Voting Rationales

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Abstract

Why do institutional investors vote the way they vote? Using a novel dataset of institutional investors' voting rationales—the justifications provided for their votes—we offer direct evidence on the motivations behind institutions' votes in director elections. We use natural language processing techniques to classify and quantify the importance of each rationale, and first show that lack of independence and board diversity are top reasons for opposing directors. These rationales differing significantly from proxy advisors' rationales, suggesting independent judgment. Second, concerns raised in rationales reflect firms' governance weaknesses: companies with low board gender diversity receive more rationales on diversity, with similar results for independence, tenure, busyness, and CEO duality. Third, companies listen and change their board composition in the directions stated in voting rationales. Our results suggest that voting rationales can serve as an effective, low-cost tool for institutional investors to communicate with portfolio companies, enabling companies to address investors' concerns. These findings also suggest that institutional investors are not merely "rationale-washing"; rather, their rationales reflect true motivations behind the votes.

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

"Votes are binary, while rationales are able to provide nuances that can assist our portfolio firms, and the investors in our funds, to better understand the reasons behind the votes."
John Galloway, Vanguard Global Head of Investment Stewardship[1]

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.[2] Existing literature offers valuable insights into the determinants of institutional investors' voting decisions, making indirect inferences from observable information such as voting patterns and characteristics of companies, sponsors, proposals, or investors (e.g., Iliev and Lowry, 2015; Bubb and Catan, 2022). However, because votes are binary—either for or against—it is challenging to understand why a given investor voted a certain way on a company's proposal. For instance, if an institutional investor votes against a director nominee, it could reflect concerns about the candidate's qualifications or the company's overall strategy. Without understanding the underlying reason for each vote, firms may struggle to address investors' concerns effectively. In this paper, we examine voting rationales—the explicit explanations for votes based on institutional investors' own accounts—and the implications of these rationales on firms' actions. Our focus is on director elections, one of the most important decisions by shareholders (e.g., Cai, Garner, and Walkling, 2009; Aggarwal, Dahiya, and Prabhala, 2019).

We center our investigation on three main questions. First, what are the main reasons institutional investors state for votes against directors? Second, do voting rationales reflect actual governance issues within companies? Are stated rationales consistent with investors'

[1]Meeting between Vanguard Stewardship team and the authors, September 21, 2023.

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

voting behavior, or do they merely reflect *rationale-washing*—investors' attempts to project a particular narrative or image? Third, do companies address institutional investors' concerns stated in voting rationales, and are there any consequences of addressing those concerns?

We exploit a novel dataset of voting rationales that provides explanations for institutional investors' voting decisions on company proposals, including 780,429 rationales for director elections from 273 investors worldwide (e.g., *"Nominee serves on an excessive number of boards"*). We use Bidirectional Encoder Representations from Transformers (BERT), a natural language processing (NLP) technique, to categorize voting rationales into 12 different topics to capture the main reasons for dissent. Our analysis shows that lack of independence is the most frequently mentioned reason for institutional investors' opposition to directors, accounting for 21.2% of rationales—consistent with literature documenting the importance of independence (e.g., Gillan and Starks, 2000; Del Guercio, Seery, and Woidtke, 2008).[3] Notably, board diversity is the second most common rationale, constituting 17.7% of rationales and mentioned in 71.5% of meetings. This concern was already prominent even before the Big Three (i.e., BlackRock, Vanguard, and State Street) launched campaigns to promote board gender diversity in 2017 (Gormley, Gupta, Matsa, Mortal, and Yang, 2022). Director tenure and busyness are also among the main reasons. We find that a small but growing fraction of rationales hold directors responsible for ES/CSR concerns (Aggarwal, Dahiya, and Yilmaz, 2023). Interestingly, we rarely observe rationales related to the boards' advising roles (Adams, Akyol, and Verwijmeren, 2018) or firm performance as a reason for voting against directors. Our paper provides the first direct evidence of the concerns stated by institutional investors when casting votes, documenting their relative importance as reflected in rationales. As we discuss below, rationales likely reflect the true motivations behind the votes rather than simply rationale-washing.

We find that institutional investors form their opinions independently; they are not merely a reflection of proxy advisors' rationales. Although we cannot directly observe Institutional

[3]Independence 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.

Shareholder Services (ISS) or Glass Lewis rationales, our approach infers them from robo-voters, defined as investors who vote with ISS or Glass Lewis at least 99% of the time in a proxy season. They contribute about 14% of all rationales. We validate our approach by examining the similarity of rationales among robo-voters: if robo-voters are providing the rationales of their proxy advisors, they should be nearly identical across those using the same proxy advisor. Indeed, the cosine similarity within the same meeting is 0.96 for ISS robo-voters and 0.99 for Glass Lewis robo-voters. By contrast, the average cosine similarity across all investors is 0.44, indicating a broader range of perspectives. Further, robo-voters rarely mention some of the most common rationales, such as board diversity or director tenure.[4] In our sample, dissent toward directors can be substantial even when ISS recommends voting in favor. Thus, despite concerns about proxy advisors' significant influence (Iliev and Lowry, 2015; Malenko and Shen, 2016), our evidence suggests that many institutional investors make independent voting decisions, taking into account factors beyond proxy advisors' recommendations.

Addressing the second research question, we find that while different institutional investors may provide different rationales for the same director, in the aggregate, the rationales provide an accurate picture of companies' governance weaknesses. In particular, we find that companies receiving a higher fraction of rationales on board diversity have less gender-diverse boards. We observe similar patterns for companies with low board independence, long director tenure, busy directors, and CEO duality.[5] These results are important, as they show many institutional investors cast informed votes—formulated independently of proxy advisors, as our prior findings suggest—despite recent concerns about their lack of incentives to exert sufficient governance (e.g., Bebchuk and Hirst, 2019).

A crucial question remains: Do these rationales influence corporate policies? To this end,

[4]Hu, Malenko, and Zytnick (2024) find that many institutional investors now use customized proxy recommendations, interpreting that they play an active role in shaping their voting recommendations. To the extent that these customizations allow them to reflect their own views on the ballot, we do not consider them as robo-voters.

[5]We focus on these five rationales given that they are among the most commonly mentioned rationales, and we can directly connect them to board characteristics.

we analyze whether companies that receive rationales on a specific issue exhibit changes in that issue in the following year, which would suggest that companies address institutional 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. We also find that adjusting corporate governance in the direction suggested in rationales has advantages: firms taking action on issues identified in rationales exhibit reduced dissent toward directors in the following year.

Importantly, our results indicate that voting rationales provide companies with information beyond what is available from voting outcomes alone or by simply observing board characteristics. 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 other board characteristics). We do not find significant results, which suggests that rationales may serve as a communication tool, providing managers with information about which governance weaknesses investors prioritize. Notably, our results are not driven by proxy advisors or the Big Three: all the results hold when we exclude the rationales of robo-voters or the Big Three. Together, these results suggest that firms are willing to address concerns that result in high dissent, and voting rationales help communicate the source of this dissent.

While we find that rationales reflect companies' governance issues and that firms adjust their policies in directions suggested by these rationales, we still have concerns about whether the disclosed rationales represent institutional investors' true motivations for their votes. There are several additional reasons why this is likely the case. First, disclosing voting rationales is voluntary, so institutional investors could simply choose not to disclose their reasons, leaving little incentive to provide misleading explanations. Moreover, providing false rationales could expose them to legal consequences. Consistently, we find a clear connection between the stated rationales and institutional investors' voting behavior. For example, investors who fre-

quently 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. Although rationale-washing, conflicts of interest, or motivation to pursue a private interest may influence 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 stated rationales likely reflect the true motivations behind the votes and are associated with changes in firm policies.

Given that voting rationales are disclosed voluntarily, it is important to understand when disclosure occurs and how it impacts the interpretation of our findings. We find that disclosure is more likely when the net benefit of explaining a vote is higher. For example, votes against management are more frequently accompanied by rationales (14.5% vs. 1.7% for votes for) as the benefit of providing an explanation is greater in these more scrutinized cases. Disclosure also varies by investor characteristics, influenced by country-specific regulatory and cultural norms and by whether investors are signatories to the United Nations Principles for Responsible Investment (PRI). Notably, nine of the twenty largest institutional investors, managing over $37 trillion in assets, provided rationales in 2022. The voluntary nature of this disclosure might raise concerns that investors who provide rationales may not be representative of all institutional investors. Hence, we use propensity score weighting (PSW) to construct a sample that more closely resembles the overall population (Rosenbaum and Rubin, 1983), accounting for observable factors that influence disclosure decisions, such as investor, firm, and vote characteristics. Our findings indicate that the relative importance of various rationales—such as lack of independence, board diversity, tenure, and busyness—remains largely consistent when accounting for observable factors, suggesting that these factors do not influence our results.

Finally, although our analysis centers on rationales for dissent, an equally important question is what makes institutional investors support directors. We categorize the rationales for votes in favor, 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 directors, and even when they do, the rationales usually lack significant information (e.g., *"A vote FOR director nominee Thomas A. Edwards is warranted"*). This category accounts for 30.5% of these rationales. The second most common category notes concerns, often coupled with a note that the issues are not significant enough to oppose the nominee. Less frequently, we observe rationales justifying reasons for support, such as satisfactory board independence, diversity, and tenure, consistent with our findings for votes against. Despite their value, such rationales are infrequent in our random sample, posing challenges for our BERT model to accurately identify similar rationales in the full sample. Given the low frequency of rationales with information content, and the inability of the model to provide stable results, we focus on rationales for votes against directors.

Our paper contributes to the literature on the governance role of institutional investors (e.g., Hirschman, 1970; McCahery et al., 2016). We provide the most direct and comprehensive evidence based on institutional investors' stated reasons for votes in director elections, uncovering the governance issues they prioritize. While Ertimur, Ferri, and Oesch (2018) focus on an earlier sample (2003–2010) of 23,844 hand-collected rationales from ISS, our study includes nearly 800,000 rationales from 273 institutional investors worldwide. Importantly, many of these investors offer their own reasoning that often differs from ISS rationales, indicating a broader range of reasons behind their votes against directors, extending Ertimur et al. (2018). 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; Couvert, Fahlenbrach, and Sautner, 2024), expectation documents (Aguilera, Bermejo, Capapé, and Cuñat, 2024), or shareholder proposals (Gantchev and Giannetti, 2021). Voting policies are sometimes vague (they use broad terms like *"We generally vote against"* or *"Vote on a case-by-case basis"*) and are not strictly followed by institutional investors (Couvert, 2020; Couvert et al., 2024). Hence, the detailed, vote-specific explanations in voting rationales can provide additional insights into institutional investors' voting decisions.

Our paper also adds to the literature on the limits to effective governance by institutional investors. Prior literature documents that mutual funds' overreliance on proxy advisors (Iliev and Lowry, 2015), limited resources devoted to stewardship (Bebchuk and Hirst, 2019), 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 and independent decisions when casting their votes, and attention to voting decisions by institutional investors is probably more widespread than previously documented (Iliev, Kalodimos, and Lowry, 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 institutional investors can use voting rationales to communicate with companies, bring transparency to the decision-making process, and promote good governance practices. Disclosing voting rationales could also help clients understand their funds' voting decisions, enhancing transparency and improving stewardship, especially when fund voting seems to conflict with fund shareholders' interests (Cvijanović et al., 2016; Michaely, Ordonez-Calafi, and Rubio, 2024).

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

[6]We 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 relatively uncommon (represent only 10% of the meetings and 1.7% of votes in our sample), and not all firms

sources, including NP-X files, mutual fund web pages, and disclosure platforms hosted by ISS, Glass Lewis, and Broadridge (see section A of the Internet Appendix for examples of how this information is disclosed). 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 study votes at the voting-manager level (institutional investor, hereafter) and drop any individual fund-level information.

Our sample from Diligent includes 1,607 institutional investors worldwide that voted in at least 20 annual meetings in US publicly traded companies in at least one proxy season. 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%. Hence, our study provides a comprehensive analysis of institutional investors, covering a broad range of investor types often overlooked in many other studies that focus solely on US investors or mutual fund managers.

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 main 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). Director election proposals constitute most votes in publicly traded US firms, accounting for

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have at least one in our sample period.

[7]In 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, 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., 2024), 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). In some cases, an institutional investor only has voting rationales for some funds. 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.

73%. Director election proposals and other management proposals receive lower dissent than shareholder proposals, with average levels of 7.9% and 2.6% in our sample at the proposal level, respectively. The average dissent for shareholder proposals is significantly higher, at 68.35%.

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 on over 170,000 different proposals. BlackRock voted in more than 17,000 meetings and on more than 160,000 proposals. These figures are similar for the largest pension fund in our sample, New York City Pension Funds. The largest non-US institutional investor is Legal & General (from the UK), which voted in more than 13,000 meetings and on 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). Other low-cost strategies, such as expectation documents (Aguilera et al., 2024) or voting policies (Couvert, 2020; Couvert et al., 2024), only provide general guidelines over governance issues, which are not typically binding. For instance, Couvert (2020) finds that compliance with voting policies on shareholder proposals is below 50% for some families, while Couvert et al. (2024) show that mutual fund families vote against directors breaching stated voting criteria in about 14% of cases. Voting rationales can offer specific explanations related to individual companies and proposals (as mentioned in the open-

ing quote), expanding the scope of standard voting policies[8] or including explicit statements about deviating from their established proxy voting guidelines.[9]

2.2. Descriptive Evidence on Voting Rationales

The disclosure of voting rationales 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 this section, we provide suggestive evidence that the voluntary disclosure of voting rationales is linked to its potential benefits and costs.

Institutional investors' decisions to disclose vary across countries, potentially due to different regulatory environments, governance practices, and cultural norms (Cziraki, Renneboog, and Szilagyi, 2010; Dasgupta, Fos, and Sautner, 2021). In Figure 2, we present the proportion of votes with rationales as a function of investor country, for votes cast in US firms by US and non-US institutional investors. Figure 2 and Panel A of Table 1 reveal that European investors disclose voting rationales more frequently than their US and Australian counterparts. However, there is also variation in disclosure within countries, suggesting that other investor characteristics matter for disclosure. 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), CalSTRS, and Franklin Templeton. Some of the largest mutual fund families, such as BlackRock and Vanguard, disclose rationales

[8]For 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."*

[9]For 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."*

but for less than 10% of their votes, while others, like NEI Investments and Calvert, provide rationales for most of their votes. Notably, in 2022, nine of the twenty largest institutional investors, collectively managing over $37 trillion in assets, disclosed rationales.

We examine other institutional investor characteristics that literature predicts might be associated with engagement efforts, as proxied by disclosure. 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 likely have limited incentives to engage and be less inclined to provide detailed explanations for their voting decisions. Table 1 Panel A indicate that robo-voters are less likely than non-robo-voters to provide rationales. Specifically, ISS 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.[10]

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 differences in disclosure. 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 accompany 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). Moreover, we find that PRI signatories are more likely to disclose rationales for 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

[10]The fact that robo-voters disclose voting rationales might seem puzzling. However, there are at least two reasons for such disclosures: (i) compliance with country-specific governance practices and stewardship codes; and (ii) meeting client demands, as revealed in informal interviews with several institutional investors.

shareholder proposals (25.1% of votes for the Big Three and 8.0% for the Non-Big Three).

Considering that disclosing rationales can be costly for investors, institutional investors are more likely to disclose for votes where the perceived benefits are greater. 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). When breaking down by voting choices (i.e., for, against, abstain, withhold), we find that for director election proposals, institutional investors are more likely to disclose rationales when voting against (18.1%), abstaining (4.5%), or withholding (12.2%)—collectively referred to as against hereafter—than when voting in favor (1.7%), with similar patterns for other management proposals. 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 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. In unreported analyses, we find that the decision to disclose rationales can be largely explained by (i) the decision to vote against a proposal and (ii) whether the proposal is sponsored by a shareholder. For institutional investors that disclose at least once, a regression that includes these two factors and their interaction term, along with investor-proxy season fixed effects, achieves an R-squared of 58%. We estimate that approximately 10% to 15% of institutional investors disclose their rationale exclusively when they vote against management. In addition, we find that the disclosure of rationales is persistent among institutional investors. We find that 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.

Overall, our analysis demonstrates heterogeneity in the disclosure of voting rationales among different institutional investors, proposal types, and vote choices, and the disclosure of voting rationales is arguably linked to the potential benefits and costs of disclosure. Therefore, voting rationales are more likely to capture the reasons provided by investors who have higher incentives and greater ability to disclose, particularly in situations where offering an explanation for the vote may significantly benefit the firm. While this section provides an overview of which votes have 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 one of the main issues of our investigation, namely, the reasons institutional investors provide for their votes. 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 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. We focus on the subsample of director election proposals at annual shareholder meetings 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, firm governance, and directors (Cai et al., 2009; Ertimur et al., 2018; Aggarwal et al., 2019). 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 a broad set of 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. 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 (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 of directors. Given the large number of unique rationales, manually categorizing all of them would be challenging, so we employ 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, 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 a more precise categorization. By contrast, unsupervised models, such as latent Dirichlet allocation (LDA), might 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 directors. To implement the supervised classification model, we start by selecting a random sample of distinct rationales (1,438, about 2%) and categorizing each of them. Two authors independently read over the random sample and agreed on 12 categories, as presented in Table 3 Panel A: *Attendance*, *Board diversity*, *Board structure*, *Busyness*, *CEO duality*, *Compensation*, *ES/CSR*, *Independence*, *Rarely mentioned*, *Responsiveness*, *Tenure* and *Unequal voting & others*.[11] 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. The literature has identified other important factors in voting outcomes (e.g., poor performance, proxy advisors' recommendations). Those with fewer than 10 instances in the random sample are included in the *Rarely mentioned* category. Specifically, we observe five instances of poor stock performance,[12] one instance of proxy advisors' recommendations,[13] and three instances of lack of director skills and experience.[14]

[11]The *Unequal voting & others* category includes supermajority voting, dual-class shares, and other governance-related issues.

[12]Consistently, McCahery et al. (2016) and Yi (2024) show that corporate performance is not a key driver of institutional investors' engagement and does not strongly influence mutual funds' support for shareholder-sponsored governance proposals, respectively.

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

[14]Although 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.

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, we assign the *Board diversity* label. Consider another rationale: *"A vote against is warranted because: -The nominee serves as the company's CEO/Chair. -To signal to the board that stronger independent oversight and board management of climate risks at the company are necessary."* In this case, we assign the *CEO duality* and *ES/CSR* labels. As these examples demonstrate, rationales can 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.[15] 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

[15]We 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.

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.[16] 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 report the 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 some labels are assigned to a small portion of observations (e.g., out of 1,438 rationales, only 40 relate to *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 classes.

Conditional on having a rationale, at the vote level (i.e., proposal-investor level), we find that each vote against a director has 1.42 labels, on average. 67% of rationales for votes against

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

directors have only one label, and the remaining 33% discuss at least two issues. At the meeting level, each company receives rationales from 6.15 institutional investors, on average, and 3.81 distinct issues are raised, provided there is at least one rationale on director elections.

Turning to votes in favor, we focus on a random sample of 719 distinct rationales, representing about 4% of the total distinct rationales.[17] Using a similar procedure as the one for votes against, we categorize the rationales for votes in favor into eight non-mutually exclusive categories: *Board diversity*, *Cautionary vote*, *Independence*, *New director*, *No reason*, *Rarely mentioned*, *Responsiveness*, and *Tenure*. We explain each label and provide examples in Table 3 Panel B. Many rationales are used for both votes in favor and against, 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, ES/CSR,* and *Unequal voting & others*, because investors rarely mention these issues as reasons for votes in favor of directors (we only have one instance of *Board structure*, two of *Busyness*, two of *CEO duality*, five of *Compensation*, four of *ES/CSR*, and seven of *Unequal voting & others* in the random sample). On the rare occasions these rationales are mentioned, we categorize them under *Rarely mentioned*. The 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 97%, balanced accuracy of 95%, precision of 88%, recall of 92%, and an F1-score of 89% (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 0.57 for *Independence*). We further discuss this limitation and its impact on our findings in section 4.1.2.

[17]While 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.

4. Why Do Institutional Investors Vote the Way They Vote?

In this section, we investigate the main reasons institutional investors provide for their 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 16 involving the rationale for "G. Stacy Smith"). To avoid counting the same rationale multiple times, in the remainder of the paper, we consider whether an institutional investor raises each issue at least once in a given meeting. That is, 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

We examine the stated rationales for voting against directors. Table 5 provides a breakdown of the frequency of different reasons behind votes against (including abstentions and withheld), based on data at the investor-meeting level. Column (2) shows that *Independence* is the top concern raised by institutional investors, accounting for 21.2% of all mentions across all the 12 categories. The *Independence* category includes various types of independence concerns, which

are not mutually exclusive. In our random sample, 59% of rationales related to *Independence* refer to the fraction of independent directors on the board, 68% discuss insufficient independence in key committees, and 15% address the lack of a lead independent director. 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 aligns with the literature documenting the value of board independence (e.g., Nguyen and Nielsen, 2010) and the importance placed on this issue by institutional investors (e.g., Gillan and Starks, 2000; Del Guercio et al., 2008).

We find that *Board diversity* is the second most common category 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 as it indicates that institutional investors cite board diversity as one of the most important factors in their decisions to vote against directors. This analysis also shows that institutional investors have cited 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).[18] In our sample, the percentage of rationales on *Board diversity* increased from approximately 12.3% in the 2014 proxy season to 19.5% 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 *Board structure*, *Busyness*, *CEO duality*, *Compensation*, *Tenure*, or *Unequal voting*

[18]Recent work by Aggarwal et al. (2023) and Gow, Larcker, and Watts (2023) document increased vote support for directors on boards that exhibit greater diversity.

& others,[19] have been of interest to institutional investors and proxy advisors for several years, our study is the first to provide direct evidence of the relative importance of these factors from institutional investors' own accounts. Some factors, such as *Tenure* and *Unequal voting & others*, are among the most frequently mentioned categories behind votes against directors, each accounting for 11.8% and 13.6% of rationales, respectively. Other factors, such as *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). *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 indicate as priorities when making voting decisions, offering new insights for future research and corporate governance practices. Naturally, the issue of rationale-washing and proxy advisors' influence looms over our interpretation, yet our subsequent evidence suggests that none of these factors can fully explain our results.

We also find that some institutional investors hold directors accountable for *ES/CSR* issues when casting their votes. This voting rationale is still relatively uncommon, accounting for only 1.2% and mentioned in 7.1% of meetings with rationales for votes against. It has become more important in recent years (Figure 4), consistent with recent anecdotal and academic evidence suggesting that some ESG dimensions are associated with voting outcomes in director elections (Aggarwal et al., 2023).[20] At the same time, we identify no clear time-series pattern in the relative importance of different 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,

[19]In our random sample, 33% of these issues refer to supermajority vote standards, 10% to dual or multiple class shares, 10% to adoption of certain provisions without shareholder approval. Other issues such as pledging of company shares or auditing or accounting problems are mentioned at a lower frequency.

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

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 PSW (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 weighted to match their proportion in the overall population, rather than their higher proportion among those providing rationales. 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. This methodology allows us to more accurately estimate the importance of different rationales within the larger investor community. Upon implementing the PSW, we find that the relative importance of various rationales remains largely consistent (column (3) of Table 5), indicating that our results are not significantly affected by observable factors influencing disclosure. Please refer to section B of the Internet Appendix for further details on our PSW procedure.

Different institutional investors may give varied reasons for voting against directors, potentially reflecting their heterogeneous preferences or motivations (e.g., Bolton, Li, Ravina, and Rosenthal, 2020; Hu et al., 2024). In section C of the Internet Appendix, we document which issues are stated as more important for each investor type. A comparison of US and European institutional investors (Figure IA.2 Panel A) shows that European investors focus more on *Independence, Tenure,* and *CEO duality*, whereas *Board diversity* and *Busyness* are of greater concern to US investors. We also find that the Big Three institutional investors have particularly emphasized *Board diversity* since 2017 (Figure IA.3), coinciding with the launch of campaigns by the Big Three to increase board gender diversity (Gormley et al., 2022). Notably, they started to vote against directors for *ES/CSR* concerns since 2020. *Board diversity* and *ES/CSR* concerns are more frequently raised by PRI signatories than non-PRI signatories, potentially reflecting the UN PRI's guiding principles (Figure IA.2 Panel C). 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 the rationales of fund managers.

While these variations in stated issues likely reflect investors' preferences, we find that investors are not providing "blanket rationales" regardless of the company. We examine all the rationales an investor provided in a given proxy season across different meetings and calculate the average cosine similarity for all possible pairs. The average similarity across all pairs is 0.46 (Table 6 Panel A). This moderate level of cosine similarity suggests that investors tailor their rationales to companies, rather than applying a blanket approach across all companies.

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* (30.5%), 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. The second most common category, comprising 24.3% of rationales, is labeled *Cautionary vote*. This category includes instances in which the institutional investor expresses 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 include factors such as sufficient *Independence, Board diversity*, and *Tenure* (or efforts toward them). This reinforces our earlier finding that the lack of these factors is frequently cited as a reason for voting against directors. These account for 18.9%, 11.1%, and 1.0%, respectively. These figures have to be interpreted with caution because the model performance for these minority categories is relatively poor (e.g., recall is 0.57 for *Independence*). We also find that

7.1% of investors express support for directors who have recently joined the board (labeled *New director*), arguing that they should not be held accountable for existing company issues.

Overall, institutional 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 rationales for votes in favor. This finding suggests that institutional investors use rationales to communicate their concerns with management, rather than to explain the reasons behind their support. Given this pattern and the challenges in obtaining stable results due to the low frequency of informative rationales in the random sample, we focus on votes against 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; Ertimur et al., 2018; Shu, 2024), 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' governance. There are two reasons why this is unlikely to be the case. First, large institutional investors such as BlackRock, Norges Bank, or Legal & General, who have high voting power, often vote differently from proxy advisors' recommendations, suggesting that many institutional investors gather information and make independent voting decisions. Second, while prior research documents that dissent toward directors is typically minimal when ISS recommends voting in their favor (Ertimur et al., 2018), our sample shows a higher level of opposition. For instance, Ertimur et al. (2018) find that when ISS issues a favorable recommendation, less than 5% of proposals receive more than 10% dissent. In contrast, our sample, covering a more recent period and a broader range of firms, shows that 13% of proposals receive more than 10% dissent even when ISS recommends voting in favor (see section D of the Internet Appendix). In this section, we provide evidence that rationales in our sample differ substantially from proxy advisors' rationales.

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 investors who follow either ISS or Glass Lewis recommendations 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. 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 rationales provided by their proxy advisors, leading to all robo-voters providing the same rationale on the same meeting. Consistently, we find that robo-voters are much more likely to provide the same rationale for a given meeting, adding weight to the view that these institutional investors provide the rationales of their proxy advisor. Specifically, the average cosine similarity between any two ISS robo-voters' rationales for votes against is 0.96, much higher than 0.44 for all investors (Table 6 Panel B). For Glass Lewis robo-voters, the average cosine similarity is 0.99.[21]

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, *Unequal voting & others* is 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 ISS mentions *Board diversity* for the first time in 2019 and 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 relatively more common for

[21]See also section A of the Internet Appendix for examples of how rationales look like for a set of investors casting their votes at the same meeting. Both the reasoning and styles differ across investors, suggesting that these rationales are unlikely to be derived from the same source.

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 *Independence*, *Unequal voting & others*, *Busyness*, and *Compensation*. Similar to ISS robo-voters, Glass Lewis robo-voters began mentioning *Board diversity* in 2018.

Overall, our analysis reveals that institutional investors' rationales deviate substantially from those of proxy advisors. While *Independence* is a common concern between proxy advisors and institutional investors, *Board diversity*, *Tenure*, and *CEO duality* are some of the most frequent concerns in our data that are not as often highlighted by proxy advisors. Although custom proxy advice has become more common (Hu et al., 2024), it is considered a form of active monitoring in which institutions shape recommendations to reflect their own views rather than simply following proxy advisors. This supports the notion that many institutional investors formulate and convey their own rationales rather than simply reiterating those of proxy advisors.

5. Do Institutional Investor Concerns in Voting Rationales Have Substance?

In this section, we examine whether the concerns institutional investors express in the rationales are informative about a company's governance weaknesses. 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 clients, implying that they should highlight real issues within 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 (e.g., Davis and Kim, 2007; Cvijanović et al., 2016; Michaely et al., 2024). 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). Given that rationales are disclosed for only 14.5% of votes against, the concerns expressed in the rationales may not be reflective of the actual governance issues at companies.

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 related to *Independence*, *Board diversity*, *Tenure*, *Busyness*, or *CEO duality* for votes against directors, 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 eight main rationales (Table 5). While *Unequal voting & others*, *Compensation* and *Board structure* appear often in our sample, these categories include several dimensions for which no suitable proxy effectively captures all these issues. For instance, the *Unequal voting & others* 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 these five dimensions.

To formally evaluate whether these 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.[22]

[22]While board diversity generally refers to gender, it might also refer to other directors' characteristics. In

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:

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

where $Prop_Rationales_{jt}$ 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 rationales mentioned by all institutional investors in the same meeting, capturing 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 *ES/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, $Prop_Rationales_{jt}$ varies between 0 and 1. We exclude the *Rarely mentioned* category as it combines observations that do not fit into any specific categories and do not contribute meaningful insights.

$BoardCharacteristics_{jt}$ is either the percentage of independent directors, percentage of female directors, average director 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

section E of the Internet Appendix, we consider both gender and ethnic diversity for a smaller sample of firms using an alternative dataset.

of distinct labels is 3.6 for meetings with at least one rationale (after excluding the *Rarely mentioned* category). The average of *Prop_Rationales* are reported in column (5) of Table 5.

Table 7 Panel A presents the results. Column (1) shows that firms with a higher proportion of independent directors on the board have fewer rationales on *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 2.3% in the proportion of rationales on *Independence*, and it is statistically significant at conventional levels (t-stat = −6.8). Similarly, the coefficient in column (2) indicates that when firms have a higher fraction of female directors on the board, they receive fewer rationales regarding *Board diversity*. The coefficient is highly statistically significant (t-stat = −26.0), 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 7.5%.[23] Columns (3) and (4) show that firms with board members with longer average tenure and busier directors receive more rationales that reflect concerns about *Tenure* and *Busyness*, respectively. These coefficients are statistically significant (t-stat = 31.9 and 23.2, respectively). A one-year increase in average tenure increases the proportion of rationales on *Tenure* by 1.1%, and adding one more board seat increases the fraction of concerns on *Busyness* by 14.8% on average. Finally, column (5) shows that firms in which the CEO is the chairman of the board receive a 7.2% higher fraction of rationales related to *CEO duality*, and the coefficient is highly significant (t-stat = 38.2).[24]

Because voluntary disclosure of rationales can lead to *Prop_Rationales* overweighing the views of more outspoken investors, we calculate an alternative version of *Prop_Rationales* using PSW, called *Prop_Rationales** (see Section B of the Internet Appendix for details on its construction). This version assigns higher weights to rationales from investors who are more

[23]We find qualitatively similar results for ethnic diversity, using data from ISS (see section E 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*.

[24]In 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).

representative of the overall population, similar to the approach used in column (3) of Table 5. Panel B of Table 7 shows that the coefficients are similar to those in Panel A in terms of economic magnitude and statistical significance, indicating that our results are not strongly influenced by observable factors influencing the decision to disclose.

One would expect firm performance to be a key consideration when voting against directors; yet Table 5 shows it is not. This is surprising given that institutional investors care about portfolio financial performance. One could argue that even when performance is not explicitly mentioned, it might indirectly affect rationales because institutional investors might show a weaker level of trust in management in firms with poor performance. For example, if two firms have issues with diversity, a firm with poor performance will hear concerns about *Board diversity* in voting rationales, 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 ($alpha_mm$) and $BoardCharacteristics$. In Panel C of Table 7, we find that the coefficient on the interaction term is generally insignificant. This finding is robust to alternative proxies of firms' past performance. The interaction between the percentage of female directors and performance goes in the opposite direction. Consistent with Iliev et al. (2021), our findings indicate that institutional investors' monitoring efforts are not related to firms' past performance. This also aligns with our conversations with several large institutional investors, who emphasized that their primary (and sole) focus when voting on director elections is on governance, rather than directing how the firm should be managed.

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 many institutional investors cast informed votes. This suggests that these rationales highlight companies' real issues rather than merely being rationale-washing by institutions. Accordingly, we expect that stated rationales will be reflected in the voting

behavior of institutional investors. For example, if an institutional investor frequently mentions concerns about a particular issue (e.g., *Board diversity*), they should be more likely to vote against directors in firms where these issues are present (e.g., low proportion of female directors). Such consistency would further support the notion that rationales provided by institutional investors represent genuine concerns. We estimate the following regression:

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

where $Vote_Against_{ijt}$ is the fraction of votes against directors that investor i casts at firm j in proxy season t, and γ_i represents investor fixed effects. To account for the possibility that large and small institutions might vote differently, we additionally control for institution size, proxied by the number of proposals each investor voted on during the proxy season. For each of the five issues examined in section 5.1 (*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 a 10% increase in the percentage of female directors, the fraction of votes against directors decreases by 0.0272 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 on the interaction terms 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 these analyses is that institutional investors who provide rationales exert governance efforts when casting their votes. Even though rationales are disclosed for only some votes, the concerns expressed in rationales are reflective of companies' governance characteristics. This finding is especially relevant in light of recent concerns suggesting that institutional 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 obscure their true rationales, our findings indicate that this practice is not dominant, and the stated rationales align with investors' voting behavior. Lastly, although some activist strategies may be too costly 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?

If institutional investors' rationales reflect companies' governance weaknesses and not simply rationale-washing, a natural question is whether firms address institutional investors' concerns through changes in governance structures. We analyze whether concerns stated in voting rationales are correlated with future changes in board composition. We also present falsification tests to reduce potential concerns that firms might independently identify and address their governance weaknesses without relying on institutional investors' rationales. We further show that our results are not driven by the rationales of proxy advisors or the Big Three. 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 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 (e.g., Cai et al., 2009; Aggarwal et al., 2019). We explore whether firms address concerns highlighted in voting rationales, in that they are associated with adjustments in governance practices in accordance with the stated rationales. For example, we investigate whether high dissent explained by *Board diversity*, as highlighted in voting rationales, is associated with increased female representation in the following year. Similarly, we examine high dissent related to concerns over *Independence*, *Tenure*, *Busyness*, and *CEO duality*. We

estimate the following equation:

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

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*, *Busyness*, and *CEO duality* (i.e., $Prop_independence$, $Prop_board_diversity$, $Prop_tenure$, $Prop_busyness$, or $Prop_CEO_duality$). Our main coefficient of interest is β_3 and captures future changes in any of the previous board characteristics when dissent is higher and a higher fraction of voting rationales refer to that governance issue. X_{jt} includes a set of controls for firm and meeting characteristics defined in equation (1). τ_t and θ_l 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 board 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 $t+1$, and column (3) shows the results for changes from year t to $t+2$. Different panels exhibit results for different governance issues. Panel A presents the results for changes in 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 the 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 characteristics. For instance, in Panel B, we present the results for changes in 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 = 2.9), and the economic impact is large. When evaluating the effect for dissent of 12% (75th percentile), a 10% increase in the proportion of rationales on *Board diversity* is associated with a 9.6% increase in the proportion of females. The results are stronger when we consider changes in the proportion of female directors on the board after two years, because firms may have difficulty securing more female directors in the short term (column (3)).

Panels C, D, and E of Table 9 present the results for changes in tenure, busyness and CEO duality, respectively. Results in column (2) of these panels indicate that high dissent related to *Tenure*, *Busyness*, 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 = -2.0, -2.7, and -3.1, 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. Because voluntary disclosure of rationales can cause *Prop_Rationales* to overrepresent the views of more vocal investors, we perform the PSW adjustments in column (4) of Table 9. This analysis is analogous to the analysis in Table 7 Panel B. We find similar results using *Prop_Rationales**, suggesting that the results in Panel A do not just reflect the views of investors that frequently disclose voting rationales.

The results presented above suggest that voting rationales are informative of the reason for voting against directors and that directors seem to subsequently address these concerns, but they do not necessarily imply causality. We next present additional tests to rule out alternative explanations, thereby providing additional evidence to support a causal interpretation. In particular, it can be argued that firms can identify and address their corporate governance weaknesses independently of the rationales expressed by institutional investors. For example,

a firm with low board gender diversity might recognize this issue and adjust its gender balance even when rationales do not point out the issue. To formally test this possibility, we run a specification similar to equation (3), but we replace *Prop_Rationales* with *BoardCharacteristic* 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 (5) and (6) of Table 9. We find that the coefficients on the interaction term go in the opposite direction (and significant) for directors' independence, tenure, and CEO duality. For instance, the results in column (6) of Panel A indicate that high dissent in firms with a high fraction of independent directors seems to increase independence to a larger extent in t+1, contrary to what would be expected. The results are statistically insignificant for board diversity and busyness. These findings provide further 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 information about which governance issues are priorities from institutional investors' perspectives. Note 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 (5) 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, as can be seen by the insignificant coefficients (or significant in the opposite direction) on the interaction terms between dissent and board characteristics.

Why is the interaction between dissent and board characteristics insignificant? One possible interpretation is that the board characteristic itself might not indicate how important this governance concern is to investors. For example, consider a firm with a long director tenure and a lack of responsiveness. The firm might interpret high dissent as a sign that long director tenure is the main concern and address this issue, while the actual reason for dissent is a lack

of responsiveness, which they might neglect. Voting rationales can provide insight into the importance of each issue for investors and encourage changes in the most pressing governance issues.

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 addressing governance issues in portfolio firms. 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.

Finally, what if voting rationales are correlated with other types of corporate engagements? While we cannot rule out that possibility because engagements often occur behind the scenes (McCahery et al., 2016), this would reinforce our findings that (voluntarily disclosed) voting rationales are representative of institutional investors' concerns. Moreover, this is still consistent with the interpretation that firms are willing to change their policies in the direction suggested by institutional investors. However, due to the extent of diversification of institutional investors, they might not reach as many firms through private engagements as they would with voting rationales. Consequently, this correlation is likely to be relatively small.

6.2. The Influence of Proxy Advisors and the Big Three

To further validate that our results are not driven by proxy advisors' rationales, we examine a subsample of meetings in which ISS, the leading proxy advisor (Shu, 2024), recommends voting in favor of all directors or raises no concerns about the specific topic under consideration. The analysis in Table 9 Panel A column (7) is restricted to cases where ISS supports all director candidates, or when robo-voters provided rationales but none of them mention concerns related to *Independence*. In these cases where institutional investors' voting rationales are unlikely to be influenced by ISS rationales, we find significant results for the change in the proportion of females on the board, the change in the average director tenure, and the change in CEO duality

the year after the meeting. This aligns with the fact that ISS rarely raises *Board diversity*, *Tenure*, and *CEO duality* as reasons for dissent votes (see Figure 5). It also shows that even though some issues are rarely flagged by ISS as reasons for dissent when raised by institutional investors, they still prompt changes. The results for *Independence* remain insignificant (column (7) of Panel A), consistent with those reported in column (2) of Panel A. For *Busyness*, a concern typically raised by ISS, the findings remain significant, suggesting that firms not only respond to concerns raised by ISS (Ertimur et al., 2018), but also when ISS does not raise concerns about director busyness. These results show that institutional investors' voting rationales are often different from ISS rationales and at the same time possibly drive changes in board composition.

In additional analyses, we run the same specification presented in column (2) of Table 9, 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 average director tenure, average busyness of the directors, and CEO duality (see section F of the Internet Appendix). These results reinforce the interpretation that firm policy changes observed in Table 9 reflect firms addressing a broad spectrum of investor concerns, not just the concerns highlighted by ISS.

Our results could also be driven by the Big Three's voting rationales. Because their campaigns launched in 2017 to increase board gender diversity (e.g., Gormley et al., 2022) coincide with the increase in voting rationales on *Board diversity* among the Big Three, we repeat our analysis excluding voting rationales by the Big Three. We 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 F of the Internet Appendix). Likewise, we find that the main results hold for changes in directors' tenure, busyness, and CEO duality when excluding the Big Three.

6.3. Does Addressing Concerns Relate to Future Dissent?

Our analyses so far suggest that institutional investors raise real and legitimate concerns in their rationales (that are independent of that of proxy advisors) and that firms' actions are consistent with them trying to address concerns stated in voting rationales. We now investigate whether addressing these concerns is associated with fewer dissenting votes in the following year. We estimate the following regression:

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

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 1.9% from the previous year (t-stat = −9.5). In column (2), which includes firm- and meeting-level controls, the magnitude of dissent reduction is 1.0%, and in column (3), which further incorporates controls for average dissent and board characteristics, shows a reduction of 0.5% (t-stat = −4.7 and −2.6, 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%, respectively, a reduction of 0.5% 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. In Panel B, we report results with PSW adjustments, analogous to our earlier analyses (e.g., Table 7 Panel B, Table 9 column (4)). We obtain similar results as in Panel A, suggesting that our findings are robust despite the voluntary nature of disclosure.

Overall, our results are consistent with companies 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 director election.

7. Conclusion

In this paper, we study why institutional investors vote the way they vote. Whereas prior evidence has relied on indirect evidence based on firm, proposal, and meeting characteristics, this paper provides direct evidence by studying the explanations provided by institutional investors on why they voted the way they voted, focusing on director elections. This novel dataset contains over 750,000 rationales from institutional investors worldwide for votes cast in US companies' annual shareholders meetings between July 2013 and June 2022.

We employ the BERT algorithm, a supervised NLP method, to classify rationales for votes in uncontested director elections. Our study is the first to provide direct evidence of the reasons stated by institutional investors for voting against directors, based on their own accounts. Our analysis reveals that the main reasons are lack of independence and board diversity. We also find evidence of some well-known reasons for opposing directors, such as tenure, busyness, or lack of responsiveness to shareholders. Moreover, our results indicate that institutional investors are increasingly stating concerns over environmental and social issues as reasons for voting against directors. Rationales for votes in favor are less common and the stated reason for support is less informative. Nevertheless, the results suggest that rationales for voting in favor of directors also emphasize similar issues, with independence and diversity frequently stated as reasons for support. Our results indicate that voting rationales do not just capture proxy advisors' rationales, but rather the independent assessment 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 this issue less frequently. We document similar results for directors' tenure, busyness, and CEO duality. Overall, these results suggest many institutions make voting decisions independently and with merits.

We next examine whether future changes in board composition are associated with institutional investors' concerns highlighted in their voting rationales. We find that heightened concerns expressed in voting rationales about board diversity, combined with high dissent voting, lead to an increase in the fraction of females on boards in the following year. We obtain similar findings for dissent combined with concerns related to tenure, busyness, and CEO duality. Our analysis further shows that dissent alone does not prompt company changes; instead, changes occur when rationales refer to these issues. While we are careful not to draw strong causal

inferences, our results collectively suggest that companies respond to issues raised by institutional investors. Additionally, the granular nature of our data, which links the firm's response to shareholder votes with the stated reasons behind votes, sheds light on how institutional investors' concerns, as expressed in rationales, can induce changes in corporate governance. Consistent with rationales having substance, 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.

Finally, our findings have interesting and important implications for the monitoring role played by institutional investors. We find that institutional investors make informed decisions regarding director elections, with no evidence of rationale-washing. Instead, our findings indicate that they conduct their own research rather than merely rubber-stamping proxy advisors' recommendations. Institutional investors' rationales are grounded in the actual state of the firm's board, such as a lack of diversity or a long-tenured board. Thus, the results indicate that institutional investors play an important and independent role in monitoring firms' governance.

Appendix A. Variable Definitions

Variable	Definition (Source)	Mean	Median	SD	N
Meeting Level					
AddressScore	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 dimensions in Table 3 Panel A excluding the *Rarely mentioned* category. * indicates PSW adjustment. (BoardEx)	0.12	0.00	0.24	31,014
AddressScore_alt	A modified version of *AddressScore*, calculated with the same approach but relative to concerns in only five dimensions: independence, board diversity, director tenure, director busyness, and CEO duality. * indicates PSW adjustment. (BoardEx)	0.16	0.00	0.31	30,585
alpha_mm	Firms' market-adjusted returns. We estimate rolling market model regressions of firm returns over months $t-36$ to t, on the market premium. *alpha_mm* is the intercept of such regression.	-0.00	-0.00	0.02	21,028
AvBusy	Average number of seats held by all directors. (BoardEx)	1.54	1.46	0.47	25,039
AvTenure	Average tenure of all directors. (BoardEx)	7.60	7.13	4.86	25,039
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	25,039
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	25,038

(Continued)

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Variable	Definition (Source)	Mean	Median	SD	N
Meeting Level (cont.)					
Per_independent	Percentage of independent directors on the board, ranging from 0 to 1. (BoardEx)	0.84	0.87	0.09	25,039
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)	0.27	0.18	0.30	26,420
Prop_CEO_duality	Proportion of rationales related to CEO duality. Defined the same way as Prop_board_diversity. * indicates PSW adjustment. (Diligent)	0.03	0.00	0.08	26,420
Prop_busyness	Proportion of rationales related to busy directors. Defined the same way as Prop_board_diversity. * indicates PSW adjustment. (Diligent)	0.09	0.00	0.18	26,420
Prop_independence	Proportion of rationales related to independence. Defined the same way as Prop_board_diversity. * indicates PSW adjustment. (Diligent)	0.22	0.19	0.23	26,420
Prop_tenure	Proportion of rationales related to tenure. Defined the same way as Prop_board_diversity. * indicates PSW adjustment. (Diligent)	0.09	0.00	0.13	26,420
ROA	Return on assets as of the end of the fiscal year. (Compustat)	-0.05	0.02	0.38	26,491
Investor-Proxy Season Level					
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	0.26	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	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
Investor-Meeting Level					
Vote_Against	Fraction of votes against directors that an investor casts in a given meeting. (Diligent)	0.14	0.00	0.28	3,470,442
Investor Level					
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. Cosine Similarity of Rationales

Each investor's rationale is a vector with 12 elements indicating whether each issue (e.g., *Independence, Board diversity, Tenure*) was raised during the annual meeting for at least one director. Investor i's rationale is defined as $R_i = [r_i^1, r_i^2, ..., r_i^{12}]$, where 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. For any two investors who provided rationales in a given meeting, the pairwise cosine similarity of their rationales can be calculated as follows:

Pairwise cosine similarity $= S_C(R_i, R_k) = \dfrac{\sum_{n=1}^{12} r_i^n r_k^n}{\sqrt{\sum_{n=1}^{12} r_i^n}\sqrt{\sum_{n=1}^{12} r_k^n}}$.

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 to obtain the cosine similarity. It ranges from 0 and 1, with higher values indicating greater similarity among investors' rationales.

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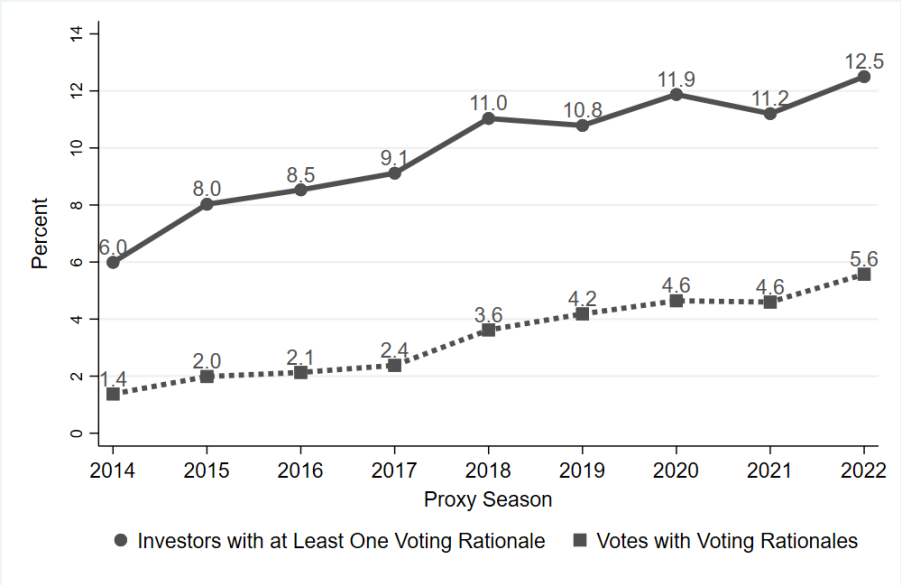


Figure 1. Fraction of Votes with Voting Rationale over Time. The figure shows the trend in voting rationale disclosures over time. While the disclosure was relatively uncommon at the beginning of the sample period, the fraction of votes with rationales increased over time, reaching 5.6% in 2022.

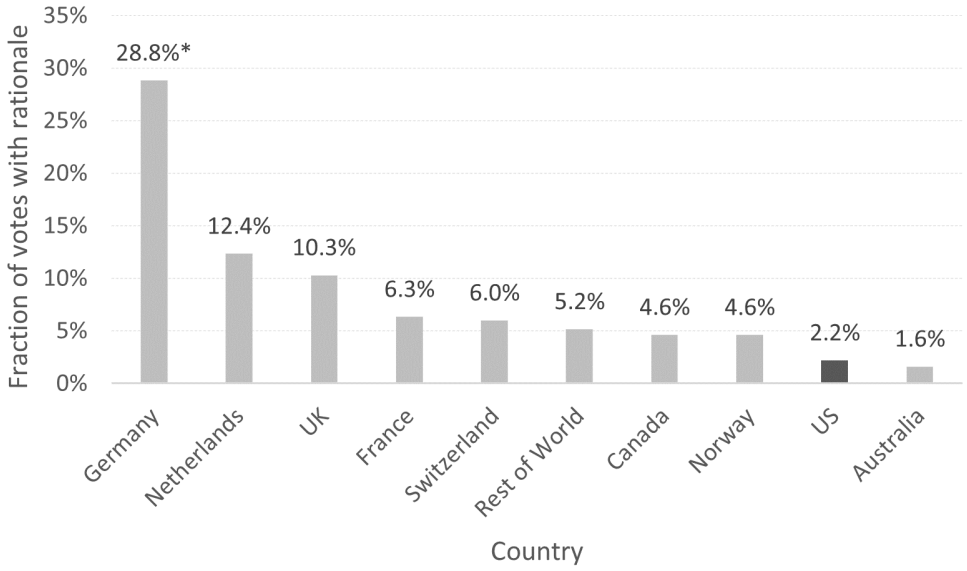


Figure 2. Fraction of Votes with Voting Rationale: By Institutional Investor Country. The figure shows the variation in the disclosure of voting rationales among institutional investors from different countries. The "Rest of World" group encompasses 25 countries, including Denmark, India, Japan, the 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. Specifically, the high proportion of votes with rationales is driven by Allianz Global Investors which accounts for 60% of votes for German institutional investors; thus, this figure has to be interpreted with this caveat in mind.

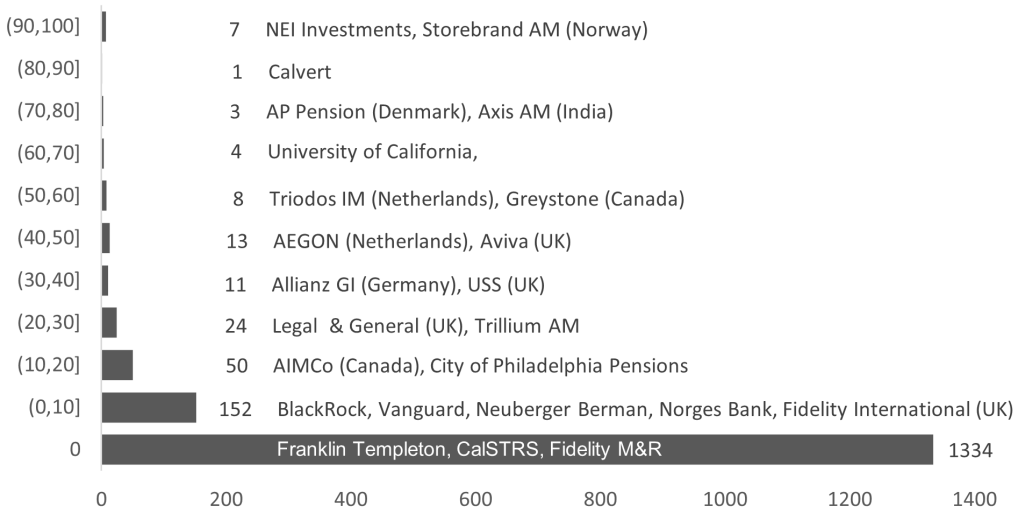


Figure 3. Percent of Votes With Voting Rationale: By Institutional Investors. This figure categorizes institutional investors based on the average percentage of votes with rationales for the full sample period (July 2013 to June 2022). The figure shows that while most institutional investors do not disclose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

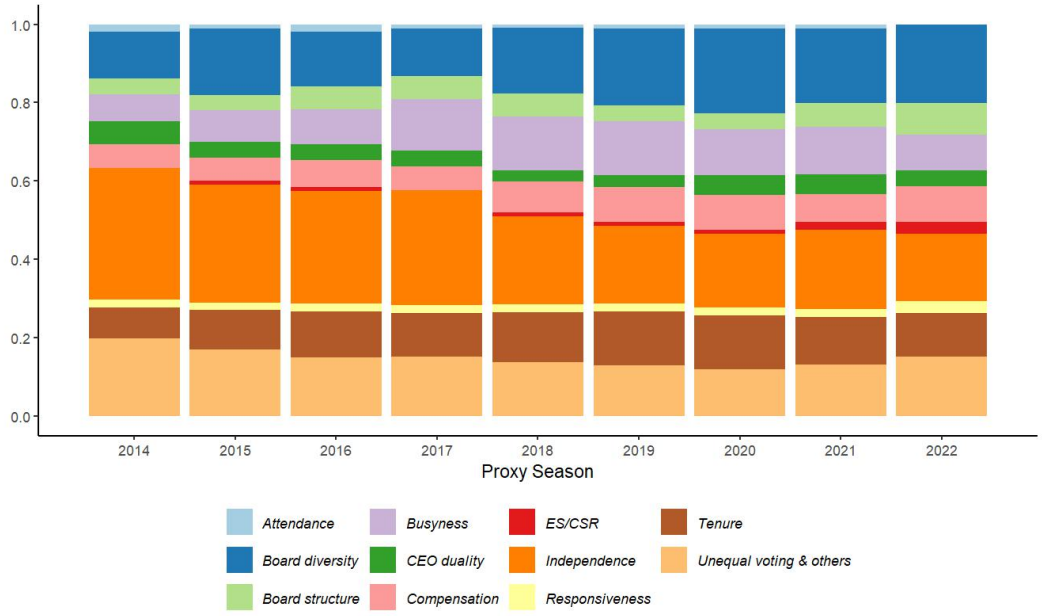


Figure 4. Relative Frequency of the Various Rationales over Time. The figure shows the relative frequency of the different rationales for votes against directors over the 2014–2022 proxy seasons. The *Rarely mentioned* category is excluded, as it combines observations that do not fit into any specific categories and do not contribute meaningful insights.

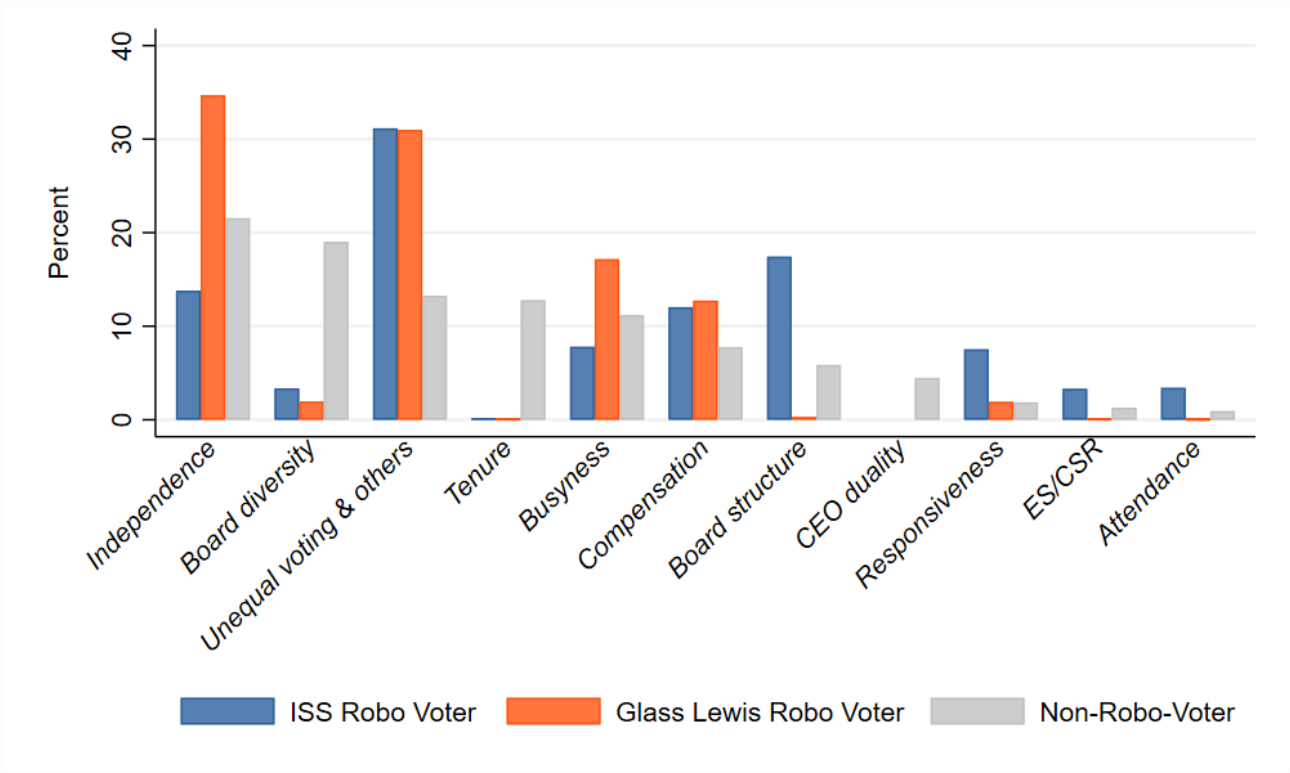


Figure 5. Proxy Advisors' Rationales. This plot shows the relative frequency of the different rationales for votes against directors by ISS and Glass Lewis robo-voters for the full sample period (July 2013 to June 2022). We exclude the *Rarely mentioned* category from the analysis.

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)
By Institutional Investor Type						
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
By Robo-Voter Status						
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
By Other Investor Attributes						
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)
By Vote						
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
By Alignment with Proxy Advisors' Voting Recommendations						
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
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 8 labels for votes in favor. The table describes what each label refers to and some examples of the rationales classified according to those labels.

Panel A. Votes Against

Label	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.
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.
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.
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.
ES/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.
Rarely mentioned	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.
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.
Unequal voting & others	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 2: We are voting against all directors, except the CEO, for the adoption of governance provisions that reduce shareholders rights.

(*Continued*)

Table 3. Labels: Reasons for votes on Director Elections (*—Continued from previous page*)

Panel B. Votes in Favor

Label	Rationale refers to...	Examples of voting rationales
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.
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.
Rarely mentioned	This includes rationales that do not appear frequently (e.g., *Compensation*, *ES/CSR*). It also includes 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.
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×recall×precision)/(recall+precision)). Balanced accuracy is the average of recall across all binary outcomes (votes against: 3,456 = 12 (categories) × 288 (the number of observations in the test set, 20% of 1,438 unique rationales); votes in favor: 9 (categories) × 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
Panel A. All Categories												
Micro average	0.988	0.975	0.970	0.956	0.963	545	0.971	0.950	0.870	0.921	0.895	152
Macro average			0.936	0.921	0.927				0.865	0.827	0.815	
Weighted average			0.971	0.956	0.963				0.883	0.921	0.894	
Sample average			0.975	0.965	0.964				0.906	0.938	0.914	
Panel B. Individual Categories												
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	0.996	0.667	1.000	0.800	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	0.927	0.843	0.935	0.887	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	·	·	·	·	·	·
ES/CSR	0.993	0.923	1.000	0.846	0.917	13	·	·	·	·	·	·
Independence	0.972	0.968	0.982	0.948	0.965	115	0.972	0.782	0.800	0.571	0.667	7
New director	·	·	·	·	·	·	1.000	1.000	1.000	1.000	1.000	3
No reason	·	·	·	·	·	·	0.979	0.980	0.969	0.984	0.976	63
Rarely mentioned	0.990	0.871	0.600	0.750	0.667	4	0.924	0.909	0.640	0.889	0.744	18
Responsiveness	0.990	0.921	0.917	0.846	0.880	13	0.986	0.667	1.000	0.333	0.500	3
Tenure	0.990	0.976	0.977	0.956	0.966	45	0.993	0.950	1.000	0.900	0.947	10
Unequal voting & others	0.962	0.957	0.949	0.940	0.945	100	·	·	·	·	·	

Table 5. Rationales on Director Elections

This table presents the frequency of each rationale at the meeting level. Columns (1) to (5) present the results for votes against and columns (6) and (7) present 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 60,549. Column (2) shows the relative importance of each rationale, by dividing the numbers in column (1) by the total number of mentions (e.g., 286,208 in column (1)). Column (3) is similar to column (2) but adjusts sample representation using PSW, 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, excluding the *Rarely mentioned* category, and then averages these proportions across all meetings. Columns (6) and (7) are the equivalent of columns (1) and (2), respectively, but for votes in favor.

	Votes Against					Votes in Favor	
	# Mention	% Rationale	% Rationale (PSW Adjusted)	% Meetings with at Least One Mention	Average % of Rationale Within Meeting	# Mention	% Rationale
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Independence	60,549	21.2	20.0	67.1	21.9	21,477	18.9
Board diversity	50,557	17.7	18.1	71.5	27.1	12,658	11.1
Unequal voting & others	39,032	13.6	15.4	48.1	14.5	·	·
Tenure	33,748	11.8	9.3	40.7	9.0	1,140	1.0
Busyness	31,378	11.0	12.9	33.1	9.3	·	·
Compensation	22,147	7.7	7.6	34.1	6.6	·	·
Board structure	16,194	5.7	5.5	30.3	6.5	·	·
CEO duality	11,815	4.1	3.0	16.3	2.6	·	·
Rarely mentioned	9,264	3.2	3.5	21.1	·	7,763	6.8
Responsiveness	5,374	1.9	2.4	8.6	1.0	217	0.2
ES/CSR	3,574	1.2	1.2	7.1	0.7	·	·
Attendance	2,576	0.9	1.0	2.7	0.8	·	·
No reason	·	·	·	·	·	34,730	30.5
Cautionary vote	·	·	·	·	·	27,666	24.3
New director	·	·	·	·	·	8,037	7.1
Total	286,208	100.0	100.0	·	·	113,688	100.0

Table 6. Cosine Similarity of Rationales

This table reports the average cosine similarity of institutional investors' rationales for votes against directors, measured both within individual investors (Panel A) and across different investors (Panel B). In Panel A, we first calculate each investor's cosine similarity, by examining all rationales provided by that investor across meetings in a given proxy season and computing the average cosine similarity for all possible pairs of rationales. We then average these estimates across all investors, resulting in a mean of 0.46 (column (1)). In Panel B, we calculate the cosine similarity across different investors. For each meeting, we compute the cosine similarity for all possible pairs of rationales across investors and then calculate the average similarity for that meeting. Next, we calculate the average of these meeting-level similarity scores across all meetings, resulting in a mean of 0.44 (column (1)). For example, the first row of Panel B shows that there are 12,462 meetings where at least five investors provided rationales for votes against directors, with an average cosine similarity of 0.44 across these meetings. Appendix B describes the procedures for calculating cosine similarity across different investors.

Panel A. Cosine similarity of rationales within individual investors

	Mean	p25	p50	p75	SD	N
	(1)	(2)	(3)	(4)	(5)	(6)
All investors	0.46	0.31	0.43	0.58	0.19	681

Panel B. Cosine similarity of rationales across different investors

	Mean	p25	p50	p75	SD	N
	(1)	(2)	(3)	(4)	(5)	(6)
All investors	0.44	0.31	0.41	0.54	0.44	12,462
ISS robo-voters	0.96	1	1	1	0.12	527
Glass Lewis robo-voters	0.99	1	1	1	0.08	1,791

Table 7. Are Concerns Well Grounded?

Panel A presents the regression of the proportion of rationales on a given topic on board characteristics reflecting those issues (equation (1)). Panel B shows the results of the same regression, but with the dependent variable adjusted for sample representation using PSW. Panel C reports the regression of the proportion of rationales on a given topic on board characteristics interacted with firm stock performance. Standard errors are clustered at the firm level. *t*-statistics are provided in parenthesis. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively. All specifications include firm and meeting-level controls (i.e., $Ln(MktCap)$, ROA, Mkt_to_Book, $Dividends$, $Leverage$, $InstOwn_Perc$, $Contentious_ISS$, and $Contentious_GL$) and include proxy season and industry fixed effects. All variables are defined in Appendix A and rationales in Table 3 Panel A.

Panel A. Relationship between rationales and board characteristics

Dependent variable:	Prop_independence	Prop_board_diversity	Prop_tenure	Prop_busyness	Prop_CEO_duality
Board characteristic:	Per_independent (1)	Per_female (2)	AvTenure (3)	AvBusy (4)	CEO_duality (5)
BoardCharacteristic	-0.232***	-0.754***	0.011***	0.148***	0.072***
	(-6.754)	(-25.928)	(31.896)	(23.232)	(38.221)
Observations	15,529	15,529	15,529	15,529	15,529
Adjusted R^2	0.099	0.241	0.275	0.177	0.288

Panel B. PSW adjustments

Dependent variable:	Prop_independence*	Prop_board_diversity*	Prop_tenure*	Prop_busyness*	Prop_CEO_duality*
Board characteristic:	Per_independent (1)	Per_female (2)	AvTenure (3)	AvBusy (4)	CEO_duality (5)
BoardCharacteristic	-0.211***	-0.804***	0.010***	0.173***	0.058***
	(-5.600)	(-25.704)	(29.887)	(24.231)	(35.160)
Observations	15,187	15,187	15,187	15,187	15,187
Adjusted R^2	0.102	0.272	0.256	0.212	0.259

Panel C. The interaction with stock performance

Dependent variable:	Prop_independence	Prop_board_diversity	Prop_tenure	Prop_busyness	Prop_CEO_duality
Board characteristic:	Per_independent (1)	Per_female (2)	AvTenure (3)	AvBusy (4)	CEO_duality (5)
BoardCharacteristic	-0.286***	-0.754***	0.011***	0.150***	0.075***
	(-7.498)	(-23.733)	(27.910)	(24.953)	(36.113)
alpha_mm	0.544	-0.227	0.044	0.181	-0.144***
	(0.380)	(-0.755)	(0.338)	(0.493)	(-4.297)
BoardCharacteristic	-0.229	4.115***	-0.022	-0.246	0.068
× alpha_mm	(-0.138)	(3.427)	(-1.276)	(-1.009)	(0.738)
Observations	13,387	13,387	13,387	13,387	13,387
Adjusted R^2	0.101	0.243	0.250	0.183	0.294

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 (equation (2)). 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 specifications include firm and meeting-level controls (i.e., $Ln(MktCap)$, ROA, Mkt_to_Book, $Dividends$, $Leverage$, $InstOwn_Perc$, $Contentious_ISS$, $Contentious_GL$) and include proxy season and investor fixed effects. We also control for institution size, proxied by the number of proposals each institutional investor voted on during the proxy season. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A and rationales in Table 3 Panel A.

Dependent variable:	Fraction of votes against				
Board characteristic:	Per_independent	Per_female	AvTenure	AvBusy	CEO_duality
	(1)	(2)	(3)	(4)	(5)
BoardCharacteristic	−0.246***	−0.087***	0.002	−0.007	0.008***
	(−2.815)	(−5.110)	(1.266)	(−1.027)	(4.804)
HighMention	−0.032	0.070***	−0.049**	−0.057*	0.007
	(−0.358)	(3.048)	(−2.475)	(−1.781)	(0.593)
NoRationales	−0.086	−0.005	0.006	−0.055***	−0.010
	(−1.077)	(−0.557)	(0.457)	(−2.749)	(−1.141)
BoardCharacteristic ×	0.034	−0.276***	0.008***	0.030***	0.030***
HighMention	(0.331)	(−2.833)	(3.876)	(3.237)	(4.840)
BoardCharacteristic ×	0.083	−0.020	−0.002	0.023***	0.001
NoRationales	(0.904)	(−0.939)	(−1.129)	(3.239)	(0.591)
Observations	2,549,415	2,549,415	2,549,415	2,549,415	2,549,415
Adjusted R^2	0.420	0.421	0.422	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 the proportion of rationales related to those board characteristics (equation (3)). The dependent variable is indicated in the first row of each panel. All columns show changes for t+1 except for column (3), which shows changes for t+2. Column (7) restricts the analysis to scenarios where ISS supports all director candidates, or where ISS has not raised concerns about the topics in robo-voters' rationales, suggesting that institutional investors' rationales are not reflecting ISS rationales. All specifications include firm and meeting-level controls (i.e., $Ln(MktCap)$, ROA, Mkt_to_Book, $Dividends$, $Leverage$, $InstOwn_Perc$, $Contentious_ISS$, and $Contentious_GL$) and include 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. All variables are defined in Appendix A and rationales in Table 3 Panel A.

Panel A. Board Independence

Dependent variable:	Δ(Per_independent)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dissent	0.002	0.005	0.019**	0.003	-0.006	-0.168***	0.009
	(0.340)	(0.875)	(2.261)	(0.591)	(-1.265)	(-3.103)	(1.136)
Prop_independence	0.003	0.004**	0.006*				0.003
	(1.640)	(2.018)	(1.957)				(1.152)
Dissent × Prop_independence		-0.021	0.004				0.007
		(-1.054)	(0.151)				(0.259)
Prop_independence*				0.004*			
				(1.830)			
Dissent × Prop_independence*				-0.004			
				(-0.216)			
Per_independent					-0.181***	-0.201***	
					(-21.453)	(-19.237)	
Dissent × Per_independent						0.196***	
						(3.093)	
Observations	14,936	14,936	12,983	14,623	15,799	15,799	13,138
Adjusted R^2	0.001	0.001	0.004	0.001	0.108	0.110	0.000

Panel B. Board Diversity

Dependent variable:	Δ(Per_female)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dissent	0.004	-0.011	0.004	-0.008	-0.012*	-0.019**	-0.014
	(0.678)	(-1.465)	(0.283)	(-1.037)	(-1.853)	(-2.125)	(-1.386)
Prop_board_diversity	0.002	-0.002	0.010***				-0.003
	(1.220)	(-1.035)	(2.887)				(-1.119)
Dissent × Prop_board_diversity		0.080***	0.224***				0.086**
		(2.901)	(5.231)				(2.493)
Prop_board_diversity*				-0.002			
				(-0.794)			
Dissent × Prop_board_diversity*				0.059**			
				(2.370)			
Per_female					-0.155***	-0.158***	
					(-28.193)	(-24.140)	
Dissent × Per_female						0.044	
						(1.059)	
Observations	14,935	14,935	12,981	14,622	15,798	15,798	13,328
Adjusted R^2	0.018	0.018	0.045	0.018	0.093	0.093	0.017

(Continued)

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

Panel C. Tenure

Dependent variable:	Δ(AvTenure)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dissent	-0.193	-0.040	-0.159	-0.037	0.188	-0.311	-0.153
	(-1.288)	(-0.245)	(-0.592)	(-0.230)	(1.372)	(-1.509)	(-0.747)
Prop_tenure	-0.527***	-0.393***	-1.371***				-0.339***
	(-6.293)	(-3.874)	(-7.742)				(-3.187)
Dissent × Prop_tenure		-2.740**	-11.391***				-3.057*
		(-1.984)	(-4.577)				(-1.869)
Prop_tenure*				-0.380***			
				(-3.487)			
Dissent × Prop_tenure*				-2.310			
				(-1.504)			
AvTenure					-0.085***	-0.092***	
					(-23.869)	(-19.037)	
Dissent × AvTenure						0.065**	
						(2.005)	
Observations	14,936	14,936	12,983	14,623	15,799	15,799	13,376
Adjusted R^2	0.017	0.017	0.045	0.016	0.099	0.099	0.011

Panel D. Busyness

Dependent variable:	Δ(AvBusy)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dissent	-0.058**	-0.028	-0.020	-0.031	-0.042**	0.014	-0.022
	(-2.354)	(-1.226)	(-0.519)	(-1.364)	(-2.103)	(0.277)	(-0.770)
Prop_busyness	-0.033***	-0.001	-0.067***				-0.006
	(-3.162)	(-0.070)	(-3.127)				(-0.418)
Dissent × Prop_busyness		-0.538***	-1.162***				-0.386*
		(-2.661)	(-3.856)				(-1.828)
Prop_busyness*				0.005			
				(0.389)			
Dissent × Prop_busyness*				-0.520***			
				(-2.943)			
AvBusy					-0.138***	-0.134***	
					(-25.493)	(-23.848)	
Dissent × AvBusy						-0.036	
						(-1.033)	
Observations	14,936	14,936	12,983	14,623	15,799	15,799	13,270
Adjusted R^2	0.027	0.029	0.064	0.029	0.107	0.107	0.025

Panel E. CEO Duality

Dependent variable:	Δ(CEO_duality)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dissent	-0.024	0.002	0.002	-0.012	0.030	-0.025	-0.018
	(-0.938)	(0.066)	(0.048)	(-0.458)	(1.129)	(-0.891)	(-0.537)
Prop_CEO_duality	0.080**	0.158***	-0.133**				0.175***
	(2.356)	(3.639)	(-2.118)				(3.741)
Dissent × Prop_CEO_duality		-2.086***	-4.105***				-2.655***
		(-3.133)	(-3.859)				(-3.107)
Prop_CEO_duality*				0.186***			
				(3.545)			
Dissent × Prop_CEO_duality*				-2.350***			
				(-2.645)			
CEO_duality					-0.159***	-0.169***	
					(-32.263)	(-26.776)	
Dissent × CEO_duality						0.134***	
						(2.939)	
Observations	14,936	14,936	12,983	14,623	15,799	15,799	13,377
Adjusted R^2	-0.000	0.001	0.006	0.001	0.082	0.083	0.001

Table 10. Addressing Concerns and Future Dissent

Panel A 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 (equation (4)). Panel B shows the results of the same regression, but with *AddressScore* and *AddressScore_alt* adjusted for sample representation using PSW. Columns (2), (3), (5), and (6) include firm and meeting-level controls (i.e., $Ln(MktCap)$, ROA, Mkt_to_Book, $Dividends$, $Leverage$, $InstOwn_Perc$, $Contentious_ISS$, and $Contentious_GL$). Columns (3) and (6) also control for *Dissent* and the following board-level variables: *Per_Independent, AvTenure, AvBusy, Per_female,* and *CEO_duality*. All specifications include 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. All variables are defined in Appendix A.

Panel A. Relationship between changes in dissent voting and addressing institutional investors' concerns

Dependent variable:	Δ(Dissent)					
	(1)	(2)	(3)	(4)	(5)	(6)
AddressScore	-0.019***	-0.010***	-0.005***			
	(-9.455)	(-4.658)	(-2.587)			
AddressScore_alt				-0.009***	-0.008***	-0.008***
				(-4.854)	(-3.992)	(-4.540)
Observations	19,471	14,229	13,490	19,042	13,982	13,248
Adjusted R^2	0.006	0.068	0.219	0.004	0.067	0.217
Firm controls	N	Y	Y	N	Y	Y
Meeting controls	N	Y	Y	N	Y	Y
Additional controls	N	N	Y	N	N	Y

Panel B. PSW adjustments

Dependent variable:	Δ(Dissent)					
	(1)	(2)	(3)	(4)	(5)	(6)
AddressScore*	-0.021***	-0.009***	-0.005**			
	(-10.200)	(-4.109)	(-2.248)			
AddressScore_alt*				-0.010***	-0.007***	-0.008***
				(-4.988)	(-3.722)	(-4.441)
Observations	17,038	14,106	13,367	16,797	13,865	13,131
Adjusted R^2	0.006	0.069	0.218	0.003	0.068	0.216
Firm controls	N	Y	Y	N	Y	Y
Meeting controls	N	Y	Y	N	Y	Y
Additional controls	N	N	Y	N	N	Y

Internet Appendix
"Voting Rationales"

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

A. Examples of Voting Rationales

Diligent captures rationales directly from investor websites or online disclosure services. In this section, we provide examples, using the Abiomed meeting on August 10, 2022. Panels A and B of Figure IA.1 show the rationales from Ontario Teachers, reported by Glass Lewis' ViewPoint and Diligent, respectively. Panels C and D display the rationales from NEI Investment, reported by ISS's Proxy Voting Dashboard and Diligent, respectively. Panels E and F display the rationales from BlackRock, reported by ISS's Proxy Voting Dashboard and Diligent, respectively. Diligent only edits rationales if they are disclosed in a non-English language, using Google Translate for translation without further modification.

Panel A. Ontario Teachers as reported in View Point by Glass Lewis



ONTARIO TEACHERS' PENSION PLAN

Proxy Votes

Search for a company...

Abiomed Inc. Other meetings for this company: August 10 2022 - Annual

English

Meeting Date: 2022-08-10

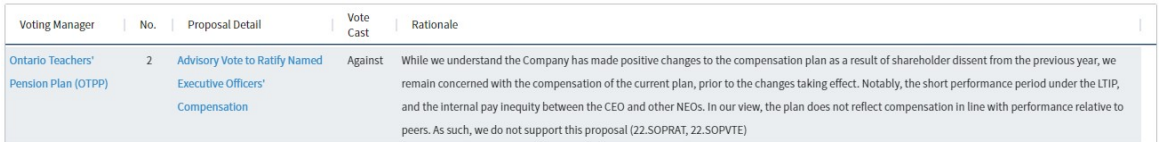
Record Date: 2022-06-13

Ticker: ABMD

Region: Canada & United States

Item	Proposal Description	Proponent	Management Recommendation	OTPP Vote
1.1	Elect Michael R. Minogue	Mgmt	For	For
1.2	Elect Martin P. Sutter	Mgmt	For	For
1.3	Elect Paula A. Johnson	Mgmt	For	For
2.	Advisory Vote on Executive Compensation **Rationale:** While we understand the Company has made positive changes to the compensation plan as a result of shareholder dissent from the previous year, we remain concerned with the compensation of the current plan, prior to the changes taking effect. Notably, the short performance period under the LTIP, and the internal pay inequity between the CEO and other NEOs. In our view, the plan does not reflect compensation in line with performance relative to peers. As such, we do not support this proposal (22.SOPRAT, 22.SOPVTE)	Mgmt	For	Against
3.	Ratification of Auditor	Mgmt	For	For

Panel B. Ontario Teachers as shown in Diligent



Voting Manager	No.	Proposal Detail	Vote Cast	Rationale
Ontario Teachers' Pension Plan (OTPP)	2	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	While we understand the Company has made positive changes to the compensation plan as a result of shareholder dissent from the previous year, we remain concerned with the compensation of the current plan, prior to the changes taking effect. Notably, the short performance period under the LTIP, and the internal pay inequity between the CEO and other NEOs. In our view, the plan does not reflect compensation in line with performance relative to peers. As such, we do not support this proposal (22.SOPRAT, 22.SOPVTE)

(*Continued*)

Panel C. NEI Investment as reported in Proxy Voting Dashboard by ISS

Proxy Voting Dashboard

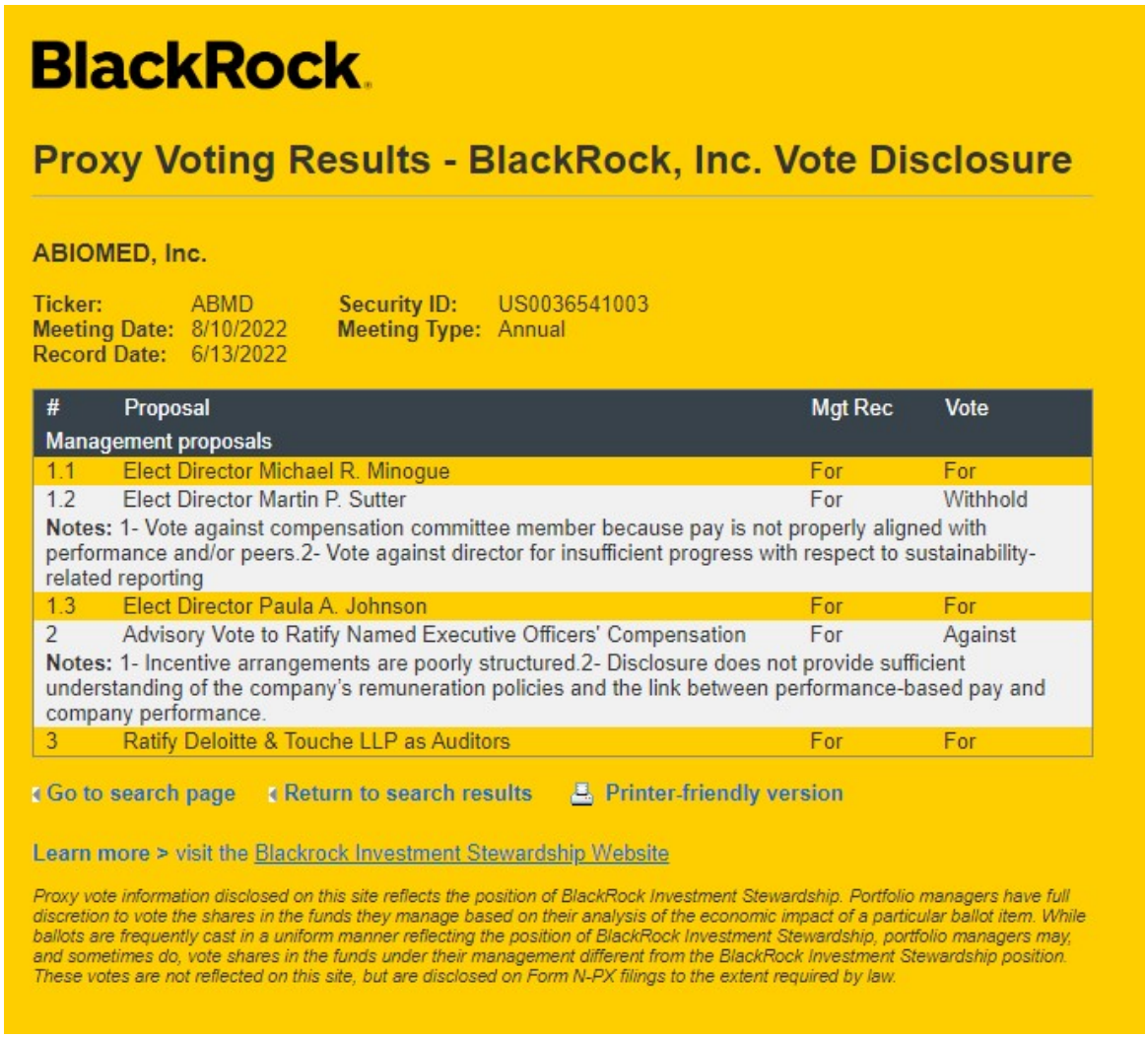
Filters Management Proposal Votes Market Sector Meeting

Item #	Proposal	Proponent	Mgmt Rec	Vote
1.1	Elect Director Michael R. Minogue *Voting Rationale:* *The nominee is the chair of the board and is not independent. The nominee has excessive tenure, exceeding 15 years, and the company has issues relating to governance.*	Management	For	Withhold
1.2	Elect Director Martin P. Sutter *Voting Rationale:* *The nominee is an incumbent member of the nominating committee and there is a lack of gender diversity on the board. The nominee is an incumbent member of the nominating committee and the chair of the board is not independent. The nominee is an incumbent member of the compensation committee and the linkage of executive compensation to corporate performance is especially poor. The nominee is an incumbent member of the compensation committee and the board failed to adequately respond to last year's low support on MSOP vote. The nominee is an incumbent member of the compensation committee and the ratio of CEO compensation to compensation of the average named executive officer is inequitable. The nominee is an incumbent member of the compensation committee and the quantum of executive compensation is notably excessive relative to peer companies.*	Management	For	Withhold
1.3	Elect Director Paula A. Johnson *Voting Rationale:* *The nominee is an incumbent member of the nominating committee and the chair of the board is not independent.*	Management	For	Withhold
2	Advisory Vote to Ratify Named Executive Officers' Compensation *Voting Rationale:* *The board failed to adequately respond to the previous low support on MSOP vote. The short-term incentive plan is not sufficiently based on quantifiable metrics. The short-term incentive program thresholds and maximums are not sufficiently disclosed. The long-term incentive program thresholds and maximums are not sufficiently disclosed. The long-term incentive plan is not sufficiently performance based. The ratio of CEO compensation to compensation of the average named executive officer is inequitable. The linkage of executive compensation to performance is especially poor. The quantum of executive compensation is notably excessive relative to peer companies. The company maintains legacy excise tax gross-up agreements.*	Management	For	Against
3	Ratify Deloitte & Touche LLP as Auditors *Voting Rationale:* *We have no concerns regarding auditor independence as the auditor s tenure is reasonable at less than 25 years, and less than 25% of the total fees paid were for non-audit work.*	Management	For	For

Panel D. NEI Investment as shown in Diligent

Voting Manager	No.	Proposal Detail	Vote Cast	Rationale
NEI Investments	1.1	Elect Director Michael R. Minogue	Withhold	The nominee is the chair of the board and is not independent. The nominee has excessive tenure, exceeding 15 years, and the company has issues relating to governance.
NEI Investments	1.2	Elect Director Martin P. Sutter	Withhold	The nominee is an incumbent member of the nominating committee and there is a lack of gender diversity on the board. The nominee is an incumbent member of the nominating committee and the chair of the board is not independent. The nominee is an incumbent member of the compensation committee and the linkage of executive compensation to corporate performance is especially poor. The nominee is an incumbent member of the compensation committee and the board failed to adequately respond to last year's low support on MSOP vote. The nominee is an incumbent member of the compensation committee and the ratio of CEO compensation to compensation of the average named executive officer is inequitable. The nominee is an incumbent member of the compensation committee and the quantum of executive compensation is notably excessive relative to peer companies.
NEI Investments	1.3	Elect Director Paula A. Johnson	Withhold	The nominee is an incumbent member of the nominating committee and the chair of the board is not independent.
NEI Investments	2	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	The board failed to adequately respond to the previous low support on MSOP vote. The short-term incentive plan is not sufficiently based on quantifiable metrics. The short-term incentive program thresholds and maximums are not sufficiently disclosed. The long-term incentive program thresholds and maximums are not sufficiently disclosed. The long-term incentive plan is not sufficiently performance based. The ratio of CEO compensation to compensation of the average named executive officer is inequitable. The linkage of executive compensation to performance is especially poor. The quantum of executive compensation is notably excessive relative to peer companies. The company maintains legacy excise tax gross-up agreements.
NEI Investments	3	Ratify Deloitte & Touche LLP as Auditors	For	We have no concerns regarding auditor independence as the auditor s tenure is reasonable at less than 25 years, and less than 25% of the total fees paid were for non-audit work.

Panel E. BlackRock as reported in Proxy Voting Dashboard by ISS



BlackRock

Proxy Voting Results - BlackRock, Inc. Vote Disclosure

ABIOMED, Inc.

Ticker: ABMD Security ID: US0036541003
Meeting Date: 8/10/2022 Meeting Type: Annual
Record Date: 6/13/2022

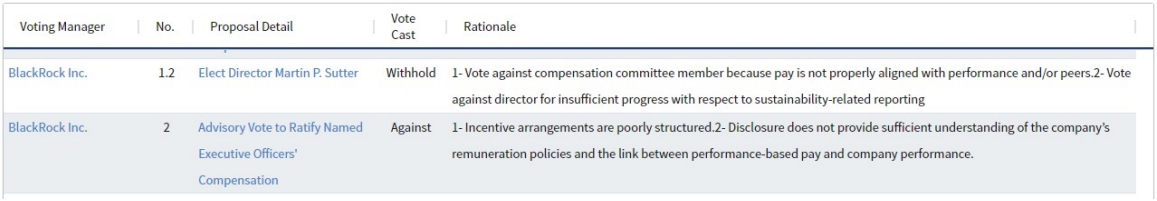
#	Proposal	Mgt Rec	Vote
Management proposals			
1.1	Elect Director Michael R. Minogue	For	For
1.2	Elect Director Martin P. Sutter	For	Withhold
Notes: 1- Vote against compensation committee member because pay is not properly aligned with performance and/or peers.2- Vote against director for insufficient progress with respect to sustainability-related reporting			
1.3	Elect Director Paula A. Johnson	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against
Notes: 1- Incentive arrangements are poorly structured.2- Disclosure does not provide sufficient understanding of the company's remuneration policies and the link between performance-based pay and company performance.			
3	Ratify Deloitte & Touche LLP as Auditors	For	For

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Panel F. BlackRock as shown in Diligent



Voting Manager	No.	Proposal Detail	Vote Cast	Rationale
BlackRock Inc.	1.2	Elect Director Martin P. Sutter	Withhold	1- Vote against compensation committee member because pay is not properly aligned with performance and/or peers.2- Vote against director for insufficient progress with respect to sustainability-related reporting
BlackRock Inc.	2	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	1- Incentive arrangements are poorly structured.2- Disclosure does not provide sufficient understanding of the company's remuneration policies and the link between performance-based pay and company performance.

Figure IA.1. Examples of Institutional Investors' Rationales. This figure provides examples of institutional investors disclosing voting rationales via the Glass Lewis platform, View Point (Panel A), and the ISS platform, Proxy Voting Dashboard (Panels C and E). It also provides some examples of the same information as collected by Diligent (Panels B, D and F).

B. Adjusting Sample Representation

In this section, we explain propensity score weighting (PSW) (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 PSW 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 focus on votes against directors in this analysis, as the PSW adjustment is only applied for votes against. 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, we generate the propensity score for each investor using the "predict pscore" command in Stata. The propensity score shows the estimated probability of an investor disclosing their rationale based on the covariates included in the regression.

3. Create weights for propensity score weighting

Using the propensity scores, we construct weights to implement PSW. 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 $\cdots$ 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 (column (3) of Table 5), accounting for the non-random sample selection and potential biases introduced by the voluntary disclosure of rationales.

5. Weighted Adjustments for *Prop_Rationales* to improve sample representation

In section 5.1, if Investor A mentions *Board diversity*, *Tenure*, and *ES/CSR*, and Investor B mentions *Board diversity* and *Busyness*, *Prop_Rationales* on *Board diversity* is 0.4 (= 2/5), and 0.2 (= 1/5) for each of the other rationales. In the PSW-adjusted version, $Prop_Rationales^*$, the rationale from each investor is weighted according to their representativeness. Suppose Investor A's weight is 2 times higher than Investor B's weight. We apply these weights to calculate the weighted proportions. Weighted count of rationales for (*Board diversity*, *Tenure*, *ES/CSR*, *Busyness*) = (3, 2, 2, 1) = (2·1 + 1·1, 2·1 + 1·0, 2·1 + 1·0, 2·0 + 1·1). The total weighted number of rationales is 8 (= 3 + 2 + 2 + 1). Then, $Prop_board_diversity^* = 3/8 = 0.375$, $Prop_tenure^* = Prop_ES/CSR^* = 2/8 = 0.25$, and $Prop_busyness^* = 1/8 = 0.125$. By construction, $Prop_Rationales^*$ varies between 0 and 1. It is used in Table 7 Panel B, Table 9 column (4), and to construct $AddressScore^*$ and $AddressScore_alt^*$ in Table 10.

C. Heterogeneity in Institutional Investors' Rationales

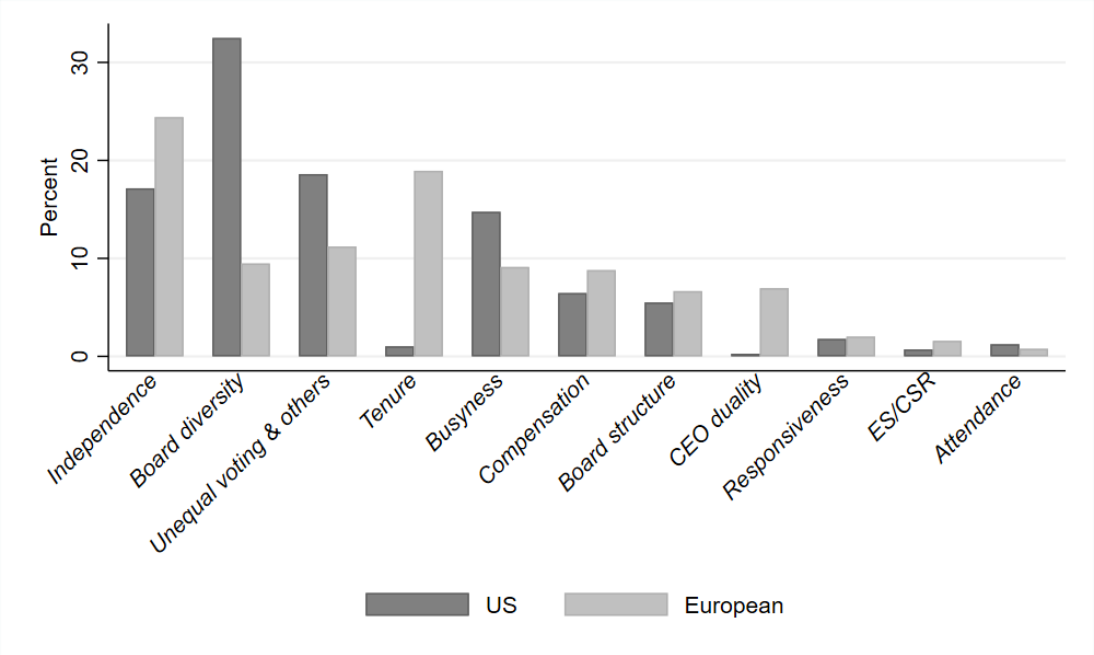
In this section, we present evidence of the heterogeneity in voting rationales among different institutional investors. First, we compare the rationales of US and European institutional investors (Figure IA.2 Panel A). The figure shows that US investors are more concerned about *Board diversity* and *Unequal voting & others* 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 (Figure IA.2 Panel B). *Board diversity* is the main concern raised by the Big Three, accounting for almost 40% of their rationales. This is twice the frequency of *Board diversity* mentioned by non-Big Three investors. Notably, Figure IA.3 shows that *Board diversity* starts to appear in 2017, coinciding with the launch of campaigns by the Big Three to increase board diversity (Gormley et al., 2022). *Independence*, *Unequal voting & others*, and *Tenure* are relatively less important for the Big Three. It is also worth mentioning that the Big Three voted against directors for *ES/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.

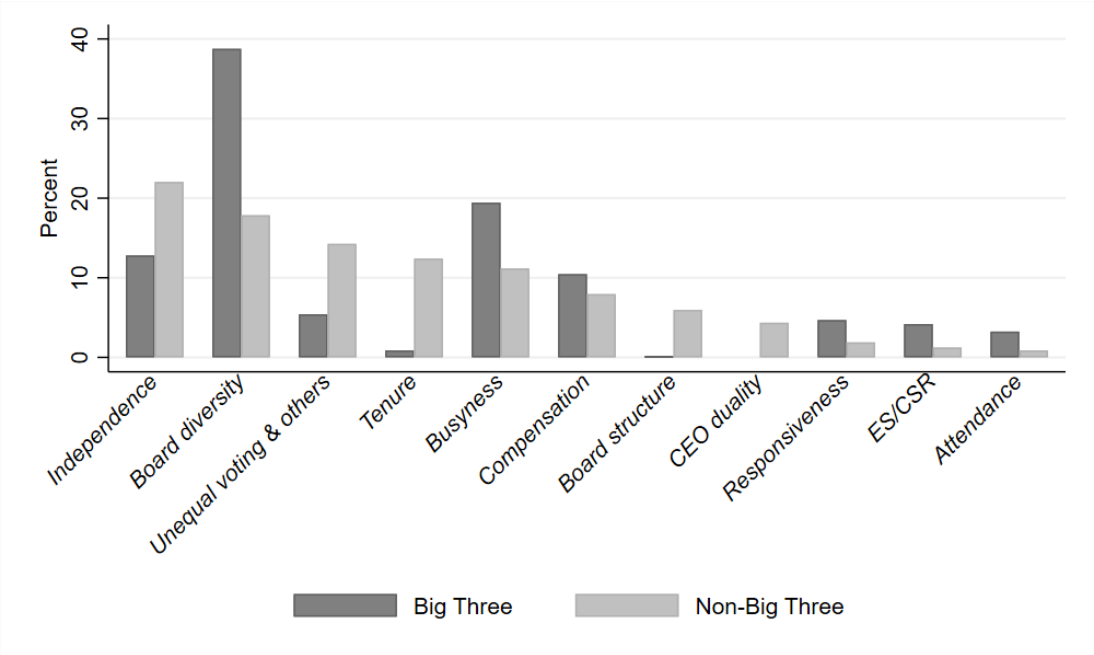
Figure IA.2 Panel C presents the results for UN PRI signatories. Similar to the previous cases, *Board diversity* is the main source of difference between these two types of investors, with UN PRI signatories mentioning this concern more often than non-signatories. Non-signatories care relatively more about *Independence*, *Unequal voting & others*, *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.2 shows that there is no distinctive pattern for pension funds – they seem to place similar importance on different issues as fund managers. Despite the debate over pension fund activism's motivations (Del Guercio and Hawkins, 1999; Prevost and Rao, 2000; Woidtke, 2002), we find that pension funds' voting rationales are similar to those of fund managers.

Panel A. US vs. European Institutional Investors

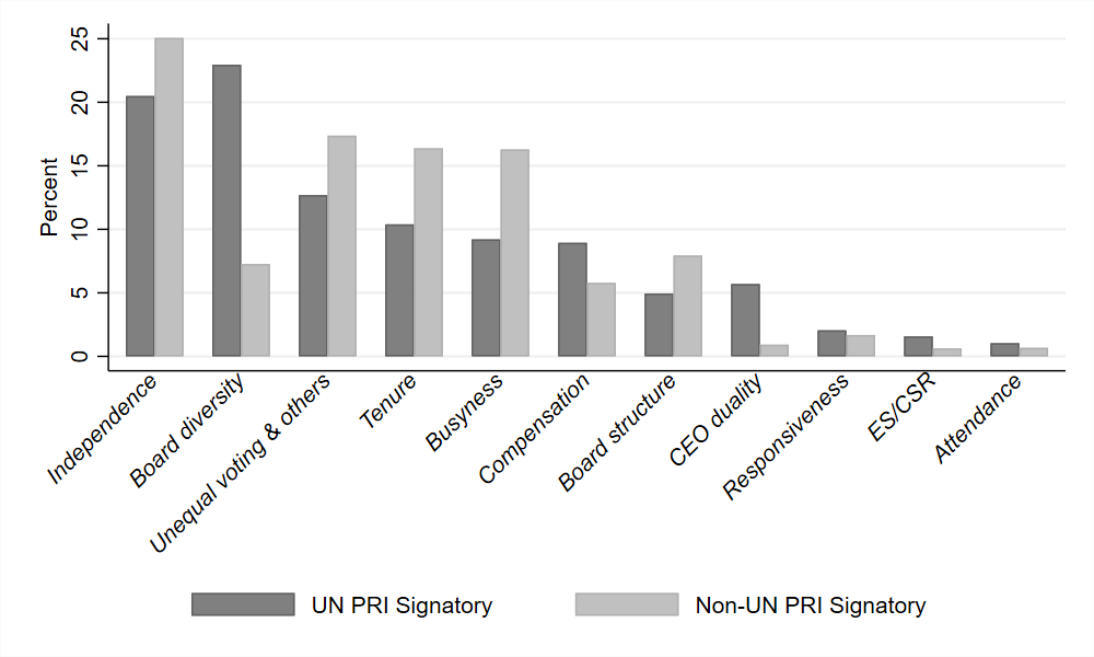


Panel B. The Big Three



(*Continued*)

Panel C. UN PRI Signatory



Panel D. Fund Managers vs. Pension Funds

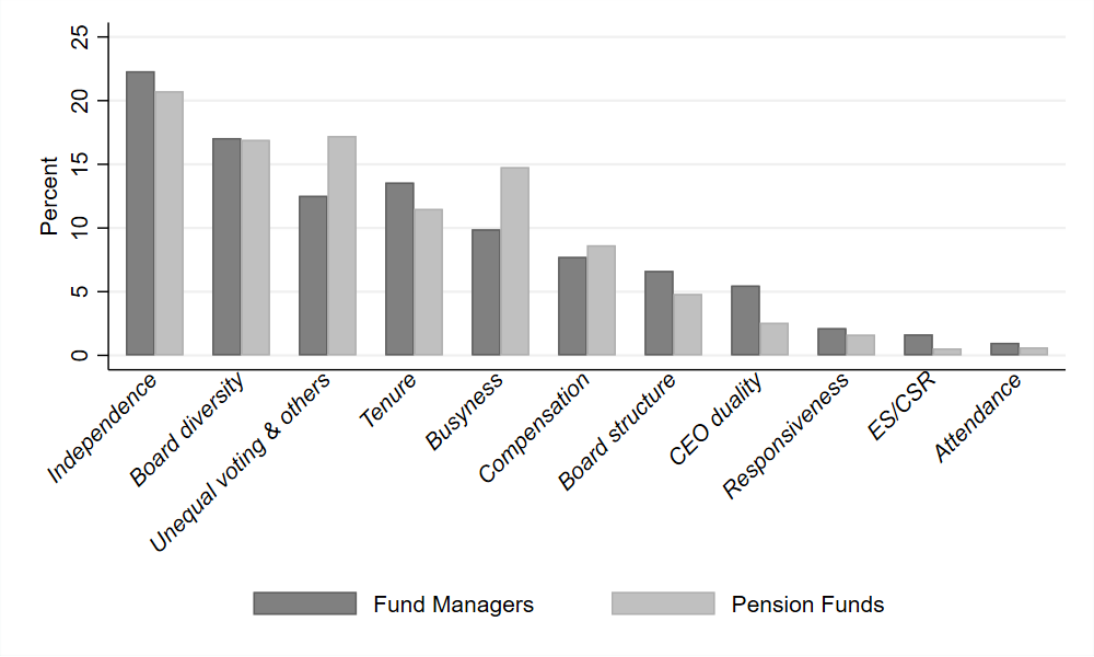


Figure IA.2. Heterogeneity in Institutional Investors' Rationales. This plot shows the relative frequency of the different rationales during the full sample period (July 2013 to June 2022), for different types of investors. We exclude the *Rarely mentioned* category from the analysis.

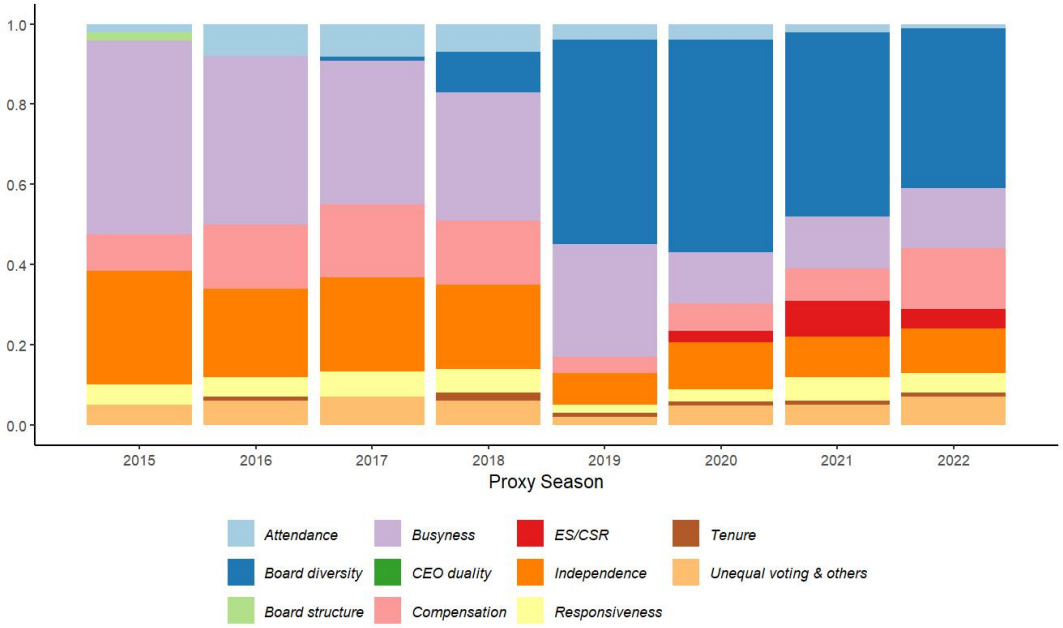


Figure IA.3. Relative Frequency of the Various Rationales Over Time: The Big Three. The figure shows the relative frequency of the different rationales for the Big Three investors, for votes against directors over the years. We exclude 2014 because we have very few rationales from the Big Three in that year. We also exclude the *Rarely mentioned* category from the analysis.

D. Dissent Over Time and the Influence of ISS

In this section, we provide evidence of increasing dissent voting on director elections in recent years. We also show that the influence of ISS has declined.

Table IA.1 reports the distribution of dissent voting for director elections in our sample (2014–2022). Using a sample of director elections held at S&P 500 firms over the period 2003–2010, Ertimur et al. (2018) find that when ISS issues a favorable recommendation, less than 5% of proposals receive more than 10% dissent. In our sample, 13% of proposals receive more than 10% dissent even when ISS recommends voting in favor. While these differences could be driven by the broader sample we cover, including firms in the Russell 3000, Figure IA.4 seems to indicate a decline in ISS influence. We find similar results for Glass Lewis recommendations. When Glass Lewis recommends voting for the director, almost 12% of directors receive more than 10% dissent versus 5.6% in Ertimur et al. (2018).

Figure IA.4 shows the trends in dissent voting and the influence of ISS over time. The fraction of director elections with dissent voting above 10% has increased from 14% in 2014 to 24% in 2022. When we condition on director elections in which ISS recommends voting for the director, it goes from 12.3% in 2014 to 14.7% in 2022. A clearer indication of the decrease in ISS influence is coming from the fraction of director elections with dissent over 10% when ISS recommends voting against. The fraction goes from a maximum of 86% in 2015 to a minimum of 72.6% in 2022.

Overall, we find that while ISS has significant impact on voting outcomes on director elections, their influence is not as high as previously documented, and there seems to be a decline over time, at least during our sample period.

Table IA.1. Distribution of dissent conditional on proxy advisors' recommendations

This table shows the distribution of observations and average dissent (votes against, abstain, and withheld) from directors for director-firm-years with and without ISS and Glass Lewis (GL) withhold recommendations. Dissent is the percentage of votes against, abstain, and withheld scaled by the total number of votes cast. We restrict the sample to director election proposals with ISS recommendations. GL coverage is smaller than ISS; hence, fewer observations.

				Director-years with dissent between			
	N	Mean of dissent		0%–10%	10%–20%	20%–50%	50%–100%
All director-year obs.	159,637	7%	N	129,107	15,256	12,811	1,807
			%	81.21%	9.60%	8.06%	1.14%
With ISS withhold rec.	15,076	26%	N	3,535	2,971	7,029	1,541
			%	23.45%	19.71%	46.62%	10.22%
Without ISS withhold rec.	143,905	5%	N	125,572	12,285	5,782	266
			%	87.26%	8.54%	4.02%	0.18%
With GL withhold rec.	33,597	14%	N	18,550	6,731	6,989	1,327
			%	55.21%	20.03%	20.80%	3.95%
Without GL withhold rec.	125,384	5%	N	110,557	8,525	5,822	480
			%	88.17%	6.80%	4.64%	0.38%

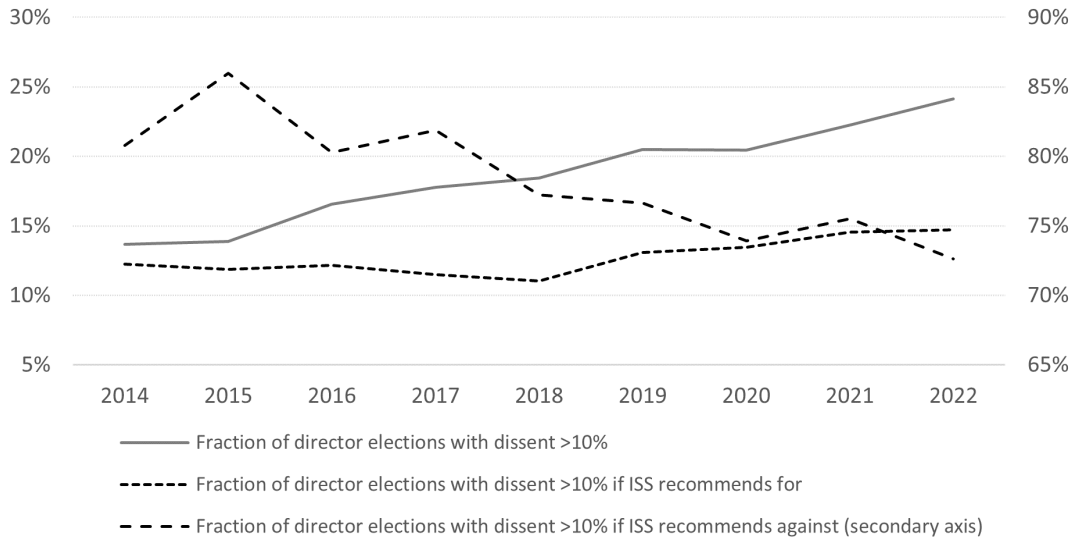


Figure IA.4. Dissent and ISS influence over time. The figure shows the fraction of director elections with dissent voting above 10% between 2014 and 2022. It also shows the fraction of director elections with dissent voting above 10% for which ISS recommends supporting the director. The figure plots the fraction of director elections with dissent above 10% when ISS does not recommend supporting the director in the secondary axis.

E. 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.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 diversity, 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 ($Per_NonWhite$) or both ($Per_Diverse$). All specifications include firm and meeting-level controls (i.e., $Ln(MktCap)$, ROA, Mkt_to_Book, $Dividends$, $Leverage$, $InstOwn_Perc$, $Contentious_ISS$, and $Contentious_GL$) and include proxy season and industry fixed effects and include 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.

Dependent variable:	Prop_board_diversity		
	(1)	(2)	(3)
Per_female	-0.812***		
	(-21.018)		
Per_NoWhite		-0.309***	
		(-11.215)	
Per_Diverse			-0.483***
			(-18.983)
Observations	10,465	10,465	10,465
Adjusted R^2	0.245	0.183	0.230
Firm Controls	Y	Y	Y
Meeting Controls	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 changes in gender diversity in Panel A, changes in ethnic diversity in Panel B, and changes in gender or ethnic diversity in Panel C. All specifications include firm and meeting-level controls (i.e., $Ln(MktCap)$, ROA, Mkt_to_Book, $Dividends$, $Leverage$, $InstOwn_Perc$, $Contentious_ISS$, and $Contentious_GL$) and include 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.

	t+1	t+1	t+2
	(1)	(2)	(3)
Panel A. Gender diversity			
Dissent	0.077***	0.009	0.043**
	(6.748)	(0.709)	(2.227)
Prop_board_diversity	0.025***	0.008***	0.018***
	(10.684)	(2.800)	(4.179)
Dissent × Prop_board_diversity		0.381***	0.534***
		(7.941)	(8.042)
Observations	8,935	8,935	7,421
Adjusted R^2	0.032	0.042	0.070
Panel B. Ethnic diversity			
Dissent	0.015	-0.002	0.030
	(1.407)	(-0.127)	(1.518)
Prop_board_diversity	0.014***	0.010***	0.023***
	(6.065)	(3.312)	(5.030)
Dissent × Prop_board_diversity		0.093*	0.024
		(1.858)	(0.327)
Observations	8,935	8,935	7,421
Adjusted R^*	0.040	0.040	0.054
Panel C. Diversity (gender or ethnic)			
Dissent	0.071***	0.008	0.060**
	(5.293)	(0.538)	(2.443)
Prop_board_diversity	0.030***	0.014***	0.034***
	(10.765)	(4.131)	(6.149)
Dissent × Prop_board_diversity		0.350***	0.401***
		(5.951)	(4.298)
Observations	8,935	8,935	7,421
Adjusted R^2	0.034	0.040	0.061

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

In this section, we evaluate whether firm policy changes observed in Table 9 are mainly driven by proxy advisors or the Big Three. In particular, we re-estimate our specification in equation (3), excluding the voting rationales of robo-voters (Panel A of Table IA.4) or the Big Three (Panel B of Table IA.4). We find similar results when we drop their voting rationales from our analysis, indicating that neither proxy advisors nor the Big Three seem to be driving our findings in Table 9.

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 robo-voters (Panel A) or the Big Three (Panel B). The dependent variable is indicated in the first row of each panel. All specifications include firm and meeting-level controls (i.e., *Ln(MktCap)*, *ROA*, *Mkt_to_Book*, *Dividends*, *Leverage*, *InstOwn_Perc*, *Contentious_ISS*, and *Contentious_GL*) and include 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

Dependent variable:	Δ(Per_independent)	Δ(Per_female)	Δ(AvTenure)	Δ(AvBusy)	Δ(CEO_duality)
Prop_rationales:	Prop_independence	Prop_board_diversity	Prop_tenure	Prop_busyness	Prop_CEO_duality
	(1)	(2)	(3)	(4)	(5)
Dissent	0.005	-0.010	-0.030	-0.026	0.006
	(0.908)	(-1.267)	(-0.188)	(-1.121)	(0.252)
Prop_rationales	0.004*	-0.002	-0.398***	0.000	0.153***
	(1.782)	(-0.906)	(-3.962)	(0.010)	(3.610)
Dissent × Prop_rationales	-0.024	0.069**	-2.647**	-0.591***	-2.044***
	(-1.182)	(2.540)	(-1.995)	(-2.890)	(-3.145)
Observations	14,911	14,910	14,911	14,911	14,911
Adjusted R^2	0.001	0.018	0.017	0.029	0.001

Panel B: Results excluding the Big Three

Dependent variable:	Δ(Per_independent)	Δ(Per_female)	Δ(AvTenure)	Δ(AvBusy)	Δ(CEO_duality)
Prop_rationales:	Prop_independence	Prop_board_diversity	Prop_tenure	Prop_busyness	Prop_CEO_duality
	(1)	(2)	(3)	(4)	(5)
Dissent	0.005	-0.012	-0.030	-0.024	0.003
	(0.919)	(-1.483)	(-0.189)	(-1.093)	(0.106)
Prop_rationales	0.005**	-0.002	-0.390***	0.001	0.157***
	(2.054)	(-1.036)	(-3.863)	(0.102)	(3.656)
Dissent × Prop_rationales	-0.022	0.083***	-2.809**	-0.640***	-2.064***
	(-1.121)	(2.967)	(-2.057)	(-3.401)	(-3.192)
Observations	14,922	14,921	14,922	14,922	14,922
Adjusted R^2	0.001	0.018	0.017	0.029	0.001