Reflecting or Shaping? Proxy Advisor Recommendations and Corporate Governance

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Abstract

We combine data on proxy voting and institutional holdings to measure the ownership stake of ISS-subscribing funds in S&P 1500 firms and study whether ISS recommendations influence voting outcomes and corporate governance. ISS-subscribing funds hold broad and sizable ownership stakes, averaging 36 percent of shares outstanding. When ISS recommends against management, both subscribing and non-subscribing funds lower their support. Yet ISS voting recommendations are rarely pivotal: in 90 percent of defeats management would have lost even if ISS-subscribing funds had voted as non-subscribing funds. Nearly all defeats occur on governance proposals. We test more broadly for ISS influence by comparing firms with high and low ISS-Fund ownership and find that compliance with ISS-promoted governance policies and board composition criteria is at least as high among firms with low ISS-Fund ownership. Our results suggest that ISS recommendations reflect broad institutional investor preferences rather than shape them.

1 Introduction

Proxy advisory firms have emerged as arguably the most controversial actors in corporate governance today. The largest proxy advisor, Institutional Shareholder Services (ISS), recommends to institutional investors how to vote at shareholder meetings, and its clients collectively hold over $27 trillion in assets (Shu, 2024). ISS policies conflict with management on governance, social, and environmental issues, and academic studies find that ISS opposition reduces voting support for management and that firms increasingly adopt ISS-promoted policies. The commanding ownership stake of ISS-subscribing funds and indications that ISS recommendations affect both voting and firm behavior have led to concerns that ISS exercises outsized influence over corporate governance. These concerns have prompted a wave of regulatory and political scrutiny, including SEC guidance, FTC antitrust investigations, Congressional hearings, and a White House executive order. Yet the extent to which ISS recommendations affect corporate governance outcomes is not well understood. ISS may simply promote policies that institutional investors already support, in which case ISS reflects rather than shapes investor preferences.

In this paper, we combine data on proxy voting and institutional holdings to measure the ownership stake of ISS-subscribing funds in each firm and study whether greater ownership percentage by these funds translates into greater ISS influence over corporate governance outcomes. This combined dataset allows us to measure the extent of ISS influence through two analyses that were not previously possible. First, we measure Pivotal ISS Defeats, defined as votes on which management was defeated but would have prevailed had funds that subscribe to ISS voted the same way as funds that do not subscribe. We find that management defeats are heavily concentrated on governance proposals and that ISS is rarely pivotal in these defeats. In 90 percent of all defeats, management would have lost even if funds that subscribe to ISS had voted the same way as funds that do not subscribe. Second, we split firms into those with high and low ownership by funds that subscribe to ISS and compare rates of compliance with ISS-promoted governance policies and board composition criteria across the two groups. We find that for each governance policy and board composition criterion we study, the levels at the end of the sample and the changes over the sample period are similar across the two groups of firms.

Our analysis relies on a new dataset that links fund-level voting records to fund-level equity

holdings. We manually match fund families across ISS Voting Analytics (which records how each fund votes) and SEC Form 13F institutional holdings filings (which record equity positions). The combined data cover S&P 1500 firms over the period 2007–2017. We classify each fund family as an ISS-Fund if it subscribes to ISS and a NonISS-Fund if it does not. Measuring the number of shares held by ISS-Funds and NonISS-Funds allows us to determine whether ISS-Fund votes were decisive in management defeats by asking whether management would have prevailed had ISS-Funds voted the same way as NonISS-Funds. This is a direct test of whether ISS recommendations change voting outcomes. We then classify firms as ISS High if ownership by ISS-Funds is above the annual sample median and ISS Low if below. Comparing ISS High and ISS Low firms allows us to determine whether greater ISS-Fund ownership translates into higher rates of compliance with ISS-promoted governance policies and board composition criteria. This is a direct test of whether ISS influences firm-level governance, whether through voting outcomes or through firms complying with ISS-promoted practices to preempt opposition.

We find that ISS-Funds hold sizable ownership stakes in most publicly traded firms. On average, ISS-Funds own 36 percent of shares outstanding. Average ownership by ISS-Funds is stable over the sample period, starting at 37 percent in 2007 and ending at 36 percent in 2017. Because not all shares are voted at every meeting, on average ISS-Funds account for 43 percent of the votes that are actually counted. We show that this ownership is broadly distributed: the median firm has 35 percent of shares outstanding held by ISS-Funds. The combination of high average ownership and broad coverage across firms gives ISS significant potential to influence corporate policies.

We use the combined data to compute voting margins for ISS-Funds and NonISS-Funds on each proposal in our sample. For each voting item, we compute the management vote margin, which is positive when a majority of votes are cast in management's favor, zero when votes are split evenly, and negative when a majority of votes are cast against management. The margin ranges from $+1$ (all votes in management's favor) to -1 (all votes against management). We compute this margin separately for all voters, for ISS-Funds, and for NonISS-Funds.

We show that management receives strong support across all voting items, with the exception of shareholder governance proposals where management faces meaningful opposition. Across all items, the average management vote margin is 0.88 and management prevails 99 percent of the time. On shareholder governance proposals, however, the average margin falls to 0.24 and manage-

ment prevails only 74 percent of the time. Both ISS-Funds and NonISS-Funds show low support for management on shareholder governance proposals. On social and environmental proposals, by contrast, both groups support management at much higher rates. When ISS opposes management, both ISS-Funds and NonISS-Funds vote less favorably for management, lowering their voting margins by 0.84 and 0.55 respectively. For both ISS-Funds and NonISS-Funds, the decline in support is greatest on governance proposals. The large decline in NonISS-Fund support for management when ISS opposes suggests that ISS recommendations reflect a common assessment among informed investors rather than mechanically determine how ISS-Funds vote.

Of the 106,321 voting items in our sample, management is defeated 1,011 times. Governance proposals account for nearly all of these defeats, at 98 percent. Management is defeated on 26 percent of shareholder governance proposals, compared to less than 1 percent of management governance proposals and less than 1 percent of shareholder social and environmental proposals. ISS opposition is a strong predictor of defeat, with 84 percent of all defeats occurring on proposals where ISS opposes management. On social and environmental proposals, ISS opposes management more than half the time, yet management is defeated only 15 times. The five shareholder governance proposals with the most defeats are Declassify the Board of Directors (141), Require a Majority Vote for the Election of Directors (89), Adopt Proxy Access Right (73), Reduce Supermajority Vote Requirement (71), and Amend Articles/Bylaws/Charter to Call Special Meetings (51). Together, these five proposals account for 42 percent of all defeats. These proposals share a common theme of enhancing shareholder rights and reducing management entrenchment, and prior research finds that adopting such policies is value-enhancing.

The large number of defeats on governance proposals where ISS opposes management might suggest that ISS recommendations were decisive in these cases. We test this directly by counting Pivotal ISS Defeats, defined as defeats where ISS opposes management and management would have prevailed had ISS-Funds voted the same way as NonISS-Funds. We find a total of only 94 Pivotal ISS Defeats in our sample, representing less than 0.1 percent of all votes and 10 percent of all defeats. Said differently, in 90 percent of all defeats, management would have lost even if ISS-Funds had voted like NonISS-Funds. Nearly all Pivotal ISS Defeats occur on governance proposals, with only 4 on social and environmental proposals combined. These results show that ISS recommendations are rarely decisive.

Pivotal ISS Defeats are rare and may overstate ISS influence on voting outcomes. The count of Pivotal ISS Defeats rests on the fact that, consistent with existing research, ISS-Funds shift their votes against management more than NonISS-Funds when ISS opposes management. However, the calculation assumes that ISS-Funds would have voted like NonISS-Funds absent the ISS recommendation. Funds that subscribe to ISS may independently hold stronger preferences for shareholder rights, leading them to both subscribe to ISS and vote more aggressively against management on governance proposals regardless of the recommendation.

While the voting analysis shows that ISS recommendations rarely change outcomes of votes, ISS could still influence corporate governance if firms voluntarily adopt ISS-promoted practices to preempt ISS opposition. We test for this by comparing how often ISS High and ISS Low firms comply with ISS-promoted governance policies and board composition criteria. If ISS exerts influence through either voting or voluntary adoption, ISS High firms should show higher compliance.

We focus on the two governance reforms with the most defeats in our sample, Declassify the Board of Directors (so that all directors stand for election each year, rather than in staggered classes) and Require a Majority Vote for the Election of Directors (so that nominees must receive a majority of votes, rather than a plurality). ISS benchmark policy recommends in favor of both reforms and in our sample ISS recommends for these policies 99 percent of the time. The share of ISS Low firms with declassified boards increases by 27 percentage points over the sample period, reaching 67 percent by 2017, compared to an increase of 18 percentage points and a level of 64 percent among ISS High firms. The share requiring a majority vote for the election of directors increases by 59 percentage points among ISS Low firms to 66 percent, compared to 51 percentage points and 61 percent among ISS High firms. For both measures, compliance among ISS Low firms is at least as high as among ISS High firms, in terms of both the increase over the sample period and the level at the end of the sample. These findings are inconsistent with what we would expect if ISS exerts influence through either voting or voluntary adoption.

We extend the analysis to five measures of board composition. Three are governance criteria that ISS used to evaluate director nominees throughout our sample period: limits on the number of public company boards a director may serve on, board independence, and director attendance at board and committee meetings. Compliance with all three is above 90 percent for nearly the entire sample period and is virtually identical for ISS High and ISS Low firms. Two additional measures

are board diversity criteria that ISS adopted in its benchmark guidelines after our sample period, gender diversity in 2019 and racial and ethnic diversity in 2022. Compliance with both diversity measures is lower but increases steadily over time, rising from 78 to 90 percent for gender diversity and from 24 to 42 percent for racial and ethnic diversity. Compliance rates are similar for ISS High and ISS Low firms on both diversity measures. That board diversity was already increasing across S&P 1500 firms before ISS adopted formal policies suggests that ISS diversity policies reflected existing market trends rather than shaped them.

In summary, although ISS-Funds hold sizable ownership stakes in most publicly traded firms, we find little evidence that ISS dictates corporate governance practices. Instead, our results suggest that ISS recommendations reflect broad institutional investor preferences rather than shape them. Both ISS-Funds and NonISS-Funds vote less favorably for management on shareholder governance proposals, and both lower their voting margins when ISS opposes, suggesting a common assessment among informed investors. Management defeats are concentrated on a small set of governance reforms that enhance shareholder rights, and ISS recommendations are rarely decisive in these or in other defeats. On social and environmental proposals, management is rarely defeated despite ISS opposing management on a majority of these votes. The share of firms with declassified boards and requiring majority voting for election of directors, both explicit requirements under ISS policy, is at least as high among ISS Low firms as among ISS High firms. Board composition is similar for ISS High and ISS Low firms, and board diversity was already trending upward before ISS adopted formal policies. Each of these findings is inconsistent with what we would expect if ISS exercises meaningful influence over corporate governance through either voting or voluntary adoption.

The remainder of this paper proceeds as follows. Section 2 reviews the related literature. Section 3 describes the data sources, variable definitions, and analysis sample. Section 4 presents the results. Section 5 concludes.

2 Literature Review

This section discusses our contribution to the corporate governance literature and is organized around three themes: ISS's influence on shareholder voting, ISS's influence on governance practices, and whether ISS recommendations reflect investor preferences or shape them.

An extensive body of research has studied the influence of ISS on voting outcomes and corporate governance. ISS and Glass Lewis together control more than 90 percent of the U.S. proxy advisory market, yet until recently researchers could not observe which funds subscribe to which advisor. Early work measured correlations between ISS recommendations and voting outcomes, finding large associations (Cai, Garner and Walkling, 2009; Alexander et al., 2010; Ertimur, Ferri and Oesch, 2013). Studies of fund-level voting records found that smaller and higher-turnover funds are more likely to follow ISS recommendations (Iliev and Lowry, 2015), while most investors do not actively research proxy filings and instead rely on advisors or pre-set policies (Iliev, Kalodimos and Lowry, 2021). Shu (2024) makes a key data contribution by developing methods to infer which funds subscribe to ISS from their filed voting records, enabling the first fund-level analysis that distinguishes ISS clients from non-clients. We build on Shu's subscription identification by combining it with the cleaned 13F institutional holdings data of Backus, Conlon and Sinkinson (2021). Our combined dataset enables analyses that were not previously possible, including computing whether ISS-Fund votes were pivotal in management defeats and comparing governance compliance across firms with high and low ISS-Fund ownership.

First, we contribute to the literature examining ISS's influence on shareholder voting. Early work establishes that proposals receiving a negative ISS recommendation get around 20 percentage points lower support (Cai, Garner and Walkling, 2009; Choi, Fisch and Kahan, 2010; Ertimur, Ferri and Oesch, 2013), though this effect is smaller once additional controls are included in the analysis. Malenko and Shen (2016) use a regression discontinuity design to causally estimate that a negative ISS recommendation reduces say-on-pay support by 25 percentage points. Shu (2024) estimates the impact on identified ISS clients specifically, finding that a negative recommendation reduces the probability of voting with management by 20 to 25 percentage points depending on proposal type. While previous research has focused on the probability that funds vote in line with ISS, we complement the voting data with holdings data, and are thereby able to analyze the shares that are shifted and to identify votes where ISS has been pivotal. We make two new contributions: ISS opposition is associated with a large decline in support by both ISS-Funds and NonISS-Funds, and ISS is rarely pivotal. In 90 percent of management defeats, the outcome would have been the same even if ISS-subscribing funds had voted like non-subscribing funds.

Second, we contribute to the literature on ISS's influence on corporate governance practices.

Prior work documents that ISS influences firm behavior even outside of voting. Larcker, McCall and Ormazabal (2015) show that firms change their compensation policies to align with ISS recommendations prior to say-on-pay votes. Dey, Starkweather and White (2024) use a quasi-experimental design exploiting an ISS threshold at 70 percent say-on-pay support and find that ISS pressure leads firms to increase shareholder engagement and alter CEO compensation. Cabezon (2025) finds that proxy advisor recommendations have driven convergence in compensation structures since 2006. Beyond compensation, Ertimur, Ferri and Oesch (2018) find that adverse director election outcomes are rare absent a negative ISS recommendation, highlighting ISS's agenda-setting role, and Hayne and Vance (2019) provide field evidence that boards feel pressure to conform to ISS standards even when they prefer alternatives. We show that firms are adopting ISS-promoted governance policies such as declassified boards and majority voting, but that compliance does not differ between firms with high and low ISS-Fund ownership. Our results suggest that widespread compliance with ISS-promoted governance policies reflects broad institutional investor demand rather than ISS influence.

Third, we contribute to the debate about whether ISS recommendations reflect investor preferences or shape them. Some evidence suggests ISS is not a neutral aggregator: Bolton et al. (2020) find ISS to be positioned to the left of most mutual funds and Matsusaka and Shu (2021) argue that ISS caters to socially responsible investment funds. Theoretical work identifies further reasons ISS recommendations may diverge from broad shareholder interests: Li (2018) identifies conflicts of interest from ISS's dual advisory and consulting roles, Malenko, Malenko and Spatt (2025) show that a profit-maximizing proxy advisor has strategic incentives to issue overly negative recommendations, and Levit and Tsoy (2022) show that one-size-fits-all policies may conceal bias, though Buechel, Mechtenberg and Wagner (2022) find that even such biased recommendations can improve decisions. Other evidence suggests that proxy advisors are responsive to investor demand: Shu (2024) documents that ISS adjusts its benchmark policy in response to the voting patterns of large institutional clients, Forsbacka (2024) shows that ISS promotes policies that are in the interest of investors holding stakes in multiple competing firms, and Hu, Malenko and Zytnick (2024) show that a large number of funds are increasingly requesting and receiving tailored recommendations that better match their preferences. Our results help bridge these two views. On environmental and social proposals, ISS's recommendations are somewhat controversial but not followed by

funds. On governance proposals, ISS recommendations are not controversial but in line with the preferences of institutional investors broadly. Our finding that both ISS-Funds and NonISS-Funds oppose management on the governance proposals where defeats are concentrated, and that ISS is rarely pivotal, is more consistent with ISS reflecting broad institutional investor preferences than shaping them.

Our analysis also addresses regulatory and academic concerns about robo-voting, the practice of institutional investors following the recommendations of a proxy advisory without independent review (Doyle, 2018; Rose, 2021). The SEC issued guidance in 2019 and 2020 reaffirming that investment advisers owe a fiduciary duty that cannot be delegated to proxy advisory firms. Our analyses fully account for robo-voting in proportion to ownership, yet ISS recommendations are pivotal in only 10 percent of management defeats and compliance with ISS-promoted governance policies is at least as high among firms with low ISS-Fund ownership. These results are consistent with Matsusaka and Shu (2024), who find that robo-voting funds are numerous but small. Beyond the overall findings, ISS-Fund voting patterns show clear discretion: margin shifts when ISS opposes management are far smaller on social and environmental proposals (0.42 and 0.45) than on governance proposals (0.79), and NonISS-Funds also shift against management when ISS opposes. These patterns indicate that ISS recommendations reflect shared investor preferences rather than drive voting through robo-voting.

Finally, our results connect to two related literatures. The governance reforms on which management defeats are concentrated are ones that prior research finds to be value-enhancing. Prior research finds that classified boards reduce firm value (Bebchuk and Cohen, 2005; Faleye, 2007; Cohen and Wang, 2013), passing governance proposals generates positive abnormal returns (Cuñat, Giné and Guadalupe, 2012; Ertimur, Ferri and Oesch, 2015), and markets value shareholder proxy access (Becker, Bergstresser and Subramanian, 2013). That both ISS-subscribing and non-subscribing funds support these reforms is consistent with investors independently valuing good governance. Our finding that management is almost never defeated on social and environmental proposals, despite frequent ISS opposition, is consistent with He, Kahraman and Lowry (2023), who find that such proposals receive limited support, Dikolli et al. (2022), who show that ESG-focused funds are only modestly more likely to vote for them, and Michaely, Ordonez-Calafi and Rubio (2024), who show that even funds marketed as environmentally and socially responsible oppose these proposals

when their vote is more likely to be pivotal.

3 Data and Framework

This section describes the data and empirical framework. Section 3.1 describes the data sources. Section 3.2 defines the variables used in the analysis. Section 3.3 describes the analysis sample.

3.1 Data Sources

We combine data from several standard sources to characterize the ownership base of each firm and relate ownership base to firm outcomes. The manual combination of these data sources extends on the work of Forsbacka (2024) who first matched funds ISS subscription status to their 13F holdings.

Source 1: N-PX Forms and ISS Voting Analytics. Registered investment companies (mutual funds, ETFs, closed-end funds) are required to publicly disclose their proxy votes on SEC Form N-PX.[1] All filed N-PX forms are available on the SEC EDGAR website and Institutional Shareholder Services (ISS) processes, standardizes, and combines these N-PX filings into two databases. The first database separately records the votes of each fund on each voting item. The second database records for each voting item the recommendation of management,[2] the recommendation of ISS, vote required for the proposal to pass, vote counts (for, against, abstain), and the outcome of the vote. The two databases cover firms in the Russell 3000. Using the raw N-PX filings, we follow the procedure of Shu (2024) to determine in each year which fund families subscribe to ISS and therefore receive the ISS voting recommendations. ISS subscription status is determined annually and a fund family can transition between ISS-Fund and NonISS-Fund status across years.

Source 2: 13F Institutional Holdings. Institutional investment managers exercising investment discretion over $100 million or more are required to file Form 13F quarterly, reporting their equity holdings at the end of each quarter. All filed 13F forms are available on the SEC EDGAR website and several datasets process, standardize, and combine these 13F filings. We use the dataset

[1] The SEC adopted rules in January 2003 requiring N-PX disclosure. Funds were required to file their first Form N-PX by August 31, 2004.

[2] We harmonize recommendations by recoding Withhold, Do Not Vote, and Abstain as Against. Starting in 2006, vote counts are harmonized by ISS and the data report votes withheld together with votes against.

provided by Backus, Conlon and Sinkinson (2021), who improve upon the Thomson Reuters data, especially for forms that are filed prior to the introduction of XML formatting requirements, which first took effect in May 2013.

Source 3: ISS Directors US. ISS provides annual data on the boards of directors of S&P 1500 firms in the ISS Directors database. For each director, the data report independence classification, attendance at board and committee meetings, the number of public company boards on which the director serves, gender, and race/ethnicity.

Source 4: CRSP Monthly Stock File. We use the CRSP Monthly Stock File to determine (i) the number of shares outstanding in each firm and (ii) whether each firm is public throughout the calendar year. We consider a firm to be public throughout year t if it appears in the CRSP files at the end of December of years $t-1$ and t. Limiting our analysis sample to firms that are publicly traded throughout the year avoids nearly all instances of missing outcomes in the ISS Voting Analytics databases.

Combining All Data. We match each fund family in the ISS Voting Analytics data to their holdings described in the 13F data. The names of the funds do not always match, or even approximately match, in the two datasets and this necessitates manual matching. The result of the manual effort is a new linking table that matches CIK (Central Index Key) codes, which is the SEC identifier underlying the 13F data, with institutionID, which is the identifier in the ISS voting data. It is common for multiple CIK codes to match to a single institutionID. For example, multiple subsidiaries of BlackRock, Inc. file separate 13F forms and we match all of these to the BlackRock fund family. Due to imperfect tracking on the part of ISS, there are some fund families that change institutionID over time and we take care to combine these. Prior to this manual matching it was already possible to match firms across the datasets, which are identified by CUSIP in both sources, but it was not possible to match funds across datasets.

3.2 Variable Definitions

We define variables in four groups corresponding to the four sets of results: ownership variables, voting outcome variables, firm-level governance variables, and board composition variables.

3.2.1 Ownership Variables

ISS-Fund and NonISS-Fund Ownership. We use the combined data to classify each investment manager in the 13F data as belonging to one of the following three mutually exclusive categories: *ISS-Funds* are fund families that appear in ISS Voting Analytics that subscribe to ISS, *NonISS-Funds* are fund families that appear in ISS Voting Analytics that do not subscribe to ISS, and *Unclassified Funds* are fund families that appear in ISS Voting Analytics for which we cannot determine ISS subscription status. Separately for each firm-year, we aggregate the shares held by each category of owners and divide by the number of shares outstanding as reported in CRSP:

$$\text{Ownership Pct}_g = \frac{\text{Shares Held}_g}{\text{Shares Outstanding (CRSP)}} \tag{1}$$

where $g \in \{\text{ISS-Funds, NonISS-Funds, Unclassified Funds}\}$. The three ownership percentages do not sum to one because they exclude shares held by 13F filers that are not registered investment companies, institutions not required to file Form 13F, and households.

To relate each group's ownership to vote outcomes, we express ownership as a percentage of the vote base. The Vote Base (defined below) is the denominator against which votes are counted to determine passage. Let

$$\text{Vote Base Ratio} = \frac{\text{Vote Base}}{\text{Shares Outstanding (ISS VA)}} \tag{2}$$

where both variables are reported in ISS Voting Analytics. Each group's ownership as a percentage of the vote base is then[3]

$$\text{Vote Base Pct}_g = \text{Ownership Pct}_g \times \frac{1}{\text{Vote Base Ratio}} \tag{3}$$

ISS High and ISS Low Firms. We classify firms as *ISS High* if Ownership $\text{Pct}_{\text{ISS-Funds}}$ is above the annual sample median and *ISS Low* if below the annual sample median.

[3]Shares Outstanding (CRSP) need not equal Shares Outstanding (ISS VA) for three reasons: differences in timing (CRSP shares are measured at the end of Q1, ISS VA shares are measured at the time of the vote), potential differences between common shares and voting shares, and data errors. In practice, the two measures are similar and our results are robust to using Shares Outstanding (ISS VA) in place of Shares Outstanding (CRSP) in all equations and to dropping observations where the difference between the two is large.

3.2.2 Voting Outcome Variables

Vote Margin for Management. The vote required to approve a proposal depends on the firm's charter, bylaws, or applicable state law. ISS Voting Analytics records the applicable voting standard for each proposal. Under a votes cast standard, the vote base consists of shares voted for and against, while abstentions and shares not voted are excluded and have no effect on the outcome. Under a shares present standard, abstentions are included in the denominator and effectively count against, but shares not voted are still excluded. Under a shares outstanding standard, the vote base is total shares outstanding and therefore all abstentions and shares not voted effectively count as against. We define the Vote Base for each proposal as

$$\text{Vote Base} = \begin{cases} \text{For} + \text{Against} + \text{Withheld} & \text{votes cast standard} \\ \text{For} + \text{Against} + \text{Withheld} + \text{Abstain} & \text{shares present standard} \\ \text{Shares Outstanding} & \text{shares outstanding standard} \end{cases} \tag{4}$$

The vote requirement specifies the threshold that the ratio of votes For to the Vote Base must exceed for a proposal to pass. Common requirements include a plurality (at least one vote For), a simple majority (more than 50 percent of the vote base), and a supermajority (commonly two-thirds of the vote base).

On each voting item, we calculate the for-margin as:

$$\text{ForMargin} = 2 \times \left(\frac{\text{Voted For}}{\text{Vote Base}} - \frac{1}{2} \right) \tag{5}$$

ForMargin ranges from -1 to $+1$, with positive values indicating majority support. We reorient this margin relative to the voting recommendation of management as follows:

$$\text{MgmtMargin} = \begin{cases} +\text{ForMargin} & \text{if management recommends For} \\ -\text{ForMargin} & \text{if management recommends Against} \end{cases} \tag{6}$$

so that MgmtMargin > 0 indicates support for management. The margin ranges from $+1$ (all votes cast in management's favor) to -1 (all votes cast against management).

We compute vote margins separately for All voters, ISS-Funds, and NonISS-Funds using the same formula and then reorient relative to management's recommendation so that $\text{MgmtMargin}_g > 0$ indicates support for management.

Defeats, ISS Defeats, and Excess ISS Defeats. A management *Defeat* is any voting item on which the outcome does not align with management's recommendation. An *ISS Defeat* is a Defeat on a voting item where ISS opposes management. Within a category of voting items c, we define *Excess ISS Defeats* as

$$\text{Excess ISS Defeats}_c = \text{Items Opposed}_c \times (\text{Defeat Rate}_{c,\text{Opposed}} - \text{Defeat Rate}_{c,\text{Supported}}) \quad (7)$$

where Items Opposed is the number of voting items on which ISS opposes management, and the two defeat rates are computed separately for voting items in the category where ISS opposes and supports management. In the analysis, we construct categories of voting items defined by sponsor (management or shareholder) $\times$ ESG category.

Pivotal ISS Defeats. We combine information on ISS-Fund ownership, vote margins, and vote requirements to determine whether ISS is pivotal in a defeat. We define a defeat as a *Pivotal ISS Defeat* if: (1) ISS opposes management, (2) management is defeated, and (3) management would have prevailed had ISS-Funds voted like NonISS-Funds. To evaluate condition (3), we re-calculate the vote outcome under the hypothetical that ISS-Funds vote with the same margin as NonISS-Funds, compare the hypothetical outcome to the vote requirement, and determine whether management would have prevailed. An illustrative example of a Pivotal ISS Defeat appears in the Appendix Table A.1.

3.2.3 Firm-Level Governance Variables

Declassified Board of Directors. A *Declassified Board of Directors* is a board on which all directors stand for election each year. In contrast, a classified (or staggered) board divides directors into classes, with each class standing for election in different years. We define a firm as having a Declassified Board of Directors in a given year if more than two-thirds of its directors stand for

election that year.[4] The two-thirds threshold avoids possible misclassification when there is a reduction in the number of board members and results are robust to using other thresholds.

Majority Vote for Election of Directors. A firm requires *Majority Vote for Election of Directors* if the vote requirement for uncontested director elections is 50 percent of the vote base. In contrast, under a plurality standard, a nominee is elected upon receiving at least one vote. We define a firm as requiring Majority Vote in a given year if the vote requirement for director elections is 50 percent, as reported in ISS Voting Analytics.

3.2.4 Board Composition Variables

We construct five measures of board compliance with ISS policies using ISS Directors data. The first three are governance policies and the last two are social policies. *No Overboarded Director* equals one if no director sits on more than five public company boards or, if the director is a CEO of a public company, on more than two public company boards besides their own. *Independent Board* equals one if at least 50 percent of directors are classified as independent. *No Low Attendance Director* equals one if no director attends less than 75 percent of board and committee meetings in a year. *Gender Diversity* equals one if at least one director is female. *Ethnic Diversity* equals one if at least one director is classified as racially or ethnically diverse.

ISS has used criteria related to overboarding, independence, and attendance to evaluate director nominees throughout our sample period. The ISS benchmark policy on board diversity during our sample period was limited to supporting shareholder proposals requesting diversity reports, with the guidelines stating that ISS would "generally vote for requests for reports on the company's efforts to diversify the board." ISS only adopted formal voting policies on gender diversity in 2019 and racial and ethnic diversity in 2022, both after the end of our sample period. The diversity measures are nonetheless informative for our analysis. If board diversity was already increasing across firms prior to the introduction of formal ISS voting policies on diversity, this would suggest that ISS diversity policies reflected existing market trends rather than shaped them.

[4]We measure board size using ISS Directors data and count the number of director election items at each firm's annual meeting.

3.3 Analysis Sample

Our analysis sample covers S&P 1500 firms over the period 2007–2017. The sample period is determined by data availability: ISS Directors data begin in 2007 and the cleaned 13F data from Backus, Conlon and Sinkinson (2021) end in 2017. We exclude firms that are not publicly traded throughout the year.

For the voting analysis, we require that management and ISS make binary recommendations and that the outcome is either Pass or Fail, as this is needed to reorient all votes and outcomes in line with management recommendations. We require that both ISS-Funds and NonISS-Funds cast votes, as this is needed to construct voting margins for each group. We require that total votes cast exceed one percent of shares outstanding. The resulting sample contains 106,321 voting items.

When constructing Pivotal ISS Defeats, we exclude contested director elections since winners are determined by plurality (most votes) rather than by exceeding a vote threshold. We also exclude observations where the recorded outcome does not match the stated vote requirement. The resulting sample contains 106,036 voting items.

The ownership analysis uses the unique firm-years from the voting sample. Ownership is measured once per firm-year, and Vote Base Pct is first averaged across voting items within each firm-year. The resulting sample contains 11,398 firm-years.

The firm-level governance analysis uses the subset of these firm-years with director election items. This restriction is necessary because both governance variables are derived from director elections: Declassified Board is determined by the number of directors standing for election and Majority Vote is determined by the vote requirement for director elections. The resulting sample contains 11,358 firm-years.

The board composition analysis uses the ISS Directors database directly and does not require the restrictions imposed on the voting sample. We continue to exclude firms that are not publicly traded throughout the year. The resulting sample contains 15,533 firm-years.

4 Results

The results are organized into four parts. Section 4.1 documents the ownership stakes of ISS-subscribing funds, which are sizable and broadly distributed across firms. Section 4.2 presents vot-

ing outcomes, showing that management almost always prevails except on shareholder governance proposals, where management receives much lower support from both ISS-Funds and NonISS-Funds. Defeats are concentrated in votes where ISS opposes management, but ISS recommendations are rarely decisive, since in approximately 90 percent of defeats, management would have lost even if ISS-Funds had voted like NonISS-Funds. Nearly all defeats occur on governance proposals, while social and environmental proposals yield almost none. Section 4.3 examines firm-level governance outcomes, finding that compliance with governance policies promoted by ISS is at least as prevalent among firms with low ISS-Fund ownership as among firms with high ISS-Fund ownership. Section 4.4 extends the analysis to board composition, finding high and increasing compliance across measures of overboarding, independence, and attendance. Furthermore, board diversity was already increasing across firms before ISS adopted formal voting policies on diversity, suggesting that ISS diversity policies reflected existing market trends rather than shaped them.

4.1 Ownership

ISS-subscribing funds hold sizable ownership stakes in most publicly traded firms. Figure 1 presents the distribution of ownership across firms in our sample. Panels A and B show average ownership by year, while Panels C and D show the distribution of ownership pooled across all years. In Panels C and D, values exceeding 80 percent are replaced with 80 percent for presentation purposes.[5] ISS-Funds own on average 36 percent of shares outstanding, equivalent to approximately 43 percent of the vote base.[6] This ownership is broadly distributed, and the median firm has 35 percent of shares outstanding held by ISS-Funds. Average ownership by ISS-Funds is stable over the sample period, starting at 37 percent in 2007 and ending at 36 percent in 2017, while average ownership by NonISS-Funds increases from 14 percent to 20 percent. The combination of high average ownership and broad coverage across firms gives ISS significant potential to influence corporate policies. Such potential influence could operate through voting outcomes or through firms voluntarily adopting ISS-recommended practices to preempt opposition.

[5] In Panel C, only three observations exceed 80 percent, with values just above the threshold. In Panel D, a greater number of observations exceed 80 percent, mostly reflecting low Vote Base Ratios and some data errors.

[6] We first calculate the average Vote Base Pct for each firm across voting items in our sample and then average across all firms.

4.2 Voting Outcomes

Table 1 presents summary statistics on voting outcomes. Panel A shows that management almost always prevails. Across all voting items, management prevails 99 percent of the time. For management-sponsored proposals, management prevails 100 percent of the time (up to rounding). For shareholder-sponsored proposals, management prevails 85 percent of the time overall, but this rate varies by category. Management prevails 99 percent of the time on shareholder proposals addressing social (S) or environmental (E) issues, but only 74 percent of the time on shareholder proposals addressing governance (G) issues. Panel B shows that management receives strong support across all items, with an average vote margin of 0.88. Support is lower on shareholder G proposals, with an average margin of 0.24 compared to 0.63 for S proposals and 0.61 for E proposals. Both ISS-Funds and NonISS-Funds show low support for management on shareholder G proposals compared to other proposal types: ISS-Funds vote with an average margin of 0.13 for management on shareholder G proposals compared to 0.70 on S proposals and 0.67 on E proposals, while NonISS-Funds vote with an average margin of 0.34 on shareholder G proposals compared to 0.84 on S proposals and 0.82 on E proposals.

Table 2 presents outcomes separately for cases where ISS supports and opposes management. Panel A shows that when ISS supports management, management prevails 100 percent of the time (up to rounding) across nearly all proposal categories. When ISS opposes management, management prevails 90 percent of the time overall and only 69 percent of the time on shareholder G proposals. Panel B shows that both ISS-Funds and NonISS-Funds vote less favorably for management when ISS opposes: ISS-Funds shift their margins by 0.84 against management when ISS opposes, while NonISS-Funds shift by 0.55. The fact that NonISS-Funds also shift against management when ISS opposes suggests that ISS recommendations reflect a common assessment among informed investors rather than mechanically determine how ISS-Funds vote.

Table 3 presents counts of management defeats. Management is defeated 1,011 times across all voting items. Nearly all defeats occur on governance proposals: 393 on management proposals, 595 on shareholder G proposals, and only 15 on shareholder proposals classified as social, environmental, or a mix of these categories. Governance-related items account for 98 percent of all defeats (988/1,011). The panel further shows that Defeats are concentrated in cases where ISS opposed

management, with 84 percent of all defeats occurring when ISS opposes (851/1,011). Excess ISS Defeats (the number of additional defeats attributable to the higher defeat rate when ISS opposes) total 771 across all proposal categories. Shareholder G proposals account for 507 of these excess defeats, while management G proposals account for 243. Even though ISS opposes management on over half of S and E proposals, management is defeated only 15 times on shareholder S, E, and mixed S/E proposals.

Panel B of Table 3 presents the frequency of ISS opposition, total defeats, and Excess ISS Defeats for shareholder governance proposals with at least 50 observations.[7] ISS opposes management on the vast majority of these proposals, with opposition rates ranging from 53 percent to 98 percent depending on the proposal type. The proposals with the most Excess ISS Defeats are Declassify the Board of Directors (120), Require a Majority Vote for the Election of Directors (89), Adopt Proxy Access Right (73), Reduce Supermajority Vote Requirement (62), and Amend Articles/Bylaws/Charter to Call Special Meetings (51). ISS opposes management on 94 percent of these five proposal types. These five proposals account for 71 percent of shareholder G defeats and 78 percent of shareholder G Excess ISS Defeats reported in Panel A.

These five proposals, along with others in Panel B, share a common theme of enhancing shareholder rights and reducing management entrenchment. Research finds that these policies are value-enhancing (Bebchuk and Cohen, 2005; Faleye, 2007; Cuñat, Giné and Guadalupe, 2012; Cohen and Wang, 2013; Ertimur, Ferri and Oesch, 2015). The concentration of Excess ISS Defeats on these governance reforms, therefore, suggests that ISS recommendations align with principles that academic research associates with good governance.

The large number of Excess ISS Defeats might suggest that ISS recommendations were decisive in these cases. We examine this more directly by counting Pivotal ISS Defeats. The sample for this analysis excludes contested director elections and a small number of observations with ambiguous outcomes, as described in Section 3.3. Table 4 presents counts of Pivotal ISS Defeats, which are defeats where ISS opposes management and management would have prevailed had ISS-Funds voted the same way as NonISS-Funds. In our sample, there are only 94 Pivotal ISS Defeats, representing fewer than 0.1 percent of all voting items (94/106,036) and only 10 percent of all defeats (94/938).

[7]Panel B further requires that proposals include both cases where ISS supports management and cases where ISS opposes management, as both defeat rates are needed to calculate Excess ISS Defeats (equation 7).

Said differently, in 90 percent of all defeats, management would have lost even if ISS-Funds had voted like NonISS-Funds. Nearly all Pivotal ISS Defeats occur on governance proposals. On social and environmental proposals, there are only 4 Pivotal ISS Defeats combined. This is not surprising given that management defeats on these proposals are rare to begin with.

In summary, management almost always prevails except on shareholder governance proposals, where both ISS-Funds and NonISS-Funds show low support. Defeats are concentrated in cases where ISS opposes management, but ISS recommendations are rarely decisive, and in 90 percent of defeats, management would have lost even if ISS-Funds had voted like NonISS-Funds. Governance proposals account for nearly all defeats and Pivotal ISS Defeats, while social and environmental proposals produce almost none despite frequent ISS opposition. These patterns suggest that ISS recommendations reflect broad institutional investor demand for governance changes rather than shape it, while having little-to-no impact on social and environmental proposals.

4.3 Firm-Level Governance Outcomes

ISS could influence corporate governance through voting outcomes or through firms adopting ISS-recommended practices to preempt opposition. We examine compliance with ISS recommendations on the two governance policies with the most Total Defeats and Excess ISS Defeats in Table 3 Panel B: declassified boards (141 Defeats, 120 Excess ISS Defeats) and majority voting for director elections (89 Defeats, 89 Excess ISS Defeats). ISS nearly always recommends for these policies, against the recommendations of management, and therefore comparing the prevalence of these policies between ISS High and ISS Low firms provides a direct test of ISS influence. If ISS-Fund voting or the threat of ISS-Fund voting drives governance changes, these policies should be more prevalent among ISS High firms.

Figure 2 presents the percentage of firms with each governance policy, separately for firms with high and low ownership by ISS-Funds. Panel A shows the percentage of firms with declassified boards. Among ISS High firms, the share with declassified boards increases from 46 percent in 2007 to 64 percent in 2017, an increase of 18 percentage points. Among ISS Low firms, the share increases from 40 percent to 67 percent, an increase of 27 percentage points. Panel B shows the percentage of firms requiring majority voting for director elections. Among ISS High firms, the share requiring majority voting increases from 10 percent in 2007 to 61 percent in 2017, an increase

of 51 percentage points. Among ISS Low firms, the share increases from 7 percent to 66 percent, an increase of 59 percentage points.

For both governance measures, ISS Low firms exhibit compliance rates at least as large as ISS High firms, both in terms of the increase over the sample period and the level at the end of the sample. These results stand in clear contrast to what we would expect to find if ISS exercises influence through either voting or preemptive adoption. Our results therefore suggest that widespread compliance with governance policies promoted by ISS reflects broad institutional investor demand rather than ISS influence.

4.4 Board Composition

We extend the firm-level analysis to five additional measures of board composition: No Overboarded Director, Independent Board, No Low Attendance Director, Gender Diversity, and Ethnic Diversity. The first three correspond to ISS voting policies that were in effect throughout our sample period. The last two correspond to policies that ISS adopted in its benchmark guidelines after our sample period, as described in Section 3.2. Figure 3 presents the percentage of firms satisfying each measure, separately for ISS High and ISS Low firms.

Compliance with the three governance policies is high throughout the sample period. The percentage of firms satisfying No Overboarded Director increases from 87 percent in 2007 to 95 percent in 2011 and remains at that level. The percentage of firms satisfying Independent Board is close to 100 percent throughout the sample. The percentage of firms satisfying No Low Attendance Director is above 90 percent for the entire period. For all three governance policies, compliance rates are nearly identical for ISS High and ISS Low firms.

Compliance with the two diversity measures is lower but increases over time. The percentage of firms satisfying Gender Diversity increases from 78 percent in 2007 to 90 percent in 2017. The percentage of firms satisfying Ethnic Diversity increases from 24 percent in 2007 to 42 percent in 2017. For both diversity measures, compliance rates are similar for ISS High and ISS Low firms. More importantly, our results clearly show that board diversity was already increasing across S&P 1500 firms before ISS adopted formal voting policies on diversity, suggesting that ISS diversity policies reflected existing market trends rather than shaped them.

These results reinforce the findings from the voting analysis and from the analysis of declassified

boards and majority voting. If ISS exercised influence through voting or preemptive adoption, we would expect higher compliance among ISS High firms. Instead, compliance rates are similar across both groups, suggesting that board composition reflects broad institutional investor preferences rather than ISS influence. The diversity results reinforce this conclusion: board diversity was already trending upward before ISS adopted formal voting policies on diversity.

5 Conclusion

This paper combines data on proxy voting and institutional holdings to measure the ownership stake of ISS-subscribing funds in S&P 1500 firms over the period 2007–2017 and study whether ISS recommendations influence voting outcomes and corporate governance. We show that ISS-subscribing funds hold broad and sizable ownership stakes, giving ISS significant potential to influence corporate policies. Our combined dataset allows us to directly test the extent of this influence through two analyses that were not previously possible: measuring whether ISS-Fund votes were pivotal in management defeats, and comparing rates of compliance with ISS-promoted policies across firms with high and low ISS-Fund ownership.

We find little evidence that ISS dictates corporate governance practices. Management defeats are concentrated on a small set of governance proposals that enhance shareholder rights, and both ISS-Funds and NonISS-Funds show low support for management on these proposals. ISS voting recommendations are rarely decisive in defeats: in 90 percent of defeats, management would have lost even if ISS-Funds had voted the same way as NonISS-Funds. On social and environmental proposals, ISS opposes management more than half the time, yet management is rarely defeated. While the voting analysis shows that ISS recommendations rarely change outcomes of votes, ISS could still influence corporate governance if firms voluntarily adopt ISS-promoted practices to preempt ISS opposition. Inconsistent with ISS influence, we find that compliance with each governance policy and board composition criterion we study is similar across firms with high and low ISS-Fund ownership.

Our results suggest that ISS recommendations reflect broad institutional investor preferences rather than shape them. Several findings directly support this interpretation. When ISS opposes management, NonISS-Funds also vote less favorably for management, indicating that ISS recom-

mendations align with a common assessment among informed investors. The governance proposals on which defeats are concentrated are ones that prior research finds to be value-enhancing, and both ISS-Funds and NonISS-Funds independently show low support for management on these proposals. On social and environmental proposals, where ISS recommendations do not align with broad investor preferences, ISS opposition has little effect on outcomes. Last, board diversity was already increasing across S&P 1500 firms before ISS adopted formal diversity policies, suggesting that ISS followed existing market trends rather than initiated them.

Our findings are inconsistent with the view that proxy advisors exercise outsized influence over corporate governance, a view that has increasingly directed policy. The SEC issued guidance in 2019 and 2020 reaffirming that investment advisers owe a fiduciary duty that cannot be delegated to proxy advisory firms, reflecting longstanding concerns about the influence of proxy advisors over corporate governance. The current administration has intensified this scrutiny: in December 2025, the White House issued an executive order directing the SEC, FTC, and Department of Labor to increase oversight of ISS and Glass Lewis, the FTC has opened antitrust investigations into both firms, Congressional committees have held hearings on their market power, and several state attorneys general have launched probes. These concerns have been echoed in the popular press and by large asset managers, most notably JPMorgan Chase, whose CEO has described this influence as "undue." These concerns rest on a common premise: that proxy advisors exercise outsized influence over corporate governance. Our results suggest that, at least over the period we study, ISS policies and voting recommendations reflect the governance preferences of institutional investors broadly rather than shape them.

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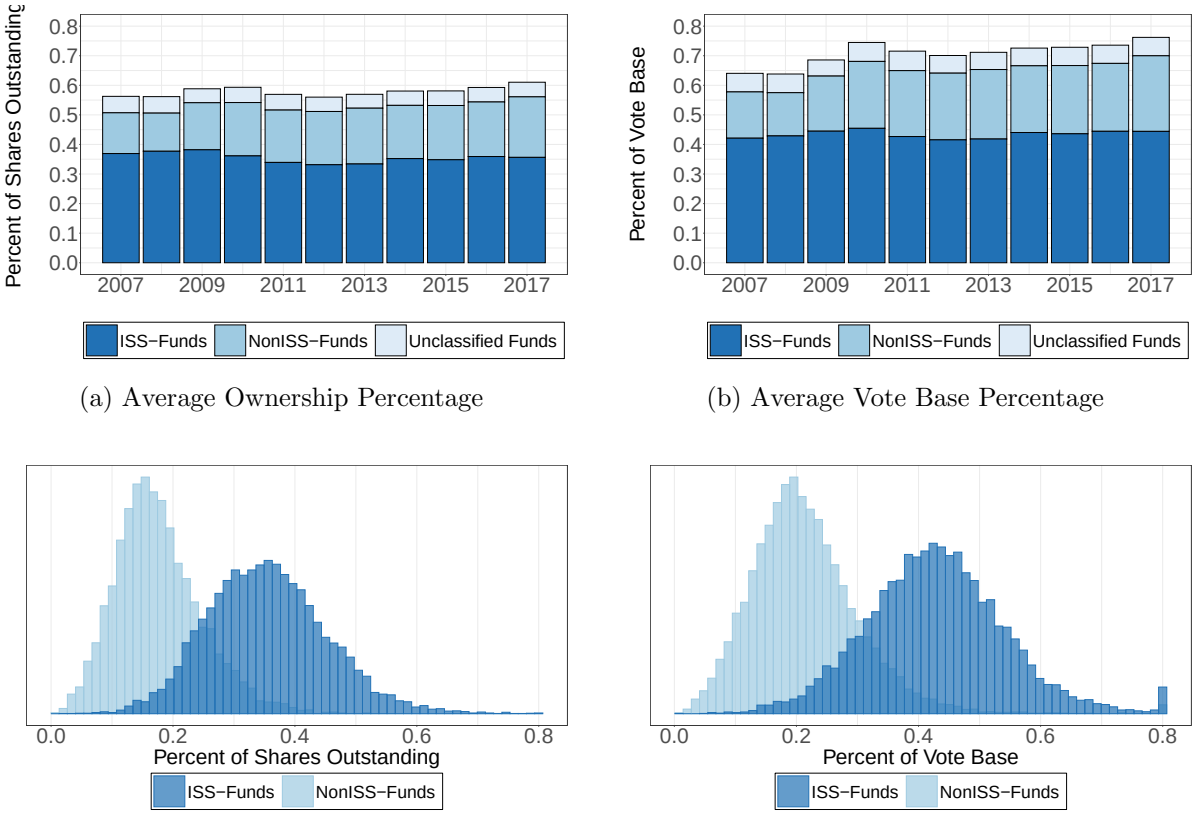
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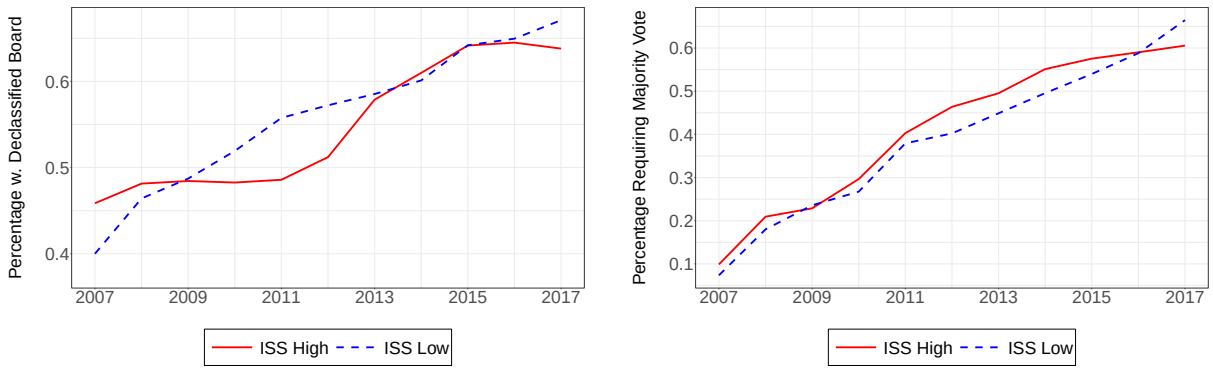
(a) Average Ownership Percentage

(b) Average Vote Base Percentage

(c) Distribution of Ownership Percentage

(d) Distribution of Vote Base Percentage

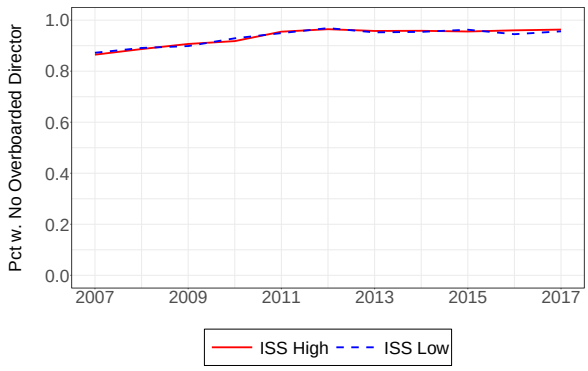
Figure 1: **Fund Ownership.** This figure shows the ownership of S&P 1500 firms by ISS-Funds, NonISS-Funds, and Unclassified Funds over the period 2007–2017. Panels A and B show average values by year. Panels C and D show the distribution of ownership pooled across all years. Panels A and C show ownership as a percentage of shares outstanding (Ownership Pct_g). Panels B and D show ownership as a percentage of the vote base (Vote Base Pct_g). Vote Base Pct is first averaged within each firm across voting items and then averaged across firms. In Panels C and D, values exceeding 80 percent are replaced with 80 percent for presentation purposes. See Section 3 for variable definitions and Section 4 for further details.



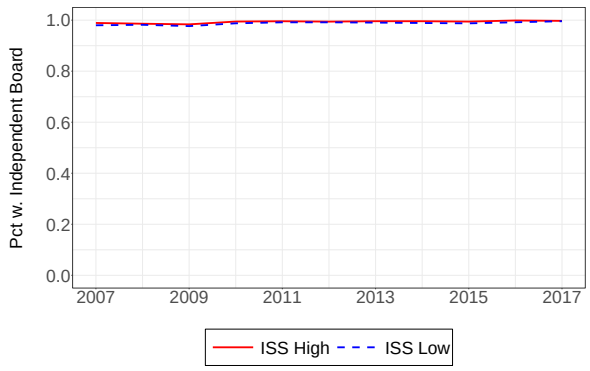
(a) Declassified Board of Directors

(b) Requires Majority Vote for Election of Directors

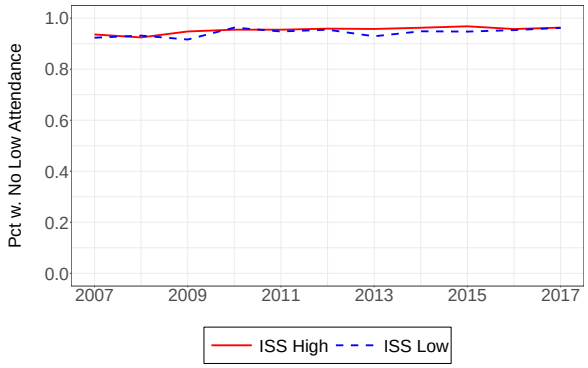
Figure 2: **Corporate Policy on Electing Directors.** This figure shows the percentage of S&P 1500 firms with governance policies that align with ISS recommendations. Panel A shows the percentage of firms with a declassified board of directors. Panel B shows the percentage of firms requiring majority vote for election of directors. Firms are classified as ISS High if the ownership percentage of ISS-Funds (Ownership $\text{Pct}_{\text{ISS-Funds}}$) is above the annual sample median and ISS Low if below the annual sample median. See Section 3 for variable definitions and Section 4 for further details.



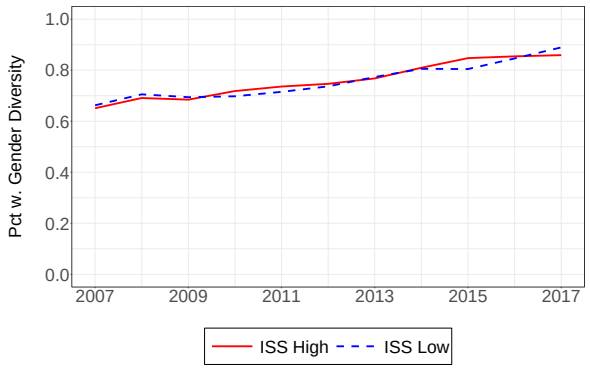
(a) No Overboarded Director



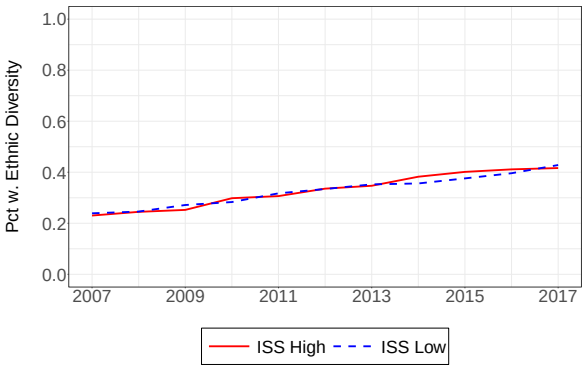
(b) Independent Board



(c) No Low Attendance Director



(d) Gender Diversity



(e) Ethnic Diversity

Figure 3: **Board Composition.** This figure shows the percentage of S&P 1500 firms in compliance with ISS policies on board composition. Panel A shows No Overboarded Director. Panel B shows Independent Board. Panel C shows No Low Attendance Director. Panel D shows Gender Diversity. Panel E shows Ethnic Diversity. Panels A–C are governance policies and Panels D–E are social policies. Firms are classified as ISS High if the ownership percentage of ISS-Funds (Ownership $\text{Pct}_{\text{ISS-Funds}}$) is above the annual sample median and ISS Low if below the annual sample median. See Section 3 for variable definitions and Section 4 for further details.

Table 1

Voting Summary Statistics

This table reports summary statistics on proxy voting at S&P 1500 firms over the period 2007–2017. Panel A reports the frequency with which management and ISS support a proposal and the frequency with which the voting outcome aligns with management's recommendation. Panel B reports the average vote margin for management (MgmtMargin_g), separately for All Voters, ISS-Funds, and NonISS-Funds. Category G denotes governance proposals, S denotes social proposals, and E denotes environmental proposals. See Section 3 for variable definitions and Section 4 for further details.

(a) Support and Outcome

Sponsor	Category	N	Management Supports	ISS Supports	Outcome Aligns w. Management
All	All Items	106,321	0.96	0.94	0.99
Management	All Items	102,322	1.00	0.94	1.00
Shareholder	All Items	3,999	0.03	0.71	0.85
Management	G	102,322	1.00	0.94	1.00
Shareholder	G	2,333	0.05	0.82	0.74
Shareholder	S	951	0.00	0.58	0.99
Shareholder	E	334	0.00	0.62	0.99
Shareholder	E, S	257	0.01	0.37	0.99
Shareholder	E, S, G	62	0.05	0.48	0.89
Shareholder	S, G	62	0.00	0.56	0.98

(b) Vote Margins

			Vote Margin for Management		
Sponsor	Category	N	All Voters	ISS-Funds	NonISS-Funds
All	All Items	106,321	0.88	0.89	0.90
Management	All Items	102,322	0.90	0.91	0.92
Shareholder	All Items	3,999	0.40	0.37	0.54
Management	G	102,322	0.90	0.91	0.92
Shareholder	G	2,333	0.24	0.13	0.34
Shareholder	S	951	0.63	0.70	0.84
Shareholder	E	334	0.61	0.67	0.82
Shareholder	E, S	257	0.73	0.78	0.86
Shareholder	E, S, G	62	0.51	0.44	0.46
Shareholder	S, G	62	0.59	0.59	0.83

Table 2

Voting Statistics by ISS Recommendation

This table reports voting outcomes separately by ISS recommendation at S&P 1500 firms over the period 2007–2017. Panel A reports the frequency with which ISS opposes management and the probability that the voting outcome aligns with management's recommendation, conditional on ISS support or opposition. Panel B reports the change in vote margin for management (ΔMgmtMargin$_g$) between items where ISS opposes and supports management, separately for All Voters, ISS-Funds, and NonISS-Funds. Category G denotes governance proposals, S denotes social proposals, and E denotes environmental proposals. See Section 3 for variable definitions and Section 4 for further details.

(a) Outcomes

				When ISS	
Sponsor	Category	N	Freq ISS Opposition	Supports Management	Opposes Management
All	All Items	106,321	8%	1.00	0.90
Management	All Items	102,322	6%	1.00	0.96
Shareholder	All Items	3,999	70%	0.99	0.79
Management	G	102,322	6%	1.00	0.96
Shareholder	G	2,333	81%	0.96	0.69
Shareholder	S	951	58%	1.00	0.99
Shareholder	E	334	62%	1.00	0.98
Shareholder	E, S	257	36%	1.00	0.97
Shareholder	E, S, G	62	44%	1.00	0.74
Shareholder	S, G	62	56%	1.00	0.97

(b) Vote Margins

			Δ Vote Margin for Management		
Sponsor	Category	N	All Voters	ISS-Funds	NonISS-Funds
All	All Items	106,321	-0.57	-0.84	-0.55
Management	All Items	102,322	-0.51	-0.85	-0.56
Shareholder	All Items	3,999	-0.58	-0.74	-0.45
Management	G	102,322	-0.51	-0.85	-0.56
Shareholder	G	2,333	-0.58	-0.79	-0.42
Shareholder	S	951	-0.41	-0.42	-0.22
Shareholder	E	334	-0.41	-0.45	-0.24
Shareholder	E, S	257	-0.47	-0.52	-0.28
Shareholder	E, S, G	62	-0.66	-1.02	-0.79
Shareholder	S, G	62	-0.51	-0.72	-0.26

Table 3

Defeats, ISS Defeats, and Excess ISS Defeats

This table reports the number of management defeats at S&P 1500 firms over the period 2007–2017. A Defeat is a voting item on which the outcome does not align with management's recommendation. An ISS Defeat is a Defeat on an item where ISS opposes management. Excess ISS Defeats is the number of items on which ISS opposes management multiplied by the difference in defeat rates between items where ISS opposes and supports management. Panel A reports counts by sponsor and ESG category. Panel B reports results for shareholder governance proposals with at least 50 observations that include both cases where ISS supports management and cases where ISS opposes management. Category G denotes governance proposals, S denotes social proposals, and E denotes environmental proposals. See Section 3 for variable definitions and Section 4 for further details.

(a) By Item Category

Sponsor	Category	N	Freq ISS Opposition	Total Defeats	ISS Defeats	Excess ISS Defeats
Management	G	102,322	6%	393	251	242.6
Shareholder	G	2,333	81%	595	578	507.4
Shareholder	S	951	58%	8	7	5.6
Shareholder	E	334	62%	4	4	4.0
Shareholder	E, S	257	36%	3	3	3.0
Shareholder	E, S, G	62	44%	7	7	7.0
Shareholder	S, G	62	56%	1	1	1.0
Column Total		106,321		1,011	851	770.6

(b) Shareholder Governance Proposals (Requires N≥50)

Voting Item	N	Freq ISS Opposition	Total Defeats	Excess ISS Defeats
Declassify the Board of Directors	171	95%	141	119.6
Require a Majority Vote for the Election of Directors	184	96%	89	89.0
Adopt Proxy Access Right	162	90%	73	73.0
Reduce Supermajority Vote Requirement	103	89%	71	61.6
Amend Articles/Bylaws/Charter – Call Special Meetings	197	98%	51	51.0
Provide Right to Act by Written Consent	152	93%	27	27.0
Elect Directors (Opposition Slate)	73	53%	47	19.1
Require Independent Board Chair	353	61%	18	18.0
Double Trigger on Equity Plans	91	98%	3	3.0
Restore or Provide for Cumulative Voting	97	93%	1	1.0
Stock Retention/Holding Period	132	92%	0	0.0
Column Total	1,715		521	462.3

Table 4

Defeats, ISS Defeats, and Pivotal ISS Defeats

This table reports the number of management defeats at S&P 1500 firms over the period 2007–2017. A Defeat is a voting item on which the outcome does not align with management's recommendation. An ISS Defeat is a Defeat on an item where ISS opposes management. A Pivotal ISS Defeat is a Defeat satisfying three conditions: (1) ISS opposes management, (2) management is defeated, and (3) management would have prevailed had ISS-Funds voted like NonISS-Funds. We exclude contested director elections and a small number of observations with ambiguous outcomes, as described in Section 3.3. Category G denotes governance proposals, S denotes social proposals, and E denotes environmental proposals. See Section 3 for variable definitions and Section 4 for further details.

Sponsor	Category	N	Total Defeats	ISS Defeats	Pivotal ISS Defeats
Management	G	102,110	367	231	59
Shareholder	G	2,260	548	544	30
Shareholder	S	951	8	7	2
Shareholder	E	334	4	4	1
Shareholder	E, S	257	3	3	1
Shareholder	E, S, G	62	7	7	1
Shareholder	S, G	62	1	1	0
Column Total		106,036	938	797	94

A Appendix

Table A.1

Example for Margin Arithmetic and Pivotal ISS Defeat

This table illustrates the identification of a Pivotal ISS Defeat. The example assumes a 50% vote requirement (equivalent to MgmtMargin > 0), a votes cast standard, management recommends For, and ISS recommends Against. Because management recommends For, MgmtMargin equals ForMargin in this example. Panel A shows votes and MgmtMargin by voter type. Panel B shows that the overall MgmtMargin equals the weighted average of group MgmtMargins, with weights equal to ownership as a percentage of the vote base (Vote Base Pct_g). The MgmtMargin of -0.086 is below zero, and therefore the proposal fails and management is defeated. Panel C shows the counterfactual MgmtMargin* if ISS-Funds had voted with the same margin as NonISS-Funds. The counterfactual MgmtMargin* of 0.103 exceeds zero, and therefore management would have prevailed in this counterfactual. This defeat is therefore pivotal because the voting behavior of ISS-Funds changed the outcome. See Section 3 for variable definitions and Section 4 for further details.

(a) Votes and MgmtMargin

Voter Type	Shares	For	Against	MgmtMargin
ISS-Funds	1,120	420	700	−0.250
NonISS-Funds	750	450	300	0.200
Other Voters	800	350	450	−0.125
Total	2,670	1,220	1,450	−0.086

(b) MgmtMargin Arithmetic

Voter Type	Vote Base Pct	MgmtMargin	Vote Base Pct × MgmtMargin
ISS-Funds	42%	−0.250	−0.105
NonISS-Funds	28%	0.200	0.056
Other Voters	30%	−0.125	−0.037
Sum	100%		−0.086

(c) Counterfactual MgmtMargin*

Voter Type	Vote Base Pct	MgmtMargin	Vote Base Pct × MgmtMargin
ISS-Funds	42%	0.200	0.084
NonISS-Funds	28%	0.200	0.056
Other Voters	30%	−0.125	−0.037
Sum	100%		0.103