	42.8	3.2
Abstain	0.4	4.5	0.5	3.3	1.9	4.1
Withhold	5.8	12.2	0.0	22.3	0.0	4.1
Total	100	3.1	100	4.0	100	8.1
<i>By Alignment with Proxy Advisors' Voting Recommendations</i>						
Vote with ISS	90.9	2.1	90.1	2.3	73.1	9.2
Vote against ISS	9.1	13.4	9.9	19.7	26.9	5.1
Vote with Glass Lewis	90.7	1.9	87.7	2.3	67.8	7.3
Vote against Glass Lewis	9.3	13.0	12.3	15.2	32.2	9.2

Table 2. Largest Institutional Investors

The table presents the 20 largest institutional investors based on the number of meetings worldwide in which they cast their shares during the 2022 proxy season.

Number of Meetings	Number of Proposals	Investor Name
20,626	179,882	Dimensional Fund Advisors, Inc.
19,915	177,541	State Street Corporation
19,547	171,910	Vanguard Group, Inc.
17,257	160,384	BlackRock Inc.
14,108	128,456	New York City Pension Funds
13,281	126,395	Legal & General Investment Management
12,742	121,642	Geode Capital Management
12,303	122,243	UBS Asset Management
12,185	105,137	Manulife Investment Management
12,074	116,463	TIAA-CREF Asset Management LLC
11,733	112,890	Charles Schwab Investment Management, Inc.
11,591	111,860	American Century
11,296	108,149	Northern Trust Investments
11,115	109,865	University of California
10,771	105,393	Norges Bank Investment Management
9,527	92,561	Oregon Investment Council
9,070	96,129	Amundi Asset Management
8,873	88,151	BNY Mellon
8,820	89,985	California State Teachers' Retirement System (CalSTRS)
8,669	89,956	Massachusetts Pension Reserves Investment Management (PRIM)

Table 3. Labels: Reasons for votes on Director Elections

This table presents the labels we identify for votes on director elections, following the procedure described in section 3. Panel A presents the 12 labels for votes against, and Panel B presents the 9 labels for votes in favor. The table describes what each label refers to and some examples of the rationales classified according to those labels.

<i>Panel A. Votes Against</i>	Rationale refers to...	Examples of voting rationales
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.
Board diversity	Concerns over lack of diversity (gender, race, and other minorities) on the board.	WITHHOLD votes for incumbent Nominating Committee members Alan Holmer and Paris Panayiotopoulos are warranted for lack of diversity on the board.
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.
CEO duality	The company has a combined CEO and Chairman.	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.
Compensation	Excessive compensation or lack of pay-for-performance sensitivity, the company does not provide shareholders with an advisory vote on executive compensation.	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.
ESG/CSR	Concerns over environmental and social risks not properly addressed by the board.	Vote against on the basis that there is no evidence of leadership on key ESG issues facing the business.
Independence	Director independence, lack of lead independent director, fraction of independent directors on the board, lack of independent directors in key committees.	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.
Miscellaneous	This includes rationales that do not appear frequently (e.g., director expertise, firm performance, and following proxy advisors’ recommendations). It also includes idiosyncratic cases for which we cannot infer the rationale, or errors in rationales.	Example 1: Executive is/has been subject to litigation; Example 2: Age 90; Example 3: Please refer to the comments for director nominee, Mr. Lloyd Blankfein;
Other governance issues	This category includes dual-class share structures, adoption of major governance changes without shareholder approval, hedging, board interlocks, excessive audit tenure, and pledging of company shares by executives or directors.	Example 1: WITHHOLD votes are warranted all incumbent director nominees for the adoption of a new poison pill that has not been ratified by shareholders; Example 3: We are voting against all directors, except the CEO, for the adoption of governance provisions that reduce shareholders rights.
Responsiveness	Failure to implement shareholder proposals with high support, directors’ failure to respond to shareholder concerns, or failed say-on-pay proposal/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.
Tenure	Excessive tenure of board members.	SSGA does not support the election of the nominee due to tenure and board refreshment concerns at the company.

Table 3. Labels for Director Elections (*—Continued from previous page*)

<i>Panel B. Votes in Favor</i>	Rationale refers to...	Examples of voting rationales
Label		
Board diversity	Support based on the presence of diversity (gender, race, and other minorities) within the board.	Example 1: There is both gender and racial diversity on the board. There is at least 30 percent diversity; Example 2: We are supporting the re-election of the NomCom chair as a female director was appointed in the year under review; Example 3: Although Ms. Allens' tenure as a director is longer than our normal policy, we feel that it is more important to maintain the level of gender diversity on the board.
Cautionary vote	Includes instances in which the institutional investor has some concerns about the director candidate but still decides to support him/her.	A vote for incumbent audit committee chair John Pope is warranted, with caution, as the company still has unremediated material weaknesses in internal controls.
Independence	Support because of satisfactory independence, including nominee independence, majority of independent directors, and key committee composed entirely of independent directors.	Example 1: The nominee is not independent but the board is at least two-thirds independent; Example 2: A vote for the director nominees is warranted as a majority of the board is comprised of independent directors and the key board committees are independent.
Miscellaneous	Idiosyncratic cases for which we cannot infer the rationale or errors in rationales.	Example 1: SMA: We are deviating from the NBIM policy on combined chairman/CEO under the exemption that the CEO can be regarded as part of the "founding" family and the fact that we accepted his role as part of our anchor investment in the IPO; Example 2: A vote against is warranted because:- the nominee is a non-executive whose tenure on the board exceeds 12 years.
New director	Support because the director joined the board recently, and should not be held accountable for company issues.	FYI - Carin Stutz was appointed to the board in December 2021 and should not be held accountable for IPO governance issue at this time.
No reason	Approval without providing specific reasons for support.	A vote for director nominee C. Noel Bairey Merz is warranted.
Other governance issues	Approval based on satisfactory governance, including reasonable compensation, appropriate number of directorships, and independent CEO chairman.	Under normal circumstances we would not support this director as this director serves as combined CEO/chairman, a role we prefer to be split. However, due to a number of safeguards in place we are comfortable to support.
Responsiveness	Endorsement due to the company's willingness to address issues raised by shareholders.	A vote in favour is applied following engagement with the company and the fact that they have put in place a resolution to declassify the board.
Tenure	Support based on satisfactory director tenure, valuing the depth of experience these directors bring, or board's efforts to address issues with long director tenure.	This director is not sufficiently independent to serve as the independent lead director. Given that there has been meaningful board refreshment during the year under review, support is warranted at this time and the matter will be kept under review.

Table 4. BERT Model Performance

Panel A reports the model performance based on Accuracy, Balance Accuracy, Precision, Recall, and F1-score. 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., $accuracy = (TP + TN)/(TP + TN + FP + FN)$). 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., $(2 \times recall \times precision) / (recall + precision)$). Balanced accuracy is the average of recall across all binary outcomes (votes against: $3,456 = 12$ (categories) \times 288 (the number of observations in the test set, 20% of 1,438 unique rationales); votes in favor: 9 (categories) \times 144 (the number of observations in the test set, 20% of 719 unique rationales)). Support is the number of occurrences of each class in the true responses. Panel B reports the model performance for each individual category.

	Votes Against					Votes in Favor						
	Accuracy	Balanced accuracy	Precision	Recall	F1-score	Support	Accuracy	Balanced accuracy	Precision	Recall	F1-score	Support
<i>Panel A. All Categories</i>												
Micro average			0.970	0.956	0.963			0.926	0.908	0.917		
Macro average	0.988	0.975	0.936	0.921	0.927	545	0.981	0.949	0.969	0.752	0.815	152
Weighted average			0.971	0.956	0.963			0.936	0.908	0.910		
Sample average			0.975	0.965	0.964			0.918	0.926	0.918		
<i>Panel B. Individual Categories</i>												
Attendance	1.000	1.000	1.000	1.000	1.000	9						
Board diversity	0.993	0.992	0.990	0.990	0.990	98	0.993	0.750	1.000	0.500	0.667	2
Board structure	0.993	0.988	0.980	0.980	0.980	51						
Busyness	1.000	1.000	1.000	1.000	1.000	41						
Cautionary vote							0.924	0.932	0.830	0.957	0.889	46
CEO duality	0.983	0.896	0.857	0.800	0.828	15						
Compensation	0.997	0.998	0.976	1.000	0.988	41						
ESG/CSR	0.993	0.923	1.000	0.846	0.917	13						
Independence	0.972	0.968	0.982	0.948	0.965	115	0.979	0.786	1.000	0.571	0.727	7
Miscellaneous	0.990	0.871	0.600	0.750	0.667	4	0.986	0.929	1.000	0.857	0.923	14
New director							1.000	1.000	1.000	1.000	1.000	3
No reason							0.979	0.978	0.984	0.968	0.976	63
Other governance issues	0.962	0.957	0.949	0.940	0.945	100	0.979	0.625	1.000	0.250	0.400	4
Responsiveness	0.990	0.921	0.917	0.846	0.880	13	0.993	0.833	1.000	0.667	0.800	3
Tenure	0.990	0.976	0.977	0.956	0.966	45	0.993	0.996	0.909	1.000	0.952	10

Table 5. Rationales on Director Elections

This table presents the frequency of each rationale at the meeting level. Panel A presents the results for votes against and Panel B presents the results for votes in favor. Column (1) shows the total number of times investors mention each rationale. For example, in Panel A, the number of investor-meeting observations that mention independence is 58,652. Column (2) shows the relative importance of each rationale, by dividing the numbers in column (1) by the total number of mentions (e.g., 285,825 in Panel A). Column (3) is similar to column (2) but adjusts sample representation using propensity score weighting, as described in section B of the Internet Appendix. Column (4) shows the percentage of meetings with at least one investor mentioning each rationale. Column (5) calculates the proportion of each rationale within each meeting and then averages these proportions across all meetings. Columns (4) and (5) are based on meetings with at least one voting rationale: 32,363 meetings with votes against in Panel A, and 33,579 meetings with votes in favor in Panel B.

	Votes Against					Votes in Favor	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	# Mention	% Rationale	% Rationale (Adjusted)	% Meetings with at Least One Mention	Average % of Rationale Within Meeting	# Mention	% Rationale
Independence	60,549	21.2	19.3	67.1	21.3	21,659	18.6
Board diversity	50,557	17.7	20.9	71.5	26.1	12,820	11.0
Other governance issues	39,032	13.6	15.2	48.1	13.4	11,657	10.0
Tenure	33,748	11.8	8.3	40.7	8.8	4,426	3.8
Busyness	31,378	11.0	11.8	33.1	9.1		
Compensation	22,147	7.7	7.6	34.1	6.3		
Board structure	16,194	5.7	5.5	30.3	6.4		
CEO duality	11,815	4.1	3.1	16.3	2.6		
Miscellaneous	9,264	3.2	3.5	21.1	3.8	1,893	1.6
Responsiveness	5,374	1.9	2.4	8.6	1.0	262	0.2
ESG/CSR	3,574	1.2	1.3	7.1	0.6		
Attendance	2,576	0.9	1.1	2.7	0.7		
No reason						34,231	29.4
Cautionary vote						28,672	24.6
New director						997	0.9
Total	286,208	100.0	100.0			116,617	100.0

Table 6. Cosine Similarity of Rationales

This table shows the average cosine similarity of institutional investors' rationales for votes against directors, at the proposal and meeting levels. N shows the number of observations used to calculate the average cosine similarity. We exclude proposals and meetings with fewer than five observations. For example, the first row of Panel A shows that there are 26,062 proposals for which at least five investors provided rationales for votes against, and the average cosine similarity across these proposals is 0.52.

	All Investors		ISS Robo-Voters		Glass Lewis Robo-Voters	
	Mean (1)	N (2)	Mean (3)	N (4)	Mean (5)	N (6)
Proposal level	0.52	26,062	0.91	1,359	0.99	2,484
Meeting level	0.44	12,462	0.96	527	0.99	1,791

Table 7. 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 3 Panel A.

<i>Panel A. Relationship between rationales and board characteristics</i>										
<i>Dependent variable:</i>	Prop_independence		Prop_board_diversity		Prop_tenure		Prop_busyness		Prop_CEO_duality	
	Per_independent (1)	Per_female (2)	Per_female (2)	AvTenure (3)	AvTenure (3)	AvBusy (4)	AvBusy (4)	CEO_duality (5)	CEO_duality (5)	
<i>Board characteristic:</i>										
BoardCharacteristic	-0.194*** (-5.750)	-0.713*** (-25.602)		0.011*** (31.812)		0.105*** (22.214)		0.071*** (38.041)		
Observations	15,563	15,563		15,563		15,563		15,563		
Adjusted R-squared	0.090	0.236		0.272		0.151		0.285		
Proxy Season FE	Y	Y		Y		Y		Y		
Industry FE	Y	Y		Y		Y		Y		
<i>Panel B. The interaction with financial performance</i>										
<i>Dependent variable:</i>	Prop_independence		Prop_board_diversity		Prop_tenure		Prop_busyness		Prop_CEO_duality	
	Per_independent (1)	Per_female (2)	Per_female (2)	AvTenure (3)	AvTenure (3)	AvBusy (4)	AvBusy (4)	CEO_duality (5)	CEO_duality (5)	
<i>Board characteristic:</i>										
BoardCharacteristic x alpha_mm	0.024 (0.014)	3.703*** (3.131)		-0.021 (-1.229)		-0.472** (-2.453)		0.071 (0.791)		
BoardCharacteristic	-0.240*** (-6.385)	-0.716*** (-23.327)		0.011*** (27.783)		0.109*** (21.320)		0.073*** (35.933)		
alpha_mm	0.364 (0.258)	-0.076 (-0.255)		0.052 (0.408)		0.543* (1.683)		-0.133*** (-4.041)		
Observations	13,400	13,400		13,400		13,400		13,400		
Adjusted R-squared	0.091	0.238		0.248		0.162		0.291		
Proxy Season FE	Y	Y		Y		Y		Y		
Industry FE	Y	Y		Y		Y		Y		

Table 8. Are Stated Rationales Consistent with Investors' Voting Behavior?

The table presents the regression of the fraction of votes against directors on board characteristics (shown in the second row), an indicator for whether an investor frequently states the relevant issue in voting rationales, and the interaction term between the two. For example, in column (1), “HighMention” takes a value of 1 for investors who mention independence as a reason for voting against more frequently than the median frequency during a particular proxy season, among those who provide more than 10 rationales in that season. “NoRationales” refers to investors who offer fewer than 10 rationales (including none) in a given proxy season. All regressions control for time-varying firm characteristics, meeting characteristics, proxy season, and investor fixed effects. *, **, and *** denote statistical significance at the 1%, 5%, 10% level, respectively. Firm-level variables are defined in Appendix A and rationales in Table 3 Panel A.

<i>Dependent variable:</i> <i>Board characteristic:</i>	Fraction of votes against				
	Per_independent (1)	Per_female (2)	AvTenure (3)	AvBusy (4)	CEO_duality (5)
BoardCharacteristic	-0.247*** (-2.806)	-0.088*** (-5.145)	0.002 (1.320)	-0.005 (-0.860)	0.008*** (4.739)
HighMention	-0.032 (-0.362)	0.073*** (3.113)	-0.046** (-2.340)	-0.047 (-1.462)	0.012 (0.877)
NoRationales	-0.092 (-1.142)	-0.009 (-0.869)	0.002 (0.168)	-0.057*** (-2.653)	-0.014 (-1.427)
BoardCharacteristic × HighMention	0.035 (0.342)	-0.272*** (-2.770)	0.008*** (3.863)	0.023*** (2.738)	0.029*** (4.797)
BoardCharacteristic × NoRationales	0.085 (0.923)	-0.019 (-0.862)	-0.002 (-1.117)	0.020*** (3.332)	0.001 (0.638)
Observations	2,550,430	2,550,430	2,550,430	2,550,430	2,550,430
Adjusted R-squared	0.420	0.420	0.421	0.420	0.420
Proxy Season FE	Y	Y	Y	Y	Y
Investor FE	Y	Y	Y	Y	Y

Table 9. 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 (3)). The dependent variable is indicated in the first row of each panel. All regressions control for time-varying firm characteristics, meeting characteristics, proxy season, and industry fixed effects. Standard errors are clustered at the firm level. t -statistics are provided in parentheses. *, **, and *** denote statistical significance at the 1%, 5%, and 10% level, respectively. Firm-level variables are defined in Appendix A and rationales in Table 3 Panel A.

<i>Panel A. Board Independence</i>					
<i>Dependent variable:</i>	$\Delta(\text{Per_independent})$				
	$t+1$	$t+1$	$t+2$	$t+1$	$t+1$
	(1)	(2)	(3)	(4)	(5)
Dissent	0.004 (0.766)	0.003 (0.406)	0.024* (1.919)	-0.004 (-0.824)	-0.073 (-1.202)
Prop_independence	0.008*** (2.919)	0.008** (2.000)	0.011* (1.925)		
Dissent \times Prop_independence		0.008 (0.246)	0.011 (0.202)		
Per_independent				-0.168*** (-17.822)	-0.177*** (-14.320)
Dissent \times Per_independent				0.083 (1.166)	
Observations	8,680	8,680	7,241	8,680	8,680
Adjusted R-squared	0.001	0.001	0.004	0.100	0.100

<i>Panel B. Board Diversity</i>					
<i>Dependent variable:</i>	$\Delta(\text{Per_female})$				
	$t+1$	$t+1$	$t+2$	$t+1$	$t+1$
	(1)	(2)	(3)	(4)	(5)
Dissent	0.005 (0.646)	-0.016* (-1.687)	0.006 (0.363)	-0.012 (-1.430)	-0.024* (-1.948)
Prop_board_diversity	0.009** (2.296)	-0.001 (-0.227)	0.050*** (5.601)		
Dissent \times Prop_board_diversity		0.126*** (3.003)	0.274*** (3.431)		
Per_female				-0.179*** (-23.262)	-0.186*** (-19.468)
Dissent \times Per_female					0.071 (1.385)
Observations	8,679	8,679	7,240	8,679	8,679
Adjusted R-squared	0.014	0.016	0.052	0.104	0.105

(Continued)

Table 9. Board Changes following Investors' Concerns (*—Continued from previous page*)

<i>Panel C. Tenure</i>					
<i>Dependent variable:</i>	$\Delta(\text{AvTenure})$				
	<i>t+1</i>	<i>t+1</i>	<i>t+2</i>	<i>t+1</i>	<i>t+1</i>
	(1)	(2)	(3)	(4)	(5)
Dissent	-0.137 (-0.749)	0.136 (0.709)	0.472 (1.487)	0.175 (1.016)	-0.252 (-1.055)
Prop_tenure	-0.618*** (-5.003)	-0.354** (-2.363)	-1.484*** (-5.656)		
Dissent \times Prop_tenure		-5.011*** (-2.652)	-20.175*** (-5.318)		
AvTenure				-0.086*** (-18.357)	-0.092*** (-14.766)
Dissent \times AvTenure					0.054 (1.389)
Observations	8,680	8,680	7,241	8,680	8,680
Adjusted R-squared	0.018	0.019	0.055	0.095	0.096
<i>Panel D. Busyness</i>					
<i>Dependent variable:</i>	$\Delta(\text{AvBusy})$				
	<i>t+1</i>	<i>t+1</i>	<i>t+2</i>	<i>t+1</i>	<i>t+1</i>
	(1)	(2)	(3)	(4)	(5)
Dissent	-0.069* (-1.921)	-0.002 (-0.064)	0.002 (0.034)	-0.041 (-1.355)	0.017 (0.291)
Prop_busyness	-0.055*** (-3.295)	0.025 (1.090)	-0.053 (-1.508)		
Dissent \times Prop_busyness		-1.115*** (-4.123)	-1.788*** (-4.614)		
AvBusy				-0.154*** (-22.889)	-0.149*** (-19.043)
Dissent \times AvBusy					-0.032 (-0.907)
Observations	8,680	8,680	7,241	8,680	8,680
Adjusted R-squared	0.048	0.051	0.090	0.144	0.144
<i>Panel E. CEO Duality</i>					
<i>Dependent variable:</i>	$\Delta(\text{CEO.Duality})$				
	<i>t+1</i>	<i>t+1</i>	<i>t+2</i>	<i>t+1</i>	<i>t+1</i>
	(1)	(2)	(3)	(4)	(5)
Dissent	-0.027 (-0.844)	0.010 (0.310)	0.001 (0.020)	0.029 (0.848)	-0.047 (-1.265)
Prop_CEO_duality	0.026 (0.577)	0.143** (2.327)	-0.417*** (-4.767)		
Dissent \times Prop_CEO_duality		-2.675*** (-2.821)	-4.126*** (-3.041)		
CEO_Duality				-0.159*** (-24.051)	-0.175*** (-19.797)
Dissent \times CEO_Duality					0.175*** (3.129)
Observations	8,680	8,680	7,241	8,680	8,680
Adjusted R-squared	-0.002	-0.001	0.016	0.080	0.081

Table 10. Addressing Concerns and Future Dissent

The table presents the regression of changes in dissent voting on *AddressScore* and *AddressScore_alt*, where both measure the extent to which concerns as outlined in the voting rationales were addressed by the firm before the meeting in the following year. Standard errors are clustered at the firm level. *t*-statistics are provided in parentheses. *, **, and *** denote statistical significance at the 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

<i>Dependent variable:</i>	$\Delta(\text{Dissent})$					
	(1)	(2)	(3)	(4)	(5)	(6)
AddressScore	-0.020*** (-9.658)	-0.011*** (-4.790)	-0.006*** (-2.810)			
AddressScore_alt				-0.009*** (-4.986)	-0.009*** (-4.475)	-0.009*** (-5.129)
Ln(MktCap)		0.001*** (3.892)	0.005*** (9.881)		0.001*** (4.053)	0.005*** (9.827)
ROA		-0.014** (-2.398)	0.002 (0.387)		-0.015** (-2.452)	0.001 (0.203)
Mkt_to_Book		-0.000 (-1.483)	-0.000*** (-2.655)		-0.000 (-1.240)	-0.000** (-2.498)
Dividends		-0.007 (-0.215)	-0.077** (-2.171)		0.002 (0.069)	-0.070* (-1.960)
Leverage		-0.010*** (-3.697)	-0.009*** (-2.763)		-0.011*** (-3.894)	-0.009*** (-2.665)
InstOwn_Perc		0.011*** (3.267)	0.002 (0.667)		0.012*** (3.511)	0.004 (1.011)
Contentious_ISS		0.049*** (18.873)	-0.005* (-1.919)		0.050*** (18.602)	-0.004 (-1.302)
Contentious_GL		0.018*** (7.857)	0.010*** (4.439)		0.018*** (7.769)	0.009*** (4.290)
Dissent			0.421*** (24.742)			0.416*** (23.971)
Per_Independent			0.058*** (5.145)			0.061*** (5.340)
AvTenure			-0.000*** (-2.645)			-0.000*** (-2.751)
AvBusy			-0.006*** (-2.800)			-0.006*** (-2.976)
Per_female			0.045*** (6.650)			0.049*** (7.108)
CEO_Duality			-0.003*** (-2.623)			-0.004*** (-3.222)
Observations	19,470	14,232	13,515	19,029	13,985	13,273
Adjusted R-squared	0.006	0.069	0.221	0.004	0.069	0.220
Proxy Season FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y

Internet Appendix

“Voting Rationales”

This internet appendix presents additional results to accompany the paper “Voting Rationales.”

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A. Determinants of Disclosure of Voting Rationales

To better understand the reason for disclosing voting rationales, we investigate whether institutional investors are more likely to disclose voting rationales for certain proposal, votes or companies with particular characteristics, 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, after taking into account other determinants of the decision to disclose voting rationales.

We use the following framework to analyze the decision to disclose a rationale, for the subsamples of director elections, other management proposals and shareholder proposals:

$$\begin{aligned}
 Rationale_{ip} = & \beta_1 Against_{ip} + \beta_2 Abstain_{ip} + \beta_3 Withhold_{ip} + \gamma_2 Against_ISS_{ip} + \gamma_3 Against_GL_{ip} \\
 & + \gamma_4 Close_call_p + \eta FirmCharacteristics_{jm} + \delta InstitutionCharacteristics_{im} \\
 & + \zeta BusySeason_m + \tau_t + \theta_l + \epsilon_{ip}
 \end{aligned} \tag{1}$$

where $Rationale_{ip}$ dummy equal to 1 if institutional investor i 's vote on proposal p has a rationale, and 0 otherwise. $Against_{ip}$, $Abstain_{ip}$, and $Withhold_{ip}$ are dummies that equal 1 if the institutional investor votes against, abstains from, or withholds a vote on proposal p , respectively. $Against_ISS$ 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. $FirmCharacteristics_{jm}$ includes firm characteristics which may predict the decision to disclose voting rationales, at the firm-meeting level (all measured as of the end of the fiscal year): $Ln(MktCap)$ is the natural logarithm of market capitalization, ROA is the return on assets, Mkt_to_Book is the market to book value of equity, $Dividends$ is total dividends divided by total equity, $Leverage$ is the ratio of long term and short-term debt to total assets, $InstOwn_Perc$ is the percentage of shares outstanding owned by institutional investors. E_Index is the E-

Index ranging from 0 to 6 based on anti-takeover provisions identified by Bebchuk, Cohen, and Ferrell (2009). We set missing observations of E-Index equal to 1. That is, we create a dummy E_Index_d equal to 1 if the data required to estimate E-Index are missing, and 0 otherwise. $InstitutionCharacteristics_{im}$ includes firm characteristics which may predict the decision to disclose voting rationales, at the institution-meeting level: $Institution_Size$ is the natural logarithm of the number of meetings (including non-US) in which an institutional investor votes during the proxy season, $PRI_Signatory$ is a dummy equal to 1 if the institutional investor is a UN PRI signatory, and 0 otherwise, $Robo_Voter$ is a dummy equal to 1 if the institutional investor votes with ISS or Glass Lewis 99% of the times or more, $Pension$ is a dummy equal to 1 if the investor type is a pension fund, and US is a dummy equal to 1 if the institutional investor country is US. For the subsample of 13F filers, $InstitutionCharacteristics_{im}$ also includes the institution's ownership in the firm, relative to shares outstanding (Own_SO) and assets reported in 13F file (Own_TNA). $BusySeason_m$ is a dummy equal to 1 if the meeting takes place during the busy proxy season. τ_t and θ_l account for proxy season and industry fixed effects, respectively.

Table IA.1 presents the results. Columns (1) and (2) show the results for director election proposals, columns (3) and (4) for other management proposals, and columns (5) and (6) for shareholder proposals. In columns (1), (3), and (5), we present the results for all institutional investors, and in columns (2), (4) and (6) for 13F filers. In Panel A, we use a specification including proxy-season and industry-level fixed effects. In Panel B, we use meeting fixed effects. Finally, in Panel C, we use institutional investor times meeting fixed effects.

Panel A of Table IA.1 presents the results of estimating equation (1) for director election proposals. In columns (1) and (2), we show that institutional investors are more likely to disclose a rationale when they vote against directors or when they abstain. The economic impact is large: the probability of having a rationale is 4.47 higher when the investor votes against the director. This is also the case when voting on other management proposals but

not when institutional investors abstain (columns (3) and (4)). Columns (5) and (6) present the results of estimating equation (1) for shareholder proposals. The negative coefficients on against and abstain indicate that institutional investors are more inclined to disclose their voting rationales when supporting shareholder proposals. Regarding the variables that proxy for high-profile or controversial votes, we find that the sign and statistical significance of the coefficients varies depending on the type of proposal. Institutional investors are more likely to disclose when they vote against ISS recommendations, when voting on management proposals, but not on shareholder proposals. We find that the coefficient on close-call proposals is negative and significant for management proposals and generally insignificant for shareholder proposals. These results hold after using meeting fixed effects and meeting times institutional investor fixed effects.

Panel A of Table IA.1 shows 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. We find that the coefficients on firm size and busy season are small and statistically weak or insignificant, different from the literature showing that attention to governance is concentrated in large firms and outside the busy proxy season (Iliev, Kalodimos, and Lowry, 2021).

Table IA.1 shows 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. We find that robo-voters are less likely to disclose a rationale, especially on other management proposals and shareholder proposals. The insignificant coefficient on director election proposals can be explained by the fact that this variable will be highly correlated with voting against ISS and Glass Lewis. Our results hold when exploiting variation within a meeting, or investor and meeting, as reported in Panels B–C of Table IA.1.

Table IA.1. Determinants of Disclosure of Voting Rationales

The table presents the linear probability models for determinants of disclosure of voting rationales on management proposals (director elections in columns (1) and (2) and other management proposals in columns (3) and (4)) and shareholder proposals (columns (5) and (6)). The dependent variable, Rationale, is a dummy equal to 1 if the institutional investor discloses the voting rationale for that vote, and 0 otherwise. Standard errors are clustered at the investor level. *t*-statistics are provided in parentheses. *, **, and *** denote statistical significance at the 1%, 5%, and 10% level, respectively.

<i>Panel A. Industry & Year Fixed Effects</i>						
<i>Dependent Variable:</i>	Rationale					
<i>Proposal Type:</i>	Director Election Proposals		Other Management Proposals		Shareholder Proposals	
	(1)	(2)	(3)	(4)	(5)	(6)
Against	0.134*** (6.711)	0.163*** (4.186)	0.124*** (7.690)	0.136*** (5.617)	-0.065*** (-6.992)	-0.056*** (-4.290)
Abstain	-0.003 (-0.153)	0.037 (0.812)	-0.055** (-2.569)	-0.022 (-0.491)	-0.051*** (-4.134)	-0.058*** (-3.196)
Withhold	0.095*** (4.750)	0.086*** (3.497)	0.098** (2.309)	0.170** (2.105)	-0.099*** (-3.334)	-0.165*** (-2.644)
Against_ISS	0.033*** (3.313)	0.047*** (2.692)	0.061*** (5.085)	0.091*** (4.168)	0.001 (0.269)	0.014** (1.989)
Against_GL	0.000 (0.018)	0.007 (0.701)	0.015** (2.177)	0.024** (2.134)	0.004 (1.050)	-0.002 (-0.327)
Close_call	-0.029*** (-2.944)	-0.040* (-1.932)	-0.038*** (-4.566)	-0.047*** (-3.498)	-0.000 (-0.037)	0.005 (1.457)
Busy	0.001 (0.784)	-0.001 (-1.144)	0.001 (1.132)	0.000 (0.535)	0.000 (0.215)	-0.000 (-0.214)
Ln(MktCap)	0.000 (0.007)	0.001 (0.913)	-0.000 (-0.448)	0.001 (1.097)	0.001 (1.639)	-0.000 (-0.125)
ROA	0.005** (2.255)	0.006* (1.912)	0.005** (2.167)	0.007** (2.208)	0.006 (1.399)	0.000 (0.038)
Mkt_to_Book	-0.000 (-0.238)	0.000 (0.181)	0.000 (1.503)	0.000 (1.017)	0.000 (0.244)	0.000 (0.212)
Dividends	-0.014 (-1.148)	-0.018 (-1.452)	0.005 (0.374)	0.021* (1.809)	0.051 (1.535)	0.079* (1.839)
Leverage	-0.002** (-2.327)	-0.003** (-2.214)	-0.003*** (-3.027)	-0.004*** (-3.536)	-0.001 (-0.532)	-0.001 (-0.374)
InstOwn_Perc	-0.002 (-0.698)	0.006** (2.297)	-0.004 (-1.306)	0.005* (1.866)	-0.001 (-0.313)	0.005 (0.941)
E_Index	0.000 (0.694)	0.001* (1.874)	-0.000 (-0.102)	0.000** (2.386)	-0.001* (-1.888)	-0.001 (-1.046)
E_Index_d	-0.002 (-1.524)	-0.002 (-1.199)	-0.002* (-1.926)	-0.002* (-1.669)	-0.002 (-1.195)	-0.003 (-1.601)
Institution_Size	0.002 (0.826)	0.002 (0.575)	0.007* (1.856)	0.008** (2.078)	0.013** (2.413)	0.020** (2.250)
PRI_Signatory	0.024* (1.665)	0.001 (0.110)	0.023 (1.268)	-0.014 (-0.840)	0.047** (2.484)	0.015 (0.537)
Robo_Voter	0.007 (0.844)	0.020 (1.579)	-0.013* (-1.919)	-0.006 (-0.801)	-0.037*** (-2.852)	-0.025 (-1.245)
Pension	0.004 (0.226)	0.002 (0.070)	0.006 (0.317)	-0.024 (-1.586)	0.017 (0.657)	-0.001 (-0.022)
US	-0.027* (-1.811)	-0.046** (-2.451)	-0.049** (-2.453)	-0.094*** (-3.136)	-0.099*** (-4.328)	-0.192*** (-3.963)
Own_TNA		0.246 (0.993)		0.283 (1.411)		0.718** (2.236)
Own_SO		0.118 (0.090)		-0.454 (-0.258)		2.175 (0.311)
Observations	19,760,469	9,182,614	6,001,291	2,796,610	993,666	469,367
Adjusted R-squared	0.073	0.104	0.129	0.235	0.098	0.144
Investor	All	13F	All	13F	All	13F
Proxy Season FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y

Table IA.1. Determinants of Disclosure of Voting Rationales (*—Continued from previous page*)

<i>Panel B. Meeting Fixed Effects</i>						
<i>Dependent Variable:</i>	<i>Rationale</i>					
<i>Proposal Type:</i>	<i>Director Election Proposals</i>		<i>Other Management Proposals</i>		<i>Shareholder Proposals</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
Against	0.137*** (6.700)	0.165*** (4.147)	0.132*** (7.634)	0.144*** (5.586)	-0.068*** (-6.494)	-0.057*** (-3.908)
Abstain	-0.003 (-0.155)	0.035 (0.755)	-0.052** (-2.457)	-0.021 (-0.486)	-0.055*** (-4.280)	-0.058*** (-3.181)
Withhold	0.102*** (4.466)	0.091*** (3.350)	0.106** (2.438)	0.174** (2.100)	-0.088*** (-2.659)	-0.154** (-2.275)
Against_ISS	0.035*** (3.287)	0.051*** (2.727)	0.056*** (5.119)	0.088*** (4.363)	0.003 (0.711)	0.014** (2.049)
Against_GL	0.000 (0.012)	0.009 (0.799)	0.018** (2.139)	0.033** (2.263)	0.004 (1.022)	-0.002 (-0.265)
Close_call	-0.018** (-2.443)	-0.027* (-1.715)	-0.042*** (-4.313)	-0.053*** (-3.401)	-0.003 (-0.896)	0.004 (0.891)
Institution_Size	0.002 (0.838)	0.002 (0.605)	0.007* (1.871)	0.009** (2.138)	0.013** (2.402)	0.020** (2.259)
PRLSignatory	0.024* (1.666)	0.001 (0.112)	0.022 (1.261)	-0.014 (-0.845)	0.047** (2.471)	0.015 (0.533)
Robo_Voter	0.008 (0.895)	0.020 (1.607)	-0.012* (-1.872)	-0.006 (-0.764)	-0.038*** (-2.848)	-0.025 (-1.230)
Pension	0.004 (0.208)	0.001 (0.040)	0.006 (0.298)	-0.025 (-1.622)	0.017 (0.644)	-0.001 (-0.023)
US	-0.027* (-1.807)	-0.046** (-2.437)	-0.049** (-2.422)	-0.092*** (-3.104)	-0.099*** (-4.320)	-0.191*** (-3.961)
Own_TNA		0.298 (1.249)		0.398** (1.976)		0.821** (2.446)
Own_SO		0.071 (0.054)		-0.492 (-0.280)		2.088 (0.297)
Observations	19,760,469	9,182,613	6,001,291	2,796,609	993,666	469,367
Adjusted R-squared	0.076	0.110	0.131	0.240	0.098	0.144
Investor type	All	13F	All	13F	All	13F
Meeting FE	Y	Y	Y	Y	Y	Y

<i>Panel C. Institutional Investor × Meeting Fixed Effects</i>						
<i>Dependent Variable:</i>	<i>Rationale</i>					
<i>Proposal Type:</i>	<i>Director Election Proposals</i>		<i>Other Management Proposals</i>		<i>Shareholder Proposals</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
Against	0.148*** (7.116)	0.188*** (4.915)	0.107*** (7.404)	0.122*** (5.470)	-0.051*** (-7.055)	-0.057*** (-4.936)
Abstain	0.056*** (2.657)	0.070* (1.667)	0.025 (1.477)	-0.002 (-0.054)	-0.015*** (-2.688)	-0.023*** (-2.632)
Withhold	0.101*** (5.286)	0.110*** (3.875)	0.113*** (2.671)	0.103 (1.472)	-0.001 (-0.500)	-0.002 (-0.456)
Against_ISS	0.041*** (4.673)	0.062*** (3.499)	0.048*** (5.586)	0.065*** (4.073)	0.002 (1.108)	0.003 (0.974)
Against_GL	0.003 (0.598)	0.013 (1.362)	0.009* (1.691)	0.018* (1.868)	-0.000 (-0.318)	-0.000 (-0.164)
Close_call	-0.024*** (-3.722)	-0.040*** (-2.838)	-0.022*** (-4.058)	-0.031*** (-3.066)	0.003** (1.977)	0.004** (1.977)
Observations	19,675,772	9,144,956	5,586,052	2,611,141	640,397	305,916
Adjusted R-squared	0.776	0.709	0.676	0.542	0.834	0.812
Investor type	All	13F	All	13F	All	13F
Investor x Meeting FE	Y	Y	Y	Y	Y	Y

B. Adjusting Sample Representation

In this section of the Internet Appendix, we explain propensity score weighting (Rosenbaum and Rubin, 1983), the procedure we use to adjust sample representation so that greater importance is assigned to observations whose characteristics align closely with the population. In our propensity score weighting procedure, we assign weights to each rationale in the sample based on an estimated propensity score. This score takes into account characteristics of the institutional investor, as well as firm and vote specifics, considering the possibility that investors are more likely to disclose voting rationales for certain firms (e.g., large) or proposals (e.g., close-call). For instance, investors similar to the general profile would be assigned higher weights, while those who differ would be assigned lower weights. Our procedure is outlined as follows:

1. Estimate the propensity score

To estimate the propensity score, we employ logistic regression with the binary variable “Rationale” as the outcome variable, where “Rationale” is a dummy variable that takes the value of 1 if the institutional investor discloses the voting rationale and 0 otherwise. We include a range of covariates related to investor characteristics (e.g., size, indicators for US investors and pension fund), vote/proposal/meeting characteristics (e.g., an indicator for close-call proposals, an indicator for votes against ISS, an indicator for meetings during the busy proxy season), and company/governance characteristics (e.g., ROA, institutional ownership, E-Index). This logistic regression model allows us to estimate the probability of an investor disclosing their rationale while accounting for these relevant characteristics.

2. Predict the propensity score

After estimating the logistic regression model, we generate the propensity score for each investor using the “predict pscore” command in Stata. The propensity score represents the estimated probability of an investor disclosing their rationale based on the covariates included in the

logistic regression.

3. Create weights for propensity score weighting

Using the propensity scores, we construct weights to implement propensity score weighting. These weights, assigned to each rationale, are calculated as the inverse of the propensity score, generated by using the “weight = 1 / pscore” command. These weights assign greater importance to observations whose characteristics align closely with the population, and vice versa.

4. Produce weighted summary of rationales

To estimate the proportion of investors who consider each rationale important, we summarize the responses for each rationale using the weighted data. Specifically, we employ the command “su issue1 issue2 ... issue12 [aweight = weight], detail” to summarize the 12 issues presented in Table 3 (e.g., independence, board diversity). The “aweight” option is used to apply the previously generated weights (“weight”). This weighted summary provides an adjusted estimate of the importance of each rationale, accounting for the non-random sample selection and potential biases introduced by the voluntary disclosure of rationales.

C. Heterogeneity in Institutional Investors' Rationales

In this section, we provide evidence of heterogeneity in voting rationales of different institutional investors. First, we compare the rationales of US and European institutional investors (Panel A of Figure IA.1). The figure shows that US investors are more concerned about board diversity and other governance issues relative to European investors. Meanwhile, European investors place high importance on tenure, being the second most common rationale for them. They also emphasize CEO duality more than their US counterparts.

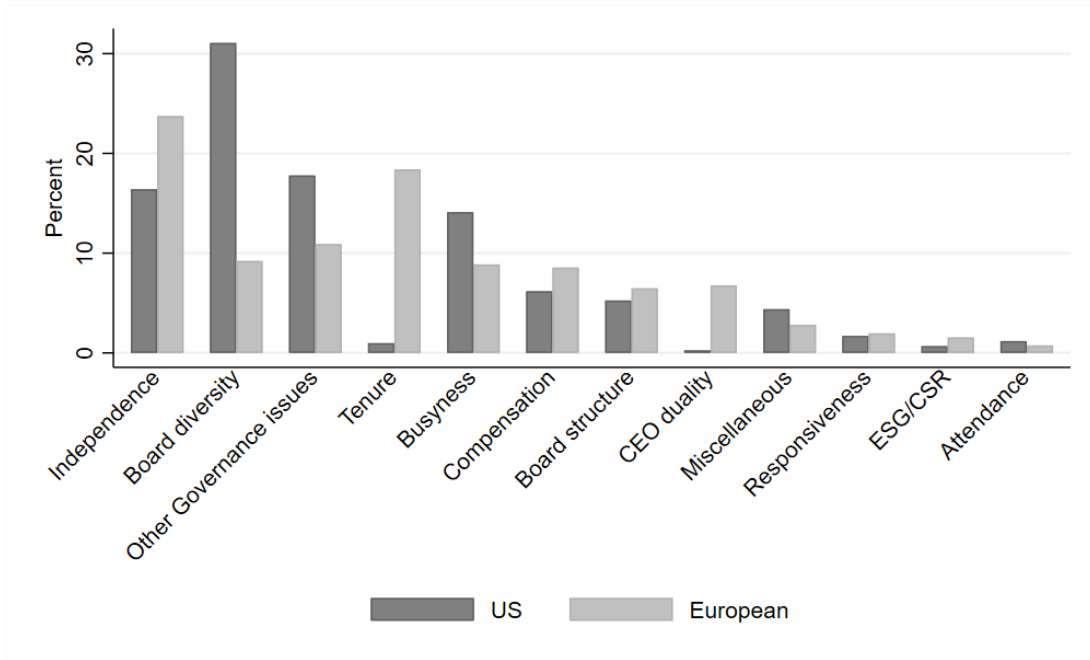
We next consider the Big Three's rationales vs. non-Big Three (Panel B of Figure IA.1). Board diversity is the main concern raised by the Big Three institutional investors in voting rationales, accounting for almost 40% of their rationales. This is twice the frequency of board diversity mentioned by non-Big Three investors. Notably, Figure IA.2 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, Gupta, Matsa, Mortal, and Yang, 2022). Independence, other governance issues, and tenure are relatively less important for the Big Three. It is also worth mentioning that the 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 the Big Three investors exert pressure on companies to change environmental and social policies.

In Panel C of Figure IA.1, we present the results for UN PRI signatories vis-a-vis non-UN PRI signatories. Similar to the previous cases, board diversity seems to be the main source of difference between these two types of investors, with UN PRI signatories mentioning this concern more often than non-signatories. Non-PRI signatories care relatively more about independence, other governance concerns, tenure, and busyness.

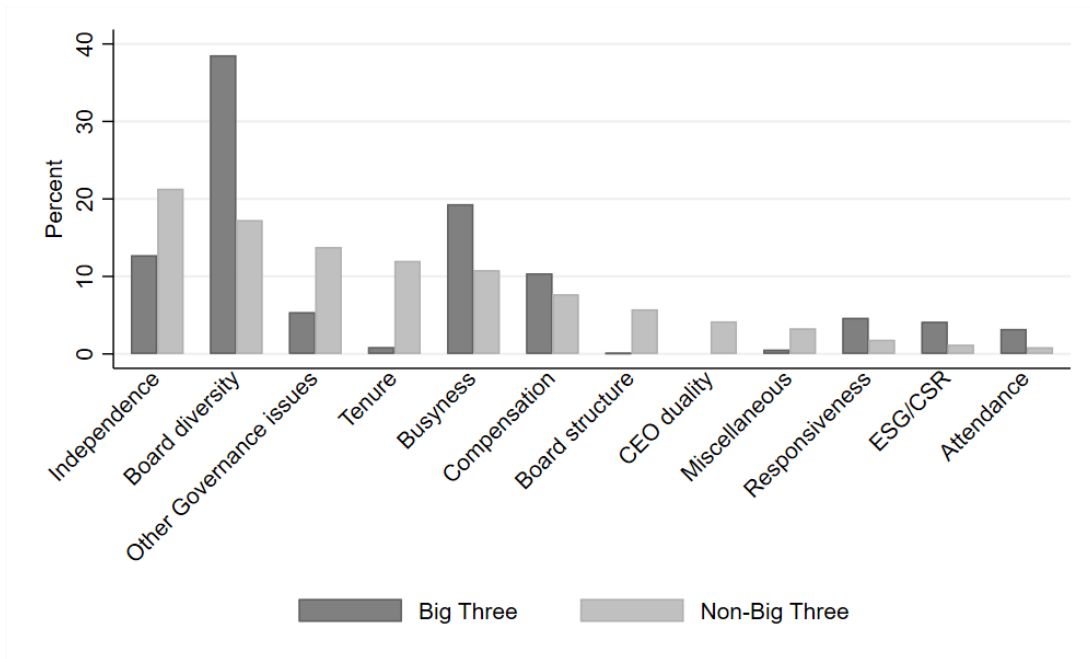
Finally, we examine the voting rationales of pension funds. Pension funds account for 10% of investors and provide 30% of rationales. Panel D of Figure IA.1 shows that there is no distinctive

pattern for pension funds – they seem to place similar importance on different governance issues as fund managers. 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.

Panel A. US vs. European Institutional Investors

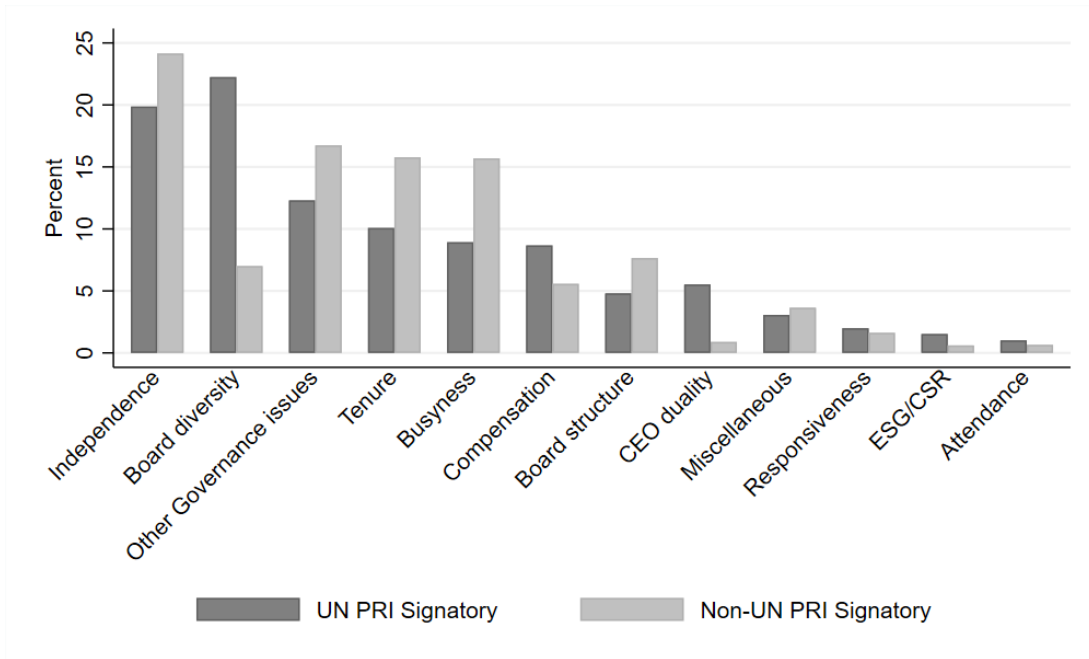


Panel B. The Big Three Institutional Investors



(Continued)

Panel C. UN PRI Signatory



Panel D. Fund Managers vs. Pension Funds

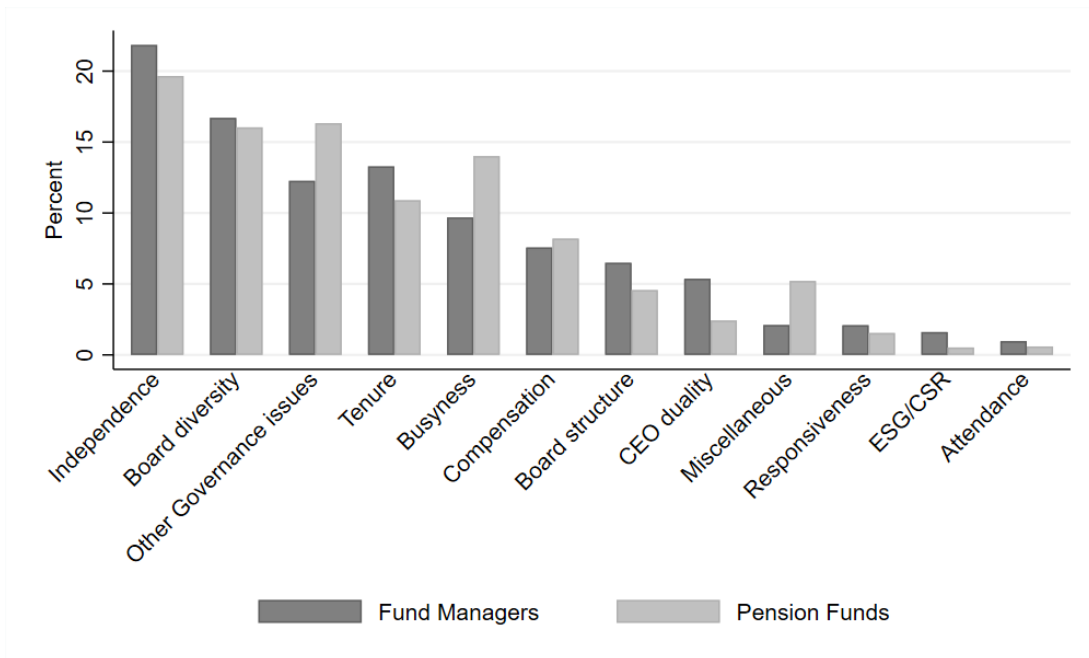


Figure IA.1. Heterogeneity in Institutional Investors' Rationales. This plot shows the relative frequency of the different rationales during the full sample period (July 2012 to June 22), for different types of investors.

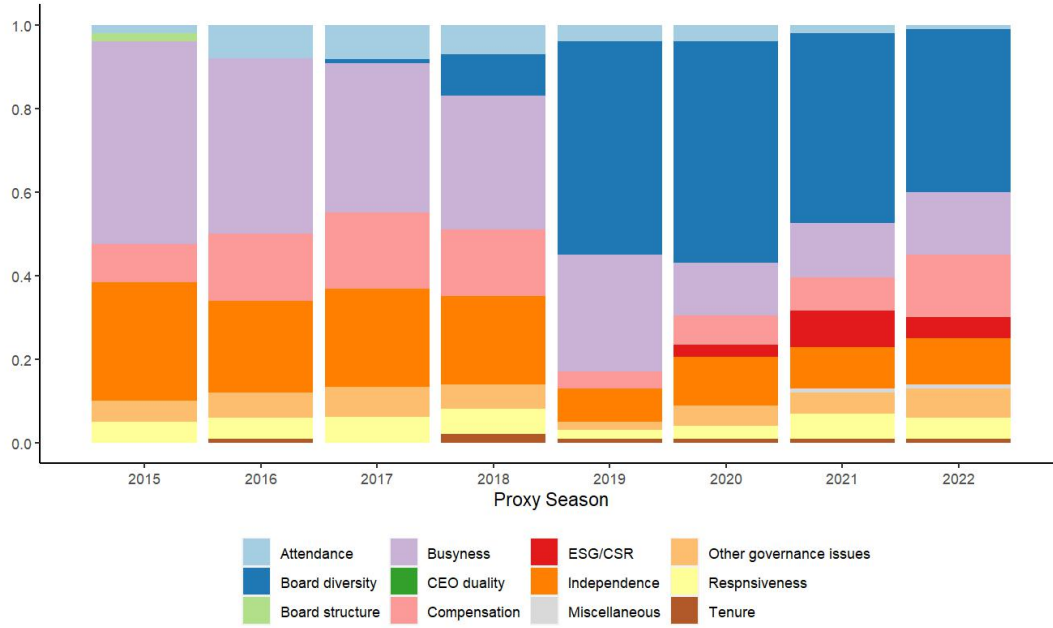


Figure IA.2. Relative Frequency of the Various Rationales Over Time: The Big Three. The figure shows the relative frequency of the different rationales for the Big Three investors, for votes against directors over the years. We exclude 2014 because we have very few rationales from the Big Three institutional investors in that year.

D. Board Diversity

In this section, we analyze whether board diversity is related to gender diversity, ethnic diversity, or both. To this end, we collect data from ISS - Directors Data, which contains directors' demographic characteristics (in particular, ethnicity), but for a smaller sample of firms. We consider three variables for board diversity: *Per_female*, defined as the percentage of female directors on the board (the same definition used in the paper), *Per_NonWhite*, defined as the percentage of directors that are not Caucasian/white (while this might not be a perfect proxy for ethnic diversity, more detail data on ethnicity is not available in commercial datasets). We also create a variable *Per_Diverse* that captures the percentage of board members that are either female or non-white (or both).

In Table IA.2, we analyze whether firms with a lower fraction of diverse directors receive more rationales related to board diversity. The coefficient on *Per_female*, *Per_NonWhite* and *Per_Diverse* are all negative and statistically significant at conventional levels, consistent with less diverse firms (either on gender or ethnicity) having more rationales related to a lack of board diversity. The results in column (1) are consistent with the main results reported in the paper and provide reassurance that our results are robust to alternative samples (in this case, for the sample of S&P 1500 covered by ISS - Directors Data).

In Table IA.3, we examine whether firms that receive a higher fraction of voting rationales related to the lack of board diversity increase diversity in the following years. In Panel A, we present the results for gender diversity. Consistent with the results presented in the paper, we find that dissent voting related to board diversity is associated with changes in the percentage of females on board in the following years. In Panel B, we also present evidence consistent with firms increasing ethnic diversity to some extent, but results are only marginally significant in $t+1$, and insignificant in $t+2$. In Panel C we report the results for diversity on any of those dimensions, and document a positive increase in diversity in the following years. This result is

probably driven by gender diversity.

To conclude, institutional investors' concerns about board diversity might not only capture gender but also ethnic diversity. Companies seem to listen to these concerns and change board composition in the following years.

Table IA.2. Are concerns well grounded? Gender and Ethnicity

The table presents the regression of the proportion of rationales on board diversity on board characteristics reflecting diversity: gender diversity (Per_female), ethnic diversity (Per_NoWhite) or both (Per_Diverse). Standard errors are clustered at the firm level. *t*-statistics are provided in parentheses. *, **, and *** denote statistical significance at the 1%, 5%, and 10% level, respectively. Firm-level variables are defined in Appendix A, and rationales in Table 3 Panel A.

	Prop_board_diversity		
	(1)	(2)	(3)
Per_female	-0.762*** (-20.576)		
Per_NoWhite		-0.299*** (-11.356)	
Per_Diverse			-0.458*** (-18.899)
Observations	10,472	10,472	10,472
Adjusted R-squared	0.237	0.180	0.224
Controls	Y	Y	Y
Proxy Season FE	Y	Y	Y
Industry FE	Y	Y	Y

Table IA.3. Do firms listen? Gender and Ethnicity

The table presents the regression of changes in board diversity on dissent voting and rationales related to board diversity. The dependent variable is indicated in the first row of each panel. All regressions control for time-varying firm characteristics, meeting characteristics, proxy season, and industry fixed effects. Standard errors are clustered at the firm level. t -statistics are provided in parentheses. *, **, and *** denote statistical significance at the 1%, 5%, and 10% level, respectively. Firm-level variables are defined in Appendix A, and rationales in Table 3 Panel A.

Change Y:	$t+1$	$t+1$	$t+2$
	(1)	(2)	(3)
<i>Panel A: Gender diversity</i>			
Dissent	0.077*** (6.742)	0.008 (0.633)	0.040** (2.034)
Prop_board_diversity	0.026*** (10.527)	0.008*** (2.664)	0.017*** (3.752)
Dissent x Prop_board_diversity		0.406*** (8.004)	0.587*** (8.158)
Observations	8,941	8,941	7,426
Adjusted R-squared	0.032	0.042	0.070
<i>Panel B: Ethnic diversity</i>			
Dissent	0.015 (1.419)	-0.001 (-0.054)	0.031 (1.567)
Prop_board_diversity	0.015*** (6.318)	0.011*** (3.533)	0.024*** (5.173)
Dissent x Prop_board_diversity		0.094* (1.738)	0.022 (0.281)
Observations	8,941	8,941	7,426
Adjusted R-squared	0.040	0.040	0.054
<i>Panel C: Diversity (gender or ethnic)</i>			
Dissent	0.071*** (5.291)	0.009 (0.571)	0.059** (2.413)
Prop_board_diversity	0.031*** (10.705)	0.015*** (4.125)	0.034*** (5.931)
Dissent x Prop_board_diversity		0.365*** (5.793)	0.433*** (4.375)
Observations	8,941	8,941	7,426
Adjusted R-squared	0.034	0.040	0.060

E. Proxy Advisors and the Big Three Institutional Investors' Influence

In this section, we evaluate the influence of proxy advisors and the Big Three institutional investors on changing board composition following investors' concerns as stated in voting rationales. In particular, we re-estimate our specification in equation (3), excluding the voting rationales of proxy advisors robo voters (Panel A of Table IA.4) or the Big Three institutional investors (Panel B of Table IA.4). The results indicate that neither proxy advisors nor the Big Three institutional investors seem to be influencing our findings. In other words, our results still hold when we drop their voting rationales from our analysis.

Table IA.4. Proxy Advisors and the Big Three Institutional Investors Influence

The table presents the regression of changes in board characteristics on dissent voting and rationales related to those board characteristics (equation 3) when excluding voting rationales of proxy advisors robo voters (Panel A) or the Big Three institutional investors (Panel B). The dependent variable is indicated in the first row of each panel. All regressions control for time-varying firm characteristics, meeting characteristics, proxy season, and industry fixed effects. Standard errors are clustered at the firm level. *t*-statistics are provided in parentheses. *, **, and *** denote statistical significance at the 1%, 5%, and 10% level, respectively. Firm-level variables are defined in Appendix A, and rationales in Table 3 Panel A.

Panel A. Results excluding robo voters

<i>Dependent variable:</i>	$\Delta(\text{Per_independent})$	$\Delta(\text{Per_female})$	$\Delta(\text{AvTenure})$	$\Delta(\text{Busy})$	$\Delta(\text{CEO_Duality})$
	Prop_independent (1)	Prop_board_diversity (2)	Prop_tenure (3)	Prop_buysyness (4)	Prop_CEO_duality (5)
Dissent	0.004 (0.725)	-0.010 (-1.214)	-0.001 (-0.006)	-0.019 (-0.705)	0.005 (0.211)
Prop_rationales	0.004* (1.716)	-0.002 (-0.955)	-0.380*** (-3.743)	0.006 (0.396)	0.154*** (3.608)
Dissent \times Prop_rationales	-0.023 (-1.107)	0.072** (2.556)	-3.066*** (-2.256)	-0.769*** (-3.542)	-1.990*** (-3.095)
Observations	14,941	14,940	14,941	14,941	14,941
Adjusted R-squared	0.000	0.018	0.017	0.036	0.001
Proxy Season FE	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y

Panel B. Results excluding the Big Three only

<i>Dependent variable:</i>	$\Delta(\text{Per_independent})$	$\Delta(\text{Per_female})$	$\Delta(\text{AvTenure})$	$\Delta(\text{Busy})$	$\Delta(\text{CEO_Duality})$
	Prop_independent (1)	Prop_board_diversity (2)	Prop_tenure (3)	Prop_buysyness (4)	Prop_CEO_duality (5)
Dissent	0.004 (0.724)	-0.011 (-1.446)	-0.002 (-0.013)	-0.023 (-0.837)	0.002 (0.069)
Prop_rationales	0.004* (1.903)	-0.002 (-1.102)	-0.372*** (-3.642)	0.005 (0.291)	0.159*** (3.662)
Dissent \times Prop_rationales	-0.021 (-1.030)	0.088*** (3.015)	-3.226*** (-2.305)	-0.723*** (-3.235)	-2.016*** (-3.141)
Observations	14,953	14,952	14,953	14,953	14,953
Adjusted R-squared	0.001	0.018	0.017	0.036	0.001
Proxy Season FE	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y

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