

Shareholder voting

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Online Public Lecture Series on Corporate Governance
organized by the Institute for Corporate Governance,
Indiana University, and ECGI

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* Boston College, CEPR, ECGI, and NBER

Notes

- Based on the (in-progress) literature survey with Alon Brav and Andrey Malenko
- Large, fast-growing literature
- Slides will be posted
 - links to papers
- Substantial heterogeneity across countries
 - this lecture: focus on voting in the U.S.

Outline

1. Overview
2. Two key roles of voting
 - aggregation of information
 - aggregation of preferences
3. Summary and new directions

APPLE INC.

The Board of Directors recommends a vote **FOR** all the listed nominees.

	For	Against	Abstain
1. The election to Apple's Board of Directors of the nine nominees named in the Proxy Statement Nominees:			
1a. James Bell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1b. Tim Cook	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1c. Al Gore	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1d. Alex Gorsky	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1e. Andrea Jung	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1f. Art Levinson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1g. Monica Lozano	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1h. Ron Sugar	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1i. Sue Wagner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Management proposals

The Board of Directors recommends a vote for "1 YEAR" on Proposal 4.

	1 Year	2 Years	3 Years	Abstain
4. Advisory vote on the frequency of advisory votes on executive compensation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Board of Directors recommends a vote **AGAINST** Proposals 5 to 9.

	For	Against	Abstain
5. A shareholder proposal entitled "Civil Rights and Non-Discrimination Audit Proposal"	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. A shareholder proposal entitled "Communist China Audit"	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. A shareholder proposal on Board policy for communication with shareholder proponents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. A shareholder proposal entitled "Racial and Gender Pay Gaps"	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. A shareholder proposal entitled "Shareholder Proxy Access Amendments"	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Shareholder proposals

The Board of Directors recommends a vote **FOR** Proposals 2 and 3.

	For	Against	Abstain
2. Ratification of the appointment of Ernst & Young LLP as Apple's independent registered public accounting firm for fiscal 2023	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Advisory vote to approve executive compensation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Yes No

HOUSEHOLDING ELECTION - Please indicate if you consent to receive certain future investor communications in a single package per household.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian, or corporate officer, please provide your FULL title.

Signature [PLEASE SIGN WITHIN BOX]	Date

Signature (Joint Owners)	Date

Summary statistics

In 2021: # of proposals # of firms Proposals per firm
 31731 4114 7.7

Source: ISS Voting Analytics

	As % of all proposals	Average support rate	Pass rate
Management proposals	99%	92%	98%
Director elections	77%	94%	99.8%
Say-on-pay	9%	90%	97%
Governance, compensation, routine	13%	94%	95%
Shareholder proposals			
421 in 250 firms; ↑ over recent years	1.3%	44%	33%

- For **non-binding** votes, support for management **< 75%** is often meaningful
- **Selection** of proposals that are voted on

Brav et al. [2023](#)
Brav, Malenko, Malenko on indexing [2023](#)
Chidambaran, Woidtke [1999](#)
Matsusaka, Ozbas, Yi [2021](#)
Couvert [2021](#)

Summary statistics

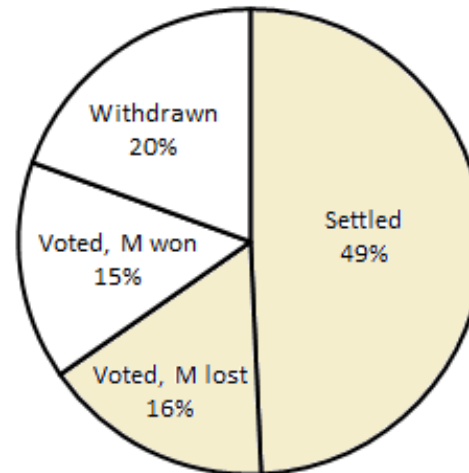
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Proxy contests:

- About 50-80 a year
- Brav et al. [2023](#): 659 over 2007-2017
- Fos [2017](#): 1066 over 1994-2012



Do votes matter?

- **Binding votes**

- e.g., mergers, proxy contests, large share issuance
- large positive abnormal returns around proxy contest announcements
- voting decreases overpaying in acquisitions
- management takes actions to increase shareholder support

Becht, Polo, Rossi [2016](#)
Li, Liu, Wu [2018](#)
Fos [2017](#)
Listokin [2008](#)
Lee, Souther [2019](#)
Bach, Metzger [2019](#)
Babenko, Choi, Sen [2023](#)

- **Non-binding votes**

- most shareholder proposals
- say-on-pay
- director elections (often effectively non-binding)

Do non-binding votes matter?

Ferri [2010](#); Levit, Malenko [2011](#)

Firms that are not responsive face consequences

Director elections

- decreased CEO pay, increased CEO turnover
- rate of responsiveness to concerns is more than 40%
- directors face labor market consequences, internal and external

Del Guercio, Seery, Woidtke [2008](#)
Cai, Garner, Walkling [2009](#)
Ertimur, Ferri, Oesch [2018](#)
Fos, Li, Tsoutsoura [2018](#)
Aggarwal, Dahiya, Prabhala [2019](#)

Say-on-pay

- 55% of firms respond by reporting compensation changes
 - spillover effects on peer firms
- boards make preemptive changes

Ertimur, Ferri, Oesch [2013](#)

Denis, Jochem, Rajamani [2020](#)

Larcker, McCall, Ormazabal [2015](#)

Shareholder proposals

- 70% implementation rate upon majority support (post-2004)
- positive abnormal returns in close votes

Karpoff [2001](#)

Bach, Metzger [2019](#)

Cunat, Gine, Guadalupe [2012](#)

Ertimur, Ferri, Stubben [2010](#)

Gantchev, Giannetti [2021](#)

Voting and other shareholder engagement channels

Survey of 142 institutional investors globally:

McCahery, Sautner, and Starks [2016](#)

Shareholder Engagement Measures Taken in the Past Five Years:	Percent that took this measure
(1) Discussions with top management	63
(2) Voting against management	53
(3) Selling shares because of dissatisfaction with performance	49
(4) Discussions with board of directors outside of management	45
(5) Selling shares because of dissatisfaction with corporate governance	39
(6) Proposing a specific action to management	35
(7) Aggressively questioning management on a conference call	30
(8) Criticizing management and the board at the annual meeting	18
(9) Publicizing a dissenting vote	18
(10) Submitting shareholder proposals for the proxy statement	16
(11) Legal action against management	15
(12) Publicly criticizing management in the media	13

Voting and other governance mechanisms

Shareholder monitoring

See April 2022 [lecture](#) by Todd Gormley

Board of directors

See Jan 2022 [lecture](#) by Michael Weisbach

Executive compensation

See Feb 2023 [lecture](#) by Mary Ellen Carter

Market for corporate control
(threat of a takeover and/or activist)

See March 2022 [lecture](#) by Alon Brav

Voice and exit

Shareholders vote on directors

Shareholders vote on compensation

Shareholders vote whether to be acquired
Shareholders vote in a proxy contest

Data

Proposals and aggregate voting outcomes (requirement to disclose)

- Form 8-K (for proxy contests; also Shark Repellent, 10-K, 10-Q) Fos [2017](#); Fos, Tsoutsoura [2017](#); Brav et al. [2023](#)
- *ISS Voting Analytics*
- *ISS Shareholder Proposals*: more detailed data on shareholder proposals [8-K form for Apple](#)

1. The individuals listed below were elected at the Annual Meeting to serve as directors of Apple until the next annual meeting of shareholders and until their successors are duly elected and qualified:

	For	Against	Abstained	Broker Non-Vote
James Bell	9,465,679,895	66,756,373	27,788,697	3,199,709,505
Tim Cook	9,384,013,653	154,755,524	21,455,788	3,199,709,505
Al Gore	8,717,788,168	754,211,726	88,225,071	3,199,709,505
Alex Gorsky	9,345,154,817	185,107,464	29,962,684	3,199,709,505
Andrea Jung	8,886,421,911	638,629,879	35,173,175	3,199,709,505
Art Levinson	8,982,747,341	549,024,146	28,453,478	3,199,709,505
Monica Lozano	9,470,339,256	61,625,010	28,260,699	3,199,709,505
Ron Sugar	8,935,381,470	595,179,126	29,664,369	3,199,709,505
Sue Wagner	9,172,832,824	360,662,024	26,730,117	3,199,709,505

2. A management proposal to ratify the appointment of Ernst & Young LLP as Apple's independent registered public accounting firm for fiscal year 2023 was approved.

For	Against	Abstained
12,569,833,138	154,378,601	35,722,731

3. An advisory resolution to approve executive compensation was approved.

For	Against	Abstained	Broker Non-Vote
8,450,622,819	1,037,238,044	72,364,102	3,199,709,505

4. A majority of shareholders voted for 1 Year on an advisory vote on the frequency of advisory votes on executive compensation.

1 Year	2 Years	3 Years	Abstained
9,373,118,972	30,603,953	122,956,354	33,545,686

Based on these results, and consistent with the recommendation of Apple's board of directors (the "Board"), the Board has determined that Apple will hold an advisory vote on executive compensation every year.

5. A shareholder proposal entitled "Civil Rights and Non-Discrimination Audit Proposal" was not approved.

For	Against	Abstained	Broker Non-Vote
132,449,397	9,322,879,571	104,895,997	3,199,709,505

6. A shareholder proposal entitled "Communist China Audit" was not approved.

For	Against	Abstained	Broker Non-Vote
413,232,649	9,001,346,586	145,645,730	3,199,709,505

Data

Proposals and aggregate voting outcomes (requirement to disclose)

- Form 8-K (for proxy contests; also Shark Repellent, 10-K, 10-Q) Fos [2017](#); Fos, Tsoutsoura [2017](#); Brav et al. [2023](#)
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Mutual funds' votes (requirement to disclose)

- Form N-PX (for proxy contests)
- *ISS Voting Analytics*

APPLE INC. [N-PX form: BlackRock Sustainable U.S. Growth Equity Fund at Apple](#)

Brav et al. [2023](#)

Ticker: AAPL Security ID: 037833100
Meeting Date: MAR 10, 2023 Meeting Type: Annual
Record Date: JAN 09, 2023

#	Proposal	Mgt Rec	Vote Cast	Sponsor
1a	Elect Director James Bell	For	For	Management
1b	Elect Director Tim Cook	For	For	Management
1c	Elect Director Al Gore	For	For	Management
1d	Elect Director Alex Gorsky	For	For	Management
1e	Elect Director Andrea Jung	For	For	Management
1f	Elect Director Art Levinson	For	For	Management
1g	Elect Director Monica Lozano	For	For	Management
1h	Elect Director Ron Sugar	For	For	Management
1i	Elect Director Sue Wagner	For	For	Management
2	Ratify Ernst & Young LLP as Auditors	For	For	Management
3	Advisory Vote to Ratify Named Executive Officers' Compensation	For	For	Management
4	Advisory Vote on Say on Pay Frequency	One Year	One Year	Management
5	Report on Civil Rights and Non-Discrimination Audit	Against	Against	Shareholder
6	Report on Operations in Communist China	Against	Against	Shareholder
7	Adopt a Policy Establishing an Engagement Process with Proponents to Shareholder Proposals	Against	Against	Shareholder
8	Report on Median Gender/Racial Pay Gap	Against	Against	Shareholder
9	Amend Proxy Access Right	Against	Against	Shareholder

Data

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Mutual funds' votes (requirement to disclose)

- Form N-PX (for proxy contests) Brav et al. [2023](#)
- *ISS Voting Analytics*

Votes by other shareholders are generally hard to observe

- Public pension funds (state public records / Proxy Insight) Bolton et al. [2022](#); Duan, Jiao, Tam [2021](#)
- Retail investors Brav, Cain, Zytznick [2022](#); Zytznick [2023](#)

Proposal implementation

- Proxy filings and 8-K forms Bach, Metzger [2019](#); Gantchev, Giannetti [2021](#)

Outline

1. Overview

2. Two key roles of voting

- aggregation of information
- aggregation of preferences

3. Summary and new directions

Two key roles of voting

1. Aggregation of information

- Information is dispersed among shareholders

2. Aggregation of preferences

- Shareholders have heterogeneous preferences and views



June 2, 2021

Information aggregation

Decisions made through voting can be informed due to “[wisdom of the crowd](#)”

How do shareholders become informed?

- communication with management
- information from actively trading the stock
 - stewardship teams talk to fund managers
- proxy statements and other filings
- proxy advisory firms

Calluzzo, Kedia [2019](#)

Ellis, Gerken, Jame [2022](#)

Becht, Franks, Wagner [2023](#)

Iliev, Kalodimos, Lowry [2021](#)

Proxy advisors

Firms that sell research and vote recommendations to shareholders

- also offer voting platforms, ESG ratings, and advisory services to companies

Two major players:

- **Institutional Shareholder Services (ISS)**, founded in 1980

- 1,900 institutional clients
- 50K meetings in 110 markets



- **Glass Lewis**, founded in 2003

- 1,300+ clients
- 30K meetings in 100 markets



Glass Lewis' research report for Oracle

PROXY PAPER ORACLE CORPORATION



GLASS LEWIS

NYSE: **ORCL**
ISIN: **US68389X1054**

MEETING DATE: 16 NOVEMBER 2022
RECORD DATE: 19 SEPTEMBER 2022
PUBLISH DATE: 25 OCTOBER 2022

INDEX MEMBERSHIP: RUSSELL 3000; RUSSELL 1000; S&P 100; S&P 500

SECTOR: INFORMATION TECHNOLOGY

INDUSTRY: SOFTWARE

COUNTRY OF TRADE: UNITED STATES

COUNTRY OF INCORPORATION: UNITED STATES

HEADQUARTERS: TEXAS

VOTING IMPEDIMENT: NONE

COMPANY DESCRIPTION

Oracle Corporation offers products and services that address enterprise information technology environments worldwide.

OWNERSHIP	COMPANY PROFILE	ESG PROFILE	SUSTAINALYTICS ESG	ARABESQUE ESG	BITSIGHT CYBER SECURITY	COMPENSATION
COMPENSATION ANALYSIS	COMPANY UPDATES	PEER COMPARISON	VOTE RESULTS	APPENDIX		
COMPANY FEEDBACK						

2022 ANNUAL MEETING

PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Election of Directors	FOR	SPLIT	
1.01	Elect Awo Ablo	FOR	FOR	

1.02	Elect Jeffrey S. Berg	FOR	FOR	
1.03	Elect Michael J. Boskin	FOR	FOR	
1.04	Elect Safra A. Catz	FOR	WITHHOLD	• CFO on board
1.05	Elect Bruce R. Chizen	FOR	FOR	
1.06	Elect George H. Conrades	FOR	WITHHOLD	• Insufficient response to shareholder dissent • Ongoing compensation concerns
1.07	Elect Lawrence J. Ellison	FOR	FOR	
1.08	Elect Rona Fairhead	FOR	FOR	
1.09	Elect Jeffrey O. Henley	FOR	FOR	
1.10	Elect Renée J. James	FOR	FOR	
1.11	Elect Charles W. Moorman IV	FOR	WITHHOLD	• Insufficient response to shareholder dissent • Ongoing compensation concerns
1.12	Elect Leon E. Panetta	FOR	WITHHOLD	• Insufficient response to shareholder dissent • Ongoing compensation concerns
1.13	Elect William G. Parrett	FOR	FOR	

ORCL November 16, 2022 Annual Meeting

1

Glass, Lewis & Co., LLC

1.14	Elect Naomi O. Seligman	FOR	WITHHOLD	• Insufficient response to shareholder dissent • Ongoing compensation concerns
1.15	Elect Vishal Sikka	FOR	FOR	
2.00	Advisory Vote on Executive Compensation	FOR	AGAINST	• Insufficient response to shareholder dissent • Pay and performance disconnect
3.00	Ratification of Auditor	FOR	FOR	

<https://www.glasslewis.com/sample-proxy-papers/> Oracle Corporation (ORCL) 2022 AGM

2.00: ADVISORY VOTE ON EXECUTIVE COMPENSATION

AGAINST

PROPOSAL REQUEST:	Approval of Executive Pay Package	PAY FOR PERFORMANCE GRADES:	FY 2022 F FY 2021 A FY 2020 F
PRIOR YEAR VOTE RESULT (FOR):	60.1%	RECOMMENDATION:	AGAINST
STRUCTURE:	Poor		
DISCLOSURE:	Fair		

EXECUTIVE SUMMARY

SUMMARY ANALYSIS

After careful consideration of key factors playing into this year's pay-for-performance disconnect and other elements of the Company's executive pay program as discussed below, we believe that excessive total NEO pay remains a key concern, particularly with weak relative performance. Without clearer assurances that problematic pay practices driving shareholder opposition will not be repeated in the future, we do not believe shareholders should support pay practices for the year in review.

COMPENSATION HIGHLIGHTS

- STI: Performance-based; most recent awards paid out above target
- LT: Time-based; the CEO and Mr. Ellison were granted front-loaded performance options in FY2018.
 - The equity values on the Summary Compensation Table for Mr. Ellison and the CEO represent the modified fair values of the front-loaded awards after the Company extended the measurement period of the awards from five years to eight years (a three-year extension to May 31, 2025). The modifications were announced in last year's proxy statement and occurred on June 30, 2021.
 - Also on June 30, 2021, the Company certified that one of seven tranches of the front-loaded awards vested on the achievement of a stock price hurdle. Mr. Ellison and the CEO each vested 2,500,000 performance stock options.
 - Meanwhile, the first three market capitalization goals for the front-loaded awards were achieved in fiscal 2021 and 2022, but operational performance goals are not yet satisfied, preventing the vesting of additional tranches.
- One-time: None granted during the past fiscal year.

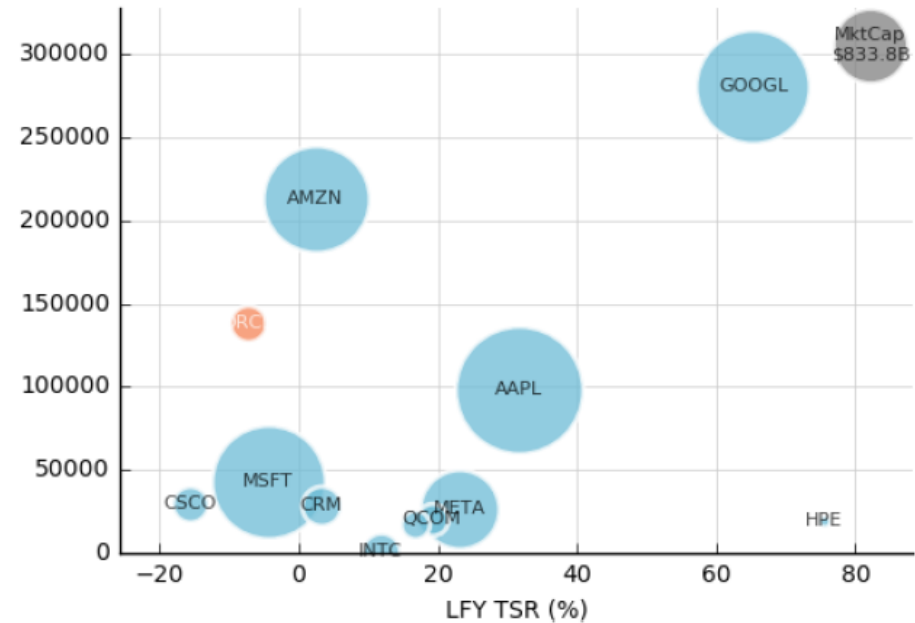
MATERIAL CHANGES

- As discussed in last year's Proxy Paper, the Company modified the front-loaded performance stock option grants originally granted to the CEO and Mr. Ellison in FY2018. The performance period's end date was extended from May 31, 2022 to May 31, 2025. No further modifications were made to any of the other existing terms of the awards.
- The Company increased the CEO and Mr. Ellison's short-term incentive opportunity from 0.5924% to 1.3158% multiplied by the growth in non-GAAP operating income amount over the preceding fiscal year.

PEER GROUP REVIEW ^{1 2 3 4}

The Company benchmarks NEO compensation to a peer group consisting of 13 companies. Total NEO compensation is not benchmarked to a specific percentile of the peer group. Note that the Company's CEO compensation includes the modified fair value of Ms. Catz's 2018 front-loaded awards. Using the annualized value of the eight-year grant (previously a five-year grant), Ms. Catz's pay is below the median of the self-disclosed peer group. However, Mr. Ellison receives the same level of incentive pay as Ms. Catz.

	MARKET CAP	REVENUE	CEO COMP	1-YEAR TSR	3-YEAR TSR	5-YEAR TSR
75th PERCENTILE OF PEER GROUP	\$1863.4B	\$242.8B	\$84.8M	29.6%	35.3%	31.3%
MEDIAN OF PEER GROUP	\$229.1B	\$79.0B	\$28.6M	16.8%	25.5%	23.9%
25th PERCENTILE OF PEER GROUP	\$160.2B	\$38.1B	\$19.4M	2.6%	9.3%	9.9%
COMPANY	\$191.9B (33rd %ile)	\$42.4B (27th %ile)	\$138.2M (80th %ile)	-7.3% (11th %ile)	14.3% (36th %ile)	11.4% (31st %ile)



AWARDS GRANTED (PAST FY)	Cash
TARGET PAYOUTS	\$5,000,000 for the CEO and up to \$5,000,000 for the other NEOs
MAXIMUM PAYOUTS	\$10,000,000 for the CEO and up to \$10,000,000 for the other NEOs
ACTUAL PAYOUTS	\$7,799,355 for the CEO and up to \$7,799,355 for the other NEOs

Performance is measured over one year.

The entirety of awards are earned if the following performance hurdle is met.

If non-GAAP operating income does not grow year-over-year, no payout occurs even if the Company is profitable.

The payout formula for the CEO and Mr. Ellison is 1.3158% multiplied by the growth in non-GAAP operating income over the preceding year.

Ms. Daley's payout is subjectively determined as she is not directly responsible for the Company's financial performance.

NON-GAAP OPERATING INCOME GROWTH

METRICS	NON-GAAP OPERATING INCOME GROWTH	
	Weighting	Absolute
Threshold Performance	100%	Greater than \$0 growth
Actual Performance		Growth of \$600 million

LONG-TERM INCENTIVES

LTI PLAN

AWARDS GRANTED (PAST FY)	RSUs
TIME-VESTING PAYOUTS	Up to 200,000 shares for the non-CEO NEOs excluding Mr. Ellison

Time-vesting awards vest over four years.

No performance-based awards are granted under the plan.

Mr. Ellison and the CEO hold outstanding front-loaded performance options and were not eligible to receive additional long-term incentives in FY2022. The Company extended the performance period of Mr. Ellison and the CEO's front-loaded performance options by three years. The Company-disclosed fair value of the modified awards as of the modification date was \$129,275,000 for each of these executives. The Company does not intend to grant additional equity awards during the modified performance period, which ends on May 31, 2025.

RISK-MITIGATING POLICIES

CLAWBACK POLICY	Yes - Limited
ANTI-HEDGING POLICY	Yes
STOCK OWNERSHIP GUIDELINES	Yes - all NEOs

SEPARATION & CIC BENEFITS

HIGHEST SEVERANCE ENTITLEMENT	None
CIC EQUITY TREATMENT	Double-trigger acceleration
EXCISE TAX GROSS-UPS	No

GLASS LEWIS ANALYSIS

This proposal seeks shareholder approval of a non-binding, advisory vote on the Company's executive compensation. Glass Lewis believes firms should fully disclose and explain all aspects of their executives' compensation in such a way that shareholders can comprehend and analyze the company's policies and procedures. In completing our assessment, we consider, among other factors, the appropriateness of performance targets and metrics, how such goals and metrics are used to improve Company performance, the peer group against which the Company believes it is competing, whether incentive schemes encourage prudent risk management and the board's adherence to market best practices. Furthermore, we also emphasize and evaluate the extent to which the Company links executive pay with performance.

PROGRAM FEATURES ¹

POSITIVE

- STI-LTI payout balance
- STIP performance-based
- No single-trigger CIC benefits
- Anti-hedging policy
- Clawback policy for NEOs
- Executive stock ownership guidelines for NEOs

NEGATIVE

- Significant disconnect between pay and performance
- Modification of outstanding performance equity awards (as discussed last year)
- No performance-vesting LTI awards for Mr. Screven and Ms. Daley
- Lacking clarity on STIP payout factor

¹ Both positive and negative compensation features are ranked according to Glass Lewis' view of their importance or severity

AREAS OF FOCUS

VARIABLE COMPENSATION

Lack of Clarity in STIP Payout Factor Setting

Analyst Comment: Shareholders should be cautious of the lack of disclosure around year-over-year changes to the STIP payout formula for the CEO and Mr. Ellison. While the Company notes that NEOs will not receive any bonuses if the

Proxy advisors: Support for management and activists

	Support for management		
	ISS	Glass Lewis	
Say-on-pay	89%	78%	Ertimur, Ferri, Oesch 2013
Director elections	93%	84%	Ertimur, Ferri, Oesch 2018
Proxy contests	44%	65%	Brav et al. 2023

- ISS and Glass Lewis often use different criteria and disagree

Ertimur, Ferri, Oesch [2013](#)

Proxy advisors: Influence

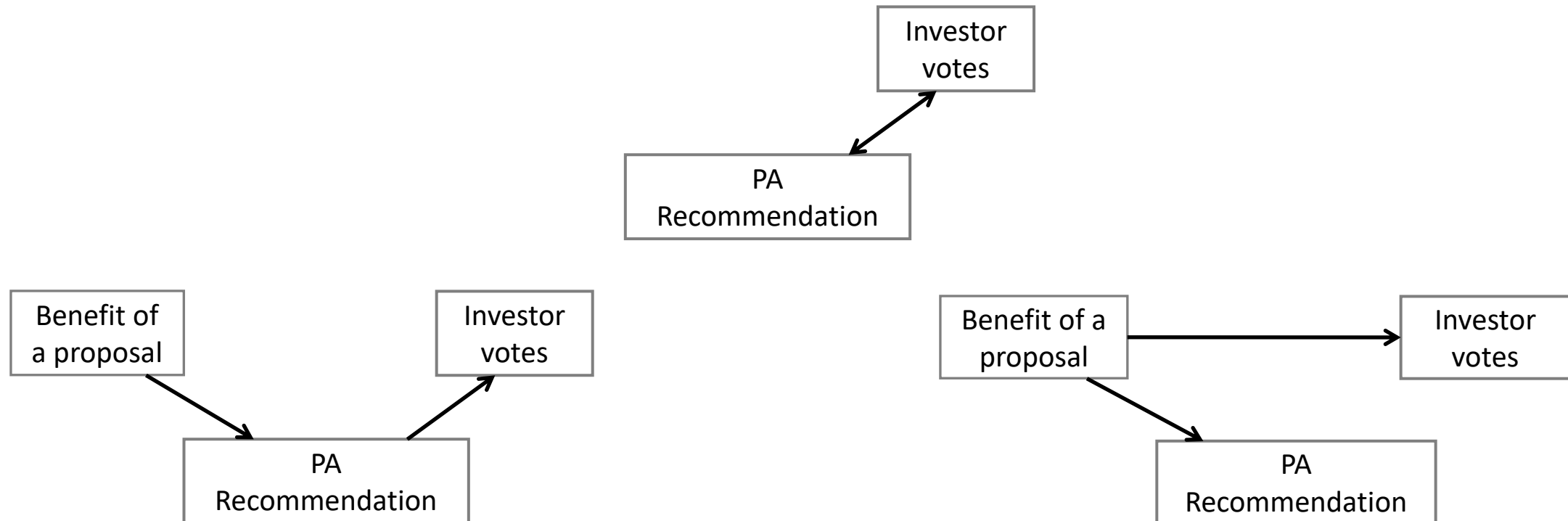
- **Strong positive association** between PA recommendations and voting outcomes
 - Alexander et al. [2010](#); Bethel, Gillan [2002](#); Cai, Garner, Walkling [2009](#); Morgan et al. [2011](#); Ertimur, Ferri, Oesch [2018](#); Aggarwal, Erel, Starks [2015](#); Iliev, Lowry [2015](#); Larcker, McCall, Ormazabal [2015](#); Ertimur, Ferri, Oesch [2013](#); Choi, Fisch, Kahan [2010](#); Malenko, Shen [2016](#); Shu [2023](#)

ISS recommendation on say-on pay	Voting support	Fraction of votes with <50% support
Against	69%	13%
For	93%	0%

Malenko, Shen [2016](#)
Ertimur, Ferri, Oesch [2013](#)

Proxy advisors: Influence

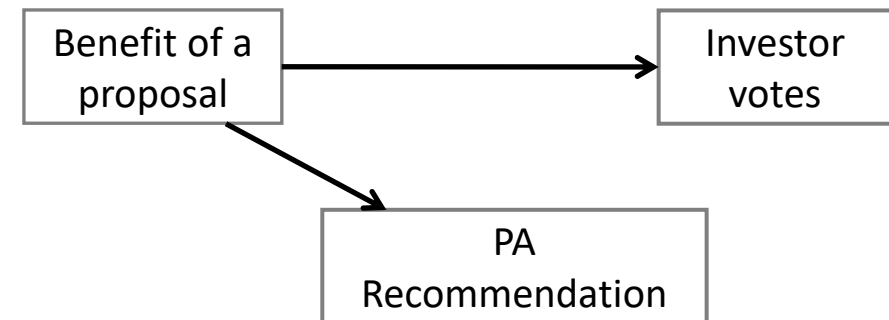
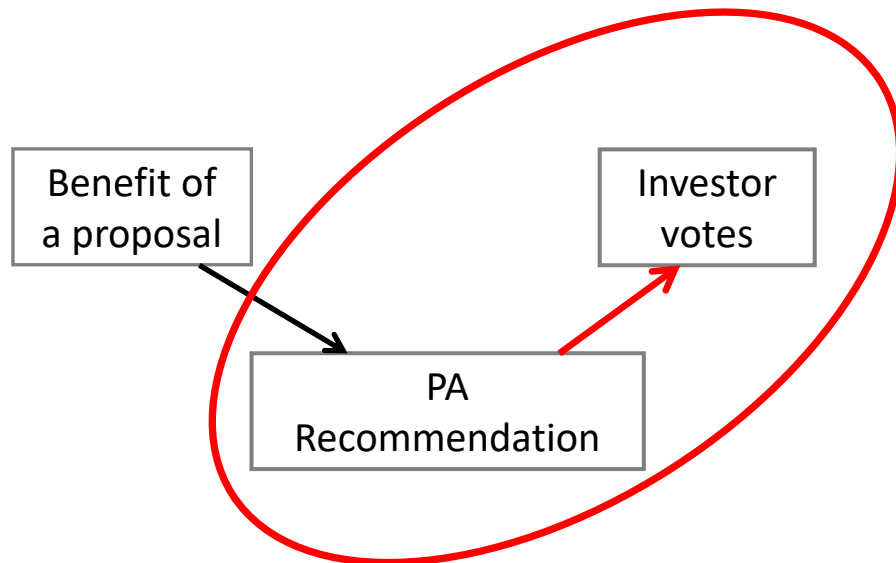
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Negative ISS recommendation on SOP proposal \Rightarrow voting support is 25 percentage points lower
causal



Proxy advisors: Influence

- **Strong positive association** between PA recommendations and voting outcomes
 - Alexander et al. [2010](#); Bethel, Gillan [2002](#); Cai, Garner, Walkling [2009](#); Morgan et al. [2011](#); Ertimur, Ferri, Oesch [2018](#); Aggarwal, Erel, Starks [2015](#); Iliev, Lowry [2015](#); Larcker, McCall, Ormazabal [2015](#); Ertimur, Ferri, Oesch [2013](#); Choi, Fisch, Kahan [2010](#); Malenko, Shen [2016](#); Shu [2023](#)

Negative ISS recommendation on SOP proposal \Rightarrow voting support is 25 percentage points lower
causal

- **Agenda-setting role**: PAs affect which governance issues investors focus on
 - many institutions will only oppose management if PA recommends against
 - developed in consultation with investors

Ertimur, Ferri, Oesch [2018](#)

Hayne, Vance [2019](#)

Is this influence beneficial?

Investors' perspective

Survey of 19 top asset management firms, more than half of AUM in the U.S.

Bew, Fields [2012](#)

*Virtually unanimously, research participants highlighted the value they derive from the role proxy advisers play in “**digest[ing] and normaliz[ing] the vast quantities of data** present in proxy statements **in a short period of time.**”*

Benefits of proxy advisors

- Institutions manage large diversified portfolios
Growing complexity of proxy statements and # of proposals } PA provides a relatively low-cost signal
Economies of scale in info production

Reports provide a summary of the data and pros/cons

Ertimur, Ferri, Oesch [2013](#), [2018](#)

Malenko, Malenko, Spatt [2023](#)

- Small institutions would not acquire information on their own (free-riding)
⇒ presence of PA can make their votes more informed (PA's fee is low enough)

Malenko, Malenko [2019](#)

Calluzzo, Dudley [2019](#)

- Negative recommendations can help shareholders “screen” proposals
to focus on and encourage information acquisition

Iliev, Kalodimos, Lowry [2021](#)

Buechel, Mechtenberg, Wagner [2023](#)

- Encourage dialogue between firms and investors

Dey, Starkweather, White [2023](#)

Hayne, Vance [2019](#)

Concerns

- May crowd out independent research by shareholders
⇒ overreliance on one signal; jeopardizes the “wisdom of the crowd”
Malenko, Malenko [2019](#)
Calluzzo, Dudley [2019](#)
- Shareholders may rely on PAs for other reasons ⇒ overreliance & robo-voting
Matsusaka, Shu [2023](#)
Shu [2023](#)
“relying on the advice from the proxy advisory firm became a cheap litigation insurance policy” (former SEC commissioner Daniel M. Gallagher)
- Potential conflicts of interest
 - Consulting corporations
Li [2018](#); Ma, Xiong [2021](#)
 - Do not maximize firm value; maximize profits from selling information
Malenko, Malenko, Spatt [2023](#)
- One-size-fits-all approach and resulting standardization
Iliev, Lowry [2015](#); Cabezon [2022](#)
Jochem, Ormazabal, Rajamani [2021](#); Levit, Tsoy [2020](#)
- Annual meetings are concentrated in April-May ⇒ quality may suffer
Calluzzo, Kedia [2022](#)
 - inaccuracies
Iliev, Kalodimos, Lowry [2021](#)
Albuquerque, Carter, Gallani [2020](#)

Investors' and companies' perspectives

Investors

McCahery, Sautner, Starks [2016](#)

- 55% agree that PAs help them make more informed voting decisions
- 52% agree that PAs are sometimes exposed to conflicts of interest
- 30% agree that PAs offer too standardized advice

Companies

Board members, HR executives, compensation consultants

Hayne, Vance [2019](#)

- Boards feel pressure to conform to PA “best” practices despite their own preferred compensation philosophies
- Larcker, McCall Ormazabal [2015](#)
Edmans, Gosling, Jenter [2023](#)
- Overall, viewed as improving compensation practices by increasing transparency, accountability, and fostering dialogue between firms and investors

Are votes and recommendations informed?

Conclusions of the literature:

- ISS recommendations in proxy contests are informative about dissidents' ability Alexander et al. [2010](#)
- SOP recommendations associated with future industry-adjusted ROA Albuquerque, Carter, Gallani [2020](#)
- Not all voters blindly follow ISS
 - Sensitivity of support to recommendations varies with rationale and with whether ISS recommends for or against Ertimur, Ferri, Oesch [2013](#), [2018](#)
Blonien et al. [2023](#)
 - Large, long-term shareholders are less sensitive to recommendations Iliev, Lowry [2015](#)
- Ability to vote in an informed way (based on market reaction) is persistent Gao and Huang [2023](#)
- Passive funds support management more than active funds Heath et al. [2022](#)
 - But, for Big Three, not in a manner suggesting passivity or lack of information Brav et al. [2023](#)

Are votes and recommendations informed?

Hard to study whose vote/recommendation is informed

- Value of proposals is realized in the long-term
- Direction of the vote (against management / relative to ISS) may not be a clear signal
 - because of strategic voting, strategic design of recommendations, and selection into voted proposals

← More research
is needed!

Pinnington [2023](#)

Brav et al. [2023](#)

Malenko, Malenko, Spatt [2023](#)

Brav, Malenko, Malenko on indexing [2023](#)

Outline

1. Overview
2. Two key roles of voting
 - aggregation of information
 - aggregation of preferences
3. Summary and new directions

Shareholders have heterogeneous preferences

- Social/political ideology Bolton et al. [2020](#); Zytneck [2023](#); Dikolli et al. [2022](#)
Lecture “[Greenwashing and ESG Investing at a Crossroads](#)” by Pedro Matos on Dec 3, 2023
- Governance philosophy Bubb, Catan [2022](#); Couvert [2021](#)
- Conflicts of interest Davis, Kim [2007](#); Cvijanovic, Dasgupta, Zachariadis [2016](#)
Ashraf et al. [2012](#); Butler, Gurun [2012](#); Matsusaka, Ozbas, Yi [2019](#)
- Portfolio ownership Matvos, Ostrovsky [2009](#); Bodnaruk, Rossi [2016](#); He, Huang, Zhao [2019](#)
 - cash flow and voting rights can be separated Burkart, Lee [2008](#); Adams, Ferreira [2008](#)
- Differences of opinion Li, Maug, Schwartz-Ziv [2022](#); Kakhbod et al. [2023](#)
- Time horizon Bushee [1998](#); Gaspar, Massa, Matos [2005](#)
- Tax differences Desai, Jin [2011](#)

How does voting aggregate shareholders' preferences?

1. Majority voting does not reflect intensity of preferences

- Should an indifferent majority prevail over an intense minority?

Levit, Malenko, Maug [2022](#), [2023](#)

2. Role of financial markets

- Trading allows to reflect the intensity of preferences
 - **aligns shareholder base** with firm's policies, making it more homogeneous
- But also allows shareholders **with extreme views** to gain more influence
- A **positive stock price reaction** to a vote **does not imply** higher **shareholder welfare**

Interaction between trading and voting:
Need to understand better

Brav Mathews [2011](#); Burkart Lee [2015](#); Levit Malenko, Maug [2022](#), [2023](#)
Meirowitz, Pi [2022](#), 2023; Danis, Speit, Voss 2023; Li, Maug, Schwartz-Ziv [2023](#)

Proxy advisors and investors' heterogeneous preferences

- Proxy advisors offer customized recommendations
 - off-the-shelf (thematic)
 - customized to the client (80% of funds)

Matsusaka, Shu [2021](#)
Hu, Malenko, Zytnick 2023

ISS' Multiple Policy Choices:

- > U.S. Benchmark Policy
- > European Benchmark Policy
- > International Benchmark Policy
- > Taft-Hartley Labor Policy
- > Socially Responsible Policy
- > Faith-based Policy
- > Sustainability Policy
- > Climate Policy

Thematic Voting Policies

Thematic Policies
Overview
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ESG
[Download](#)

Catholic
[Download](#)

Investment Manager
[Download](#)



GLASS LEWIS

Climate
[Download](#)

Public Pension
[Download](#)

Corporate Governance
Focused
[Download](#)

Taft-Hartley
[Download](#)

Do funds aggregate their investors' preferences?

- By default, fund managers cast votes on behalf of fund investors

⇒ Debate over: **Should fund managers vote their investors' shares?**

- Fund ideology does not represent its investors' ideology, except for ES funds
 - measured by propensity to support social responsibility proposals

Zytnick [2023](#)

Pass-through voting and “Voting choice”

Pass-through voting: Investors vote the shares they own through the fund

- BlackRock introduced “**Voting Choice**” in Oct 2021
 - 25% of eligible assets enrolled
- Other asset managers followed
- July 2023: largest ETF

Malenko, Malenko [2023](#) “Voting choice”

- Trade-off between aggregating **preferences** and **information**
- Investors who choose to retain their votes **do not internalize effects** on others
- Fund managers’ incentives to become informed may decrease

Shareholder participation

- If voting is costly \Rightarrow those with more intense preferences are more likely to vote

Campbell [1999](#); Krishna, Morgan [2015](#)

- Costs of voting are especially relevant for retail investors

Zachariadis, Cvijanovic, Groen-Xu [2020](#)

Lee, Souther [2019](#)

All votes	Retail votes (ownership)	Retail votes (accounts)
79%	31%	11%

Brav, Cain, Zytznick [2022](#)

- INDEX (Investor Democracy is Expected) Act
 - passive funds “cannot vote without instructions from fund investors, except for routine matters”

Voting and E&S concerns

Are E&S votes successful and informative?

- While E&S votes often fail, they contain information about E&S risks

He, Kahraman, Lowry [2023](#)

What determines investors' E&S votes?

- ESG funds are more likely to vote for ESG proposals
- Performance vs. sustainability tradeoffs
- Personal experience of fund managers

Dikolli et al. [2022](#)

Li, Naaraayanan, Sachdeva [2023](#); Michaely, Ordonez-Calafi, Rubio [2023](#)

Di Giuli et al. [2022](#); Foroughi, Markus, Nguyen [2022](#); Fich, Xu [2023](#)

Multiple dimensions of E&S concerns

- Spillovers to director elections
- Multiple dimensions of ESG

Aggarwal, Dahiya, Yilmaz [2023](#), Michaely, Rubio, Yi [2023](#)

Meirowitz, Pi, Ringgenberg [2023](#)

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Summary and new directions

Key channel of shareholder influence, keeps evolving

- Heterogeneity in shareholders' preferences becoming more salient
 - growth in E&S issues
 - pass-through voting
 - customized recommendations
- Role of technology
 - pass-through voting; proxy voting platforms
 - virtual shareholder meetings Brochet, Chychyla, Ferri [2021](#); Schwartz-Ziv [2021](#); [2020](#) report
 - meme stocks and retail investor participation in governance Aggarwal, Choi, Lee [2023](#)
 - blockchain can help with proxy plumbing Yermack [2017](#); Dec 2021 [lecture](#) by Wei Jiang
- Regulations: shareholder proposals; proxy advisors; universal proxy; INDEX Act