# The Power of Shareholder Votes: Evidence from Director Elections*

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**Abstract:** In the U.S., votes in director elections are advisory but are often used by shareholders to express dissent. We examine whether these non-binding votes have consequences for directors and report affirmative evidence. Directors facing dissent are more likely to depart boards, especially if they are not lead directors or chairs of important committees. Directors facing dissent who do *not* leave are moved to less prominent positions in boards. These effects are more pronounced in firms with greater ownership by institutional investors who pose exit threats. Finally, we find evidence that directors facing dissent face reduced opportunities in the market for directors, consistent with the Fama and Jensen (1983) view of the disciplining role of the market for directors. We show that contrary to popular belief, shareholder votes have power and result in negative consequences for directors. We also find that the effects of dissent votes go beyond those of proxy advisor recommendations.

***JEL* Classification:** G3, G32, G34, K22, L51

**Keywords:** *director elections; director reputation; shareholder voting; proxy advisor*

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**The Power of Shareholder Votes: Evidence from Director Elections**

*At least at H.P., all the directors got a majority of the votes cast, and even then, two resigned and a third gave up his post as chairman. But at Cablevision Systems, the New York cable and media company controlled by the Dolan family, three directors lost shareholder elections twice in the last three years — in 2010 and 2012 — and received only tepid support in 2011. Nonetheless, the three remain on the board. "As fiduciaries, we can't sit by and let the board make a mockery of our fundamental right to elect directors," said New York City's comptroller, John Liu, who oversees the city's pension funds, which own more than 532,000 Cablevision shares. "Share owners need accountable directors who will ensure the company isn't being run for the benefit of insiders at our expense."*

*-New York Times, April 12, 2013*

## I. INTRODUCTION

Corporate governance continues to receive considerable interest from policy makers and market participants, especially in the wake of the 2008 financial crisis. Part of the blame for the financial crisis has been attributed to the failure of boards of directors to provide the oversight that shareholders expect of them (OECD 2009; Rosen 2010). Voting in director elections is the primary avenue by which shareholders can express dissatisfaction with a director's performance. However, in the U.S., votes in director elections are advisory, and the popular sentiment is that these votes do not have consequences for directors.

Our comprehensive analysis of director elections both before and after the financial crisis of 2008, for a large sample of firms provides new evidence and shows that shareholder votes have power. We examine director elections for Russell 3000 firms from 2003 to 2010. Our key voting variable is the fraction of votes withheld by shareholders for a director, which reflects shareholder dissent. We examine a range of outcomes including director turnover, the spill-over effects of votes on directorships held at other firms, and the reassignment of board responsibilities for directors who do not depart. We conduct additional tests to assess the key endogeneity issue of unobserved

heterogeneity. We also assess the results conditional on the type of shareholding, and test the effect of votes incrementally over proxy advisor recommendations.

Directors have fiduciary responsibility towards shareholders. A finding that directors continue to serve even when they lose support of shareholders would suggest that shareholders have little voice through the board of directors channel. Anecdotal evidence on this issue is mixed. For instance, some articles highlight the issue of "Zombie Directors," individuals who continue to serve as directors despite losing the majority vote from shareholders.[1] On the other hand, high profile resignations from companies such as Hewlett-Packard cited in the introductory quote suggest that shareholder dissent has effect.

Other evidence suggests that current voting practices make director elections routine and inconsequential events. In the typical election at Russell 3000 companies, directors are elected with more than 90 percent shareholder support. This voting pattern, coupled with the plurality voting system prevalent in many firms in which shareholders can only deny assent but cannot cast negative votes against directors, suggests that nominated directors feel little pressure from shareholder voting. Thus, economists and legal scholars (Bebchuk, 2003; Kahan and Rock, 2011) argue that the director election process should be changed. Such moves are supported by large institutional investors, exchanges, and the Securities and Exchange Commission (SEC).

Apart from changes to the plurality voting system, the sense that director elections are ineffective has also led to calls for changes in the director *nomination* process. One such effort is to open the proxy access, which would effectively allow shareholders to directly nominate directors. With rare exceptions in which firms let long-term shareholders nominate directors

[1] See, for instance, "Zombie Directors Should Exit Boardrooms" (Nell Minow, in *Blooomberg Businessweek*, July 19, 2012) or "CALPERS to battle zombie boards" (*Financial Times*, April 8, 2013) or Stewart (2013) in the *New York Times.*

(Hewlett Packard, 2013; Verizon, 2014; General Electric, 2015), the push for open proxy access has been unsuccessful as it faces considerable resistance from firms. It is rare for proxy access proposals to even make it as agenda items in annual meetings. For instance, in the 2014 proxy season, only 17 measures were voted on and only six of these received majority support. The push for proxy access, however, continues. On February 10, 2015, the large pension fund TIAA-CREF asked its top 100 investees to adopt proxy access voluntarily. In November 2014, the New York City Comptroller launched the Boardroom Accountability Project in which it is seeking to install proxy access at 75 U.S. publicly traded companies.

Moving director election voting from plurality to majority systems or changing the director nomination process represent significant changes from current practice. The pressure for such moves emanates from a sense of dissatisfaction of many institutional shareholders and policy makers with the current system of advisory votes in director elections.[2] However, does voting, even if advisory, have *no* effect? Even in principle, it is not clear that advisory voting should be irrelevant. For instance, dissent by shareholders increases the burdens on serving directors because board and annual shareholder meetings must weigh how to respond to dissent. Additionally, dissent is likely to result in negative press coverage, as indicated by the news reports cited above. The media pressure is not helpful to companies and especially the concerned directors, who often hold managerial positions or directorships in other firms (Grundfest, 1993). Thus, dissent, even if purely advisory, creates some pressure for change. Whether such pressure has detectable consequences is then an empirical question of interest to academics, regulators, institutional investors, and those engaged in governance reform. This issue is at the core of our analysis.

[2] For example, see Council of Institutional Investors 2014 letter o the SEC: http://www.cii.org/files/issues_and_advocacy/correspondence/2014/07_08_14_CII_letter_to_SEC.pdf

Our findings are as follows. First, shareholders do express dissent in director elections, and it has direct consequences for the firm that faces this dissent. Directors facing even 30% dissent are more likely to depart within the next year. This result is robust to including controls for firm and director-level characteristics. Not surprisingly, we find that the impact of votes withheld is especially powerful for firms in which directors have to face reelection every year. The finding is also robust to including the recommendation of proxy advisors, so that votes reflect the incremental judgment of institutional investors and shareholders and not their passive adherence to proxy advisor's recommendations. We do not find the last result surprising. Large institutional investors (for example, BlackRock, CalPERS and TIAA-CREF) are less likely to mechanically follow a proxy advisor's recommendations.

Our second test examines whether more voting against a director at one firm is associated with a reduction in directorships at other firms. We find affirmative evidence. This result is consistent with the disciplining role of the external market for directors. Firms are less likely to solicit or keep the services of a director who attracts hostility from shareholders at another firm. Our third test investigates the outcomes for directors who receive low shareholder support in elections but continue to hold on to their board seats. We find that these directors are likely to face reassignment in responsibilities away from the prominent committees of the board. For instance, in June 2014, three directors in Nabors Industries faced dissent. Two were moved off the compensation committee. The turnover and reassignment results are consistent with the views of Grundfest (1993), who argues that the embarrassment of facing significant withheld votes is a potent disciplinary force for boards.

Our results also indicate that there is heterogeneity in voting effects across directors. Directors in leadership positions (definitions are discussed later) are more likely to face dissent.

However, they are less likely to depart, indicating that boards value continuity in directors who hold key responsibilities. We also detect heterogeneity in voting effects based on the nature of a firm's equity ownership consistent with the view that exit is a credible threat that increases attention by firms to shareholder voice. Voting dissent is more likely to lead to director turnover in firms with large ownership positions by institutional investors. There is less turnover in response to dissent at firms where quasi indexers have large positions and are not likely to exit. Thus, our results are consistent with Bharath, Jayaraman, and Nagar (2013) and McCahery, Sautner and Starks (2015), who argue that the threat of investor exit is an important governance tool.

We also assess endogeneity issues. As Roberts and Whited (2011) point out, endogeneity in corporate finance arises due to reverse causality, measurement error, or unobserved heterogeneity. The first two are not relevant in our context but it is useful to assess the third, endogeneity due to unobserved heterogeneity. Our dataset comprises of individual director-election events for each firm for each year. Thus, we observe *within*-firm variation in voting. This allows us to assess unobserved heterogeneity at the firm-year level by differencing an individual director's votes withheld relative to the overall votes withheld for all directors. The unobserved heterogeneity can also be addressed by adopting the approach outlined by Gormley and Matsa (2014) through interactive firm-year fixed effects. In both of these specifications we find that the director votes continue to matter, and in fact strengthen in explaining director turnover. Thus, the significance of director votes is not explained by unobserved heterogeneity due to the time period, the firm, or even for the firm in the given year. An alternative source of heterogeneity is at the director level, differencing out which requires us to restrict attention to directors holding multiple positions at different. We conduct this analysis and find that the voting effects are robust to director level unobserved heterogeneity.

Our results on voting are relevant to the broader issue of director turnover and turnover-performance sensitivity. Yermack (2004) presents evidence on this issue. Variables such as the size, profits, or the reputation of the firm are reasonable choices for the *firm's* performance. We control for them. However, these measures aggregate the output of multiple agents including the entire board and the top management. What is a credible *director* level performance indicator? In principle, election votes can act as a director level indicator of performance. In director elections, votes are cast for individual directors. Their usefulness as performance indicators depends on whether there is sufficient variation in voting *within* the same firm and the same election for different directors. We find such variation in our sample, as not all directors receive the same level of votes. Interestingly, it is precisely this variation across directors within the same firm that is more important in explaining post-election outcomes. More generally, our tests indicate that there are detectable human capital and reputational consequences to receiving significant opposition in even nonbinding votes.

The rest of the paper is organized as follows. Section 2 gives background about the director election process and reviews related work. Section 3 describes the data. Section 4 discusses the empirical results and the robustness results. Section 5 concludes.

## 2. Background on the Director Election Process

### *2.1 The Election Process*

In the United States, a large number of firms elect directors based on plurality voting rules. Under this system, shareholders can abstain from voting for a director but cannot vote against a director. This system implies that even a single "for" vote for a director nominee can result in that

individual winning the election. Abstentions by voters are the means by which shareholders express dissent.

The perception that plurality is ineffective has led institutions to adopt measures to make voting more effective. Institutional investors have started to push firms to adopt majority rather than plurality voting elections.[3] However, even a majority voting system may only have limited impact. Directors who do not receive majority votes tender their resignations, but company charters do not necessarily oblige the board to accept the resignation. Thus, even after a switch to majority voting systems, votes essentially remain nonbinding expressions of dissent. Whether such dissent has any effects, in the sense of being related to outcomes, is the central issue that we study.

Another regulatory push to make elections more meaningful is to alter the process of director nominations. After the Dodd-Frank Act was signed into law on July 21, 2010, the SEC proposed revised rules on August 25, 2010 to open director nominations to shareholders of firms. Such "proxy access" gives shareholders more voice in nominating candidates for directors but has faced strong opposition by U.S. businesses. Two organizations (the U.S. Chamber of Commerce and the Business Roundtable) challenged the rule in court. Several institutional investors such as TIAA-CREF and CalPERS supported the rule. In July 2011, the court ruled against proxy access and the SEC decided not to pursue the proposal. However, proxy access proposals continue to be filed at several firms in recent years.[4]

The perceived ineffectiveness of director election votes has also led to changes in the handling of broker votes that allowed brokers to caste uninstructed shares. Rule 452 of the New York Stock Exchange allowed brokers to cast votes on behalf of their shareholders that held the shares in

[3] For example, see http://www.cii.org/MajorityVotingForDirectors .
[4] For example, in 2012, Norges Bank Investment Management that manages investment of Norway's pension fund filed binding proxy access proposals at several firms, including Wells Fargo, Western Union, Staples and CME Group.

"street name" in "routine" proposals if the client did not provide voting instructions. Uncontested director elections were considered routine proposals. As documented by Bethel and Gillan (2002) broker votes are typically cast in favor of management. In 2010, the SEC adopted new rules barring brokers from voting uninstructed shares in uncontested board elections. The rules on how brokers may vote uninstructed shares continue to be under scrutiny by legislators. For example, the Dodd-Frank Act prohibits broker votes for compensation proposals. Since 2012, major U.S. exchanges prohibit uninstructed broker votes without the client's consent, for proposals related to declassification of boards, majority voting to elect directors, eliminating the supermajority voting requirement, providing for the use of consents, providing rights to call a special meeting, and certain anti-takeover provisions.[5]

*2.2 Related Corporate Governance Literature*

A stream of work on director voting focuses on voting after specific triggering events. Early instances of such work include Pound (1988), DeAngelo and DeAngelo (1989), and Mulherin and Poulsen (1998), who analyze voting in proxy contests. More recent studies in this vein have emerged after the wave of financial frauds detected in the post-dot com era. Brochert and Srinivasan (2014) show that shareholders tend to sue directors and vote against them when firms are involved in financial fraud. Voting against directors has also received particular attention in the wake of the options backdating scandal (Heron and Lie 2007; Bizjak, Lemmon, and Whitsby, 2009; Bebchuk, Grinstein, and Peyer, 2010) because backdating likely reflects insufficient board of director oversight. Bereskin and Smith (2014) find that directors associated with option backdating lose more outside directorships. Ertimur, Ferri, and Maber (2012) find more votes are

[5] See NYSE memo 12-4 dated 25 January, 2012 on modifications to Rule 452 to incorporate the new instructions on casting broker votes.

withheld for these directors. Choi, Fisch, and Kahan (2013) analyze voting by funds. They report heterogeneity in how different funds vote (see also Cremers and Romano, 2011).

Cai, Garner, and Walkling (2009) study a sample of director elections between 2003 and 2005. They find that votes are related to the recommendations of a proxy advisory firm Institutional Shareholder Services (ISS). In light of their results, we include ISS recommendation as a control variable to assess the incremental effects of votes. In their online appendix, they do not find that votes are statistically significant in explaining director turnover. We revisit this issue with a vastly expanded sample of elections with five additional years. Our sample includes 59,568 voting events versus 13,384 events in their main sample. Other studies that examine the influence of proxy advisory firms on voting by institutional investors include Bethel and Gillan (2002), Ertimur, Ferri and Muslu (2011), and more recently, Iliev and Lowry (2015) who report that mutual funds vary greatly in their reliance on proxy advisory firm recommendations.

While our focus is on director elections, related work examines voting on shareholder proposals, e.g., Thomas and Cotter (2007), Ertimur, Ferri, and Stubben (2010) and Renneboog and Szilyagi (2011). The literature reports that shareholder proposals are more likely to be implemented by management if there is majority backing for the proposals. The role played by the types of institutional owners is less developed. Cai, Garner and Walking (2009) report that ownership by index funds or quasi-indexers (see Bushee (2001) for definitions) exibits the same pro-management bias as the broker votes studied in Bethel and Gillan (2002). We present new analysis and evidence by examining the relation between voting, type of institutional ownership, and outcomes such as director turnover at the firm facing elections.

The literature on voting by shareholders outside plurality systems is relatively nascent. This is not surprising. The vast majority of U.S. firms continue to follow plurality rather than majority

voting. Ertimur, Ferri, and Oesch (2015) study a subsample of firms that move from plurality voting to majority voting. They report that 398 firms who switch become more responsive to shareholders after the switch. In the sample of 398 switchers and 208 matched firms in 2003-2007, they do not find a significant relation between votes withheld and director turnover in the next year. Their result is for a sub-sample that pivots around firms that chose to switch to majority. Ours is a sample of all elections during a longer time period that includes the crisis of 2008 and covers Russell 3000 firms resulting in three times the number of observations. We study not just post-election same-firm turnover but also outside directorships and the internal reorganization of board responsibilities.

Our work is also related to the broader literature on non-binding shareholder votes. A key issue in this literature is whether such non-binding votes have real effects compared to binding proposals. Buchanan, Netter, Poulsen, and Yang (2012) compare the U.S. non-binding system to the U.K. system in which proposals are more onerous on sponsors but carry greater force because they are binding. Levit and Malenko (2011) present a theoretical analysis of advisory proposals. Director election votes are advisory, so our study can be viewed as empirical evidence on whether advisory votes have real consequences.

## 3. Data and Sample Selection

### *3.1 Director Elections*

We obtain voting outcomes for proposals listed on proxy statements from the ISS Voting Analytics database for firms included in the Russell 3000 index. Our sample includes all director election proposals during calendar years 2003 to 2010.[6] This period spans a time period before and

[6] Our data ends in mid-November 2010.

after the 2008 financial crisis and thus includes a period over which shareholder activism has become more significant in the U.S.

Given our focus on director elections, we select only those proposals that deal with director elections of non-employee board members (we thus exclude inside directors). We examine director slates sponsored by management. In our sample (and in the U.S., more broadly), it is rare for shareholders to enter proposals. Our unit of analysis is a unique firm-director-election date record. We extract the name of each director who stands for election from the ballot item description field in the voting database. The key RHS variable of interest in our study is %*Withheld*, which is the percentage of votes withheld for the director and is computed as the ratio of the total votes cast against a particular director by the sum of all votes cast. We also have information on the recommendation that the proxy advisory firm ISS issued for each of the director nominees. A dummy variable, *ISS Against*, takes the value of one, if ISS recommends "Withhold", "Against" or "No" for a particular director, and zero otherwise. We also include a range of controls. Appendix A gives a detailed description for these firm and director-level variables and lists the source of the data. The remaining part of Section 3 discusses the more important variable specifications and data sources in greater detail.

### *3.2 Dependent Variables*

The main focus of our analysis is the relation between director election votes and subsequent director-level outcomes. We control for firm attributes, and characteristics of individual directors facing elections, such as the number of outside board seats held by a particular director, and membership in significant board committees. The dataset requires us to merge multiple databases, a process that requires manual intervention. We describe the key steps below.

The BoardEx database is our primary source for board data such as number of directorships and committee assignment as well as individual director-specific attributes such as director age. BoardEx provides extensive data on the service history and limited biographical data for individuals who serve as directors of large U.S. corporations. The coverage begins in 1999 but improves in 2003 when it starts to include smaller firms in its database. This is our primary motivation for choosing 2003 as the start of our sample period. We merge the ISS Voting Analytics database that covers director elections with BoardEx. The matching requires a unique, one-to-one match of individual directors in the two databases and involves machine-based text-matching algorithms followed by manual checks of the data to resolve any remaining ambiguities.[7]

Our first measure of director outcome is director turnover denoted hereafter as *Director_TO*. We use the BoardEx-identified start and end dates of a particular individual's tenure as director at a specific firm. Consider, for instance, the case of Zale Corporation At its annual meeting held on December 7, 2009 (for the fiscal year ending in July 2009), the company had a slate of seven directors up for re-election. To measure director turnover in the period following the shareholder voting at the annual meeting, we examine Zale's board composition at the end of fiscal year during which the meeting took place i.e. July 2010. We find that two of the seven directors that were up for reelection were no longer on the board and we assign the *Director_TO* variable a value equal to one for these two directors, and a value equal to zero for the other directors.[8]

[7] For example, consider name matching. Anheuser-Busch Companies has two directors with exactly the same text "August A. Busch" in the dataset. We keep track of suffixes to ensure that these are two distinct individuals, namely, August A. Busch III and August A. Busch IV. In other instances, we track the middle names to account for different individuals with the same first and last name. For example Pilgrim Pride Inc. has two directors listed as Lonnie Pilgrim which is resolved by keeping track of the middle initial for the father Lonnie "Bo" Pilgrim and the son Lonnie "Ken" Pilgrim.

[8] Two directors faced a substantial 19.53% and 19.57% of votes withheld, respectively. Their resignation was announced in the May 6, 2010 8-K filing, i.e. two months before the fiscal year end in July 2010.

We believe that our turnover measure is conservative as a measure of election-induced changes because of the relatively short horizon of less than one year after voting. In the case of Zale described above, we are effectively looking for a turnover in a relatively short period of eight months (December 2009 to July 2010). In some instances, it is possible that the low support from shareholders has effects over longer periods. While two of the directors of Zale Corporation departed before the end of fiscal year, the other five Zale directors up for reelection were still on the board had also received a high level of *%Withheld*. Two out of these remaining five directors resigned in September 2010 (two months after the fiscal year end) and an additional director resigned in February 2011 (seven months after the fiscal year end). Our turnover measure does not capture these later turnovers for conservatism and to avoid other contaminating effects that are more likely during a longer time horizon. For firms with classified or staggered boards, our director turnover measure is likely to be particularly conservative because a director getting low shareholder support does not face reelection for up to three years. However, to the extent that firms feel it necessary to act due to pressure from dissent, there could be departures before the next *t+3* election.

Our second outcome measure is the change in the total number of directorships held by the individual director. We use this measure to examine whether dissent at one firm has spillover effects on other positions held by the director. This measure, *Increase in Outside Directorships*, is the sum of all directorships at the end of year *t+1* minus the same sum at the beginning of year *t*. To ensure that we do not double count a loss of directorship for the firm in which the individual director is facing an election, we exclude such departures in our estimation of *Change in Outside Directorships*.

Our third outcome variable is committee turnover. We focus on turnover in three main board committees: compensation (*Comp_TO*), nominating (*Nom_TO*), and audit (*Audit_TO*) committee. A turnover occurs if a member of one these committees at the time of election is no longer on the committee in the year following reelection (conditional on staying on the board). We compute these three measures on an annual basis because the committee memberships are reported as of the end of each year. Each of these committee turnover variables takes the value of one if the director who is up for election remains on the board at the end of the year but is no longer a member of that particular committee in the year after the election. The variable aims to capture the loss of status for a director who does not leave a board.

### *3.3 Firm Characteristics*

To control for firm-specific characteristics, we merge ISS Voting Analytics and BoardEx databases with firm characteristics from CRSP/Compustat. We include firms with non-missing accounting data and stock returns data for the fiscal year preceding the election date. Control variables are motivated by prior studies such as Cai, Garner and Walking (2009). Our control for firm size is *Size*, the natural log of book value of total assets for the most recent fiscal year preceding the director election. To account for past performance, we estimate two measures namely *Excess Ret* and *Adj ROA*. *Excess Ret* is the prior fiscal year return minus the returns of a characteristics-matched portfolio based on style quintiles from Daniel, Grinblatt, Titman and Wermers (1997), hereafter DGTW. *Adj ROA* is the industry-adjusted EBITDA to assets ratio. For each firm, we compute the EBITDA to assets ratio, winsorize the results at 1% and 99%, and subtract the 2-digit SIC industry median ratio to obtain the adjusted *Adj ROA.* Given the special regulatory environment faced by firms in the financial industry (SIC codes 6000-6999) and utilities

(SIC codes 4800-4999), we exclude these firms from our analysis. We include a dummy variable *Dualclass*, which equals one if the firm has more than one class of voting stock.

Other firm-level characteristics included in our analysis are *GOV41* and *InstOwnship. GOV41* assigns a value of one to each of the 41 governance attributes if the company meets minimally acceptable governance guidelines on that attribute, and zero otherwise (see Aggarwal, Erel, Ferreira, and Matos (2011) for details on how this index is constructed). *InstOwnship* is the fraction of shares outstanding that are held by institutional owners. We obtain this data from Schedule 13F filings. In addition, we also focus on different types of institutional investors that hold shares of a firm immediately prior to the annual meeting of the firm in which some or all of its directors face a re-election. For each firm-meeting date observation, we obtain holdings of institutional investors for the most recent quarter before the meeting date from the Thomson-Reuters Institutional Holdings (13F) Database. We classify institutions as in Bushee (2001) and Bushee and Noe (2000) and estimate the median shareholding by each of the three type of investors for the calendar year. We create a dummy variable *Hi_Transient* that takes the value equal to one if the aggregate fraction of shares held by transient investors in a firm is greater than the median transient holding across all firms in the calendar year, and zero otherwise. We repeat the same process to create *Hi_Dedicated* and *Hi_QIndex* based on the fraction owned by dedicated investors and quasi-indexers, respectively.

### *3.4 Director Characteristics*

The primary unit of analysis in our paper is a director facing election at a firm in a given fiscal year. One approach we use to control for heterogeneity across individual directors is to include a number of director-specific characteristics. These include age, tenure, gender, and the educational qualifications of each director. All the director related characteristics are obtained

from BoardEx. The other approach is to use director level fixed effects to capture unobserved heterogeneity across directors. Because this approach sacrifices the sample of directors without multiple positions, it is our less-preferred specification. Our results on voting outcomes are robust to either approach.

## 4. Results

### *4.1 Descriptive Statistics*

Our final sample consists of 59,568 director election events. Panel A of Table 1 provides firm-level and director-level descriptive statistics. The average board size for our sample is 9.14. Staggered boards account for 32.15% of the sample, while 12.25% of our observations are for firms with dual class stocks. Most of our sample period consists of the post-SOX era, and, as expected, firm-level governance proxied by *GOV41* is high. On average firms meet 65% of the 41 governance attributes that make up our governance index. The mean holdings of institutional investors is 72.18%.

Panel B of Table 1 reports director characteristics. The average age of the director is 60.68 years and tenure is 7.19 years. There are two competing hypotheses regarding director tenure. On the one hand, long-term directors have considerable experience, expertise, and firm-specific capital that is helpful to the firm. On the other hand, there is also an argument for director "freshness." This notion is partly based on the belief that after several years of service on a board, a director is perhaps no longer independent. In addition, firms could benefit from fresh insights brought in by new directors. In our sample, on average, an individual director holds 1.64 directorships. Approximately 89% of the election events pertain to male directors, 32% to directors with MBAs, and 12% to directors with a law background. Also 32% of the sample elections are

for directors with *Ivyplus* equal to 1, where *Ivyplus i*s an indicator for a degree from a high quality undergraduate institution as defined by Zawel (2005).

On average, 5.87% of votes are withheld in director elections. The fraction of votes withheld is correlated with the nature of ISS recommendations. ISS recommends against 11.6% of management-sponsored director nominees. The correlation between *ISS Against* and *%Withheld* is 0.673, which is statistically significant at the one percent level consistent with Cai, Garner, and Walkling (2009). Panel C of Table 1 further shows that there is negative correlation between *%Withheld* and the two measures of prior period performance – *Excess Ret* and *Adj ROA*. There is more dissent in firms with past weak performance. The dissenting vote, *%Withheld,* has a positive and significant correlation with director tenure and compensation and nominating committee membership. In the case of firms involved in litigation due to financial fraud, Brochert and Srinivasan (2014) find audit committee members are more likely to be named in the lawsuit, and they receive higher dissent votes. However, on average, members of the audit committee are associated with fewer dissent votes, as shown in Panel D of Table 1.

### *4.2 Withholding of Votes*

Table 2 shows the number of firms and number of management-sponsored director election proposals by year for the period 2003-2010. The number of director nominee elections per year varies from a low of 5,727 (involving 1,353 firms) in 2003 to a high of 8,625 (involving 1,846 firms) in 2009. The small number of events in 2003 likely reflects the smaller coverage by BoardEx. For robustness, we repeat all of our analysis excluding 2003 and find that our results are robust to this exclusion.

Most director elections are routine with management-sponsored director nominees receiving almost unanimous support. However, shareholders do often express dissent by

withholding votes in director elections. As reported in column 4 of Table 2, the average percentage of votes withheld varies from a low of 4.78% in 2006 to a high of 7.89% in 2009, an increase of over 65%. Shareholder concerns related to the financial crisis were reflected in the 2009 proxy season because the 2008 proxy season was mostly complete by September 2008, when the crisis had fully set in. The displeasure with directors continued in 2010 as the dissent rates continued to be higher than pre-2008 averages.

An interesting subset of cases is when shareholders have high levels of dissatisfaction. A shareholder dissent level of 30% or more is considered an important trigger point (Choi, Fisch, and Kahan, 2013). Our sample includes 2,041 director election events (approximately 3.5% of the sample), in which the individual nominee had 30% or more of shareholder votes withheld. Shareholder dissatisfaction was particularly evident in 2009 with 557 directors receiving more than 30% withheld votes as shown in column 5 of Table 2. Majority dissent votes, or 50% or more of votes withheld, are relatively rare, especially before 2007. In our sample, there are 218 cases in which director nominees receive majority dissent, with 136, or about 62% of these occurring in 2009 and 2010. These events represent 138 unique firm meeting-year observations implying that in some years multiple directors in the same meeting receive majority dissent.

We further examine the influence of recommendations by proxy advisors. We show the percentage of director nominees opposed by ISS each year. Column 7 of Table 2 shows that the ISS opposes between 8.53% and 16.86% of nominees in a year. The proxy season immediately following the onset of the financial crisis (2009) saw the highest proportion of ISS opposition at 16.86%. The lowest opposition was in 2006 with ISS opposing management's recommendation for 8.53% of director nominees.

The influence of the proxy advisory firm's recommendations on voting is evident in the results in columns (8) and (9) of Table 2. If ISS does not oppose a director nominee, the average votes withheld are 3.77%. For directors opposed by ISS, the average percentage of votes withheld is more than six times higher at 21.95%. A *t*-test, reported in column 10 of Table 2, shows that the difference in the voting patterns of the group of directors supported by ISS versus those opposed is statistically significant at the one percent level. While voting outcomes and ISS recommendations are correlated, the correlation is imperfect so votes are more than a passive translation of the proxy advisory firms' recommendations. Investors appear to consider additional factors in determining votes beyond proxy firm advice. How much each matters for economic outcomes for directors is an empirical question that we pursue .

*4.3 Voting and Director Turnover*

Directors have a fiduciary responsibility to shareholders. When shareholders withhold significant support for a director's election, it conveys displeasure with the director's performance. The empirical question is whether the displeasure has consequences for the director in question.

Table 3 provides a univariate analysis to highlight the association between shareholder votes and director turnover. The average turnover rate for directors that receive less than 30% of dissent votes is 1.93%; however the rate is more than 60% higher (3.11%) for those that receive 30% or more dissent votes. The turnover rate for directors that receive 30% or more dissent votes and do *not* serve on one of the important committees, defined to be compensation, nominating and audit, is even higher at 5.79%. This suggests that directors who do not serve on significant committees are more sensitive to dissent and are more likely to leave their board positions.

We turn to multivariate specifications that include votes and other controls for firm and director characteristics. Specifically, our baseline logit specification is:

$$(Director_TO)_{i,j,t+1} = \alpha + (\%Withheld)_{i,j,t}\lambda + \mathbf{F}_{j,t}\beta + \mathbf{D}_{i,t}\gamma + \varepsilon_i \qquad (1)$$

The dependent variable, *Director_TO* takes a value of one if a director *i* at firm *j* who faces an election at time *t* departs within the fiscal year *(t+1),* and zero otherwise. The main variable of interest is *%Withheld*, which is also a director-firm-election specific variable and its coefficient $\lambda$ is the key parameter of interest. The control variables include firm-level characteristics denoted by vector **F,** and director-specific characteristics denoted by vector **D**.

Table 4 reports logit analyses of director departure in the year following their election. Firm-level controls are *SIZE*, two measures of performance, namely industry-adjusted operating performance (*Adj ROA*) and excess stock market returns (*Excess Ret*), institutional ownership (*Inst Ownership*), and governance (*GOV41*). Director-specific controls are age of the director (*Age*), number of years served on the board (*Tenure*), number of other board positions (*#Dirships*), and membership on a significant committee (*CommMember*). A director who is a member of any of the following three committees; audit, compensation, and nominating & governance is considered as serving on a significant committee. A dummy variable (*Post-Crisis*) takes the value of one if the election date is after December 31, 2008.

Column 1 of Table 4 shows that there is a positive association between votes withheld and director turnover and the coefficient is significant at the one percent level. Thus, the univariate relationship between dissent and the director departure within a year holds in the multivariate setting that controls for firm and director-specific characteristics. Next, we examine the influence of proxy advisors as shown in column 2 of Table 4. The coefficient of *ISS Against* is positive and statistically significant at the one percent level. The result indicates that if ISS issues a recommendation opposing a management-sponsored director nominee, it is more likely that the director will leave the firm in the following year. Column 3 includes both recommendation and

dissent. The coefficient of %*Withheld* continues to be significant but *ISS Against* is no longer significant.

Among the other results, poor performance at the firm in the prior year is associated with higher turnover. This is true for both proxies of performance, *Adj ROA* and *Excess Ret*. The coefficient of both variables is negative and significant at the 5% and 10% levels, respectively. There is some evidence of less director turnover at firms with higher institutional ownership. We also find that older directors are less likely to leave the board. However, the length of a director's tenure is not associated with turnover.

Column 4 of Table 4 filters out unobserved heterogeneity at the firm *and* year level, or controls for all other firm level unobservables in the particular election. Here, we specify dissent using an alternative proxy, *Excess*%*Withheld*, which is estimated by subtracting the average fraction of withheld votes for all directors at a firm for the year from each individual's director's %*Withheld*. The economics of the variable is straightforward. %*Withheld* reflects the shareholder dissatisfaction with the firm as well as with an individual director. Using *Excess*%*Withheld* takes out aggregate firm-level dissatisfaction and thus controls for other issues that may lead to dissent at the level of the firm and year. In spirit, it is similar to a firm-year fixed effect. While the fixed-effects regression ignores the firm characteristics, using *Excess*%*Withheld* allows us to retain the firm characteristics in our specification. Both specification provide similar results. The coefficient of *Excess*%*Withheld* is positive and significant in each of the estimates, including when we control for the proxy advisor's recommendation. Based on the results, we can conclude that within a firm, directors that receive higher than average dissent are more likely to leave the board.

As discussed earlier, director turnover effects are conservative as they only account for departures within a year of the reelection date. This issue is especially relevant for firms that have

a classified or staggered board. In such firms, a director receiving low shareholder approval is arguably under less pressure as he will not face another election for three years. Thus, the incidence of director turnover after dissent may be less frequent in such firms. We explore this issue by dividing our sample into two groups of firms: those with a classified board and those without a classified board. We estimate the base line logit specification for these two subsamples separately and report the results in Table 5. Column 1 shows that the coefficient for %*Withheld* is positive but not significant for the subsample of firms with a classified board, while the coefficient for %*Withheld* is positive and significant at the one percent level for the firms that do not have a classified board (column 2). Using *Excess*%*Withheld* provides similar results (columns 3 and 4). These results provide support that the impact of votes withheld is especially powerful for firms in which directors have to face reelection every year.

The above results corroborate the initial univariate evidence that shareholder voting is an effective mechanism to discipline the board and does have consequences. While proxy advisory firm's recommendations matter, election voting is also significant in all models, both singly and jointly with other controls.

### *4.4 Change in Outside Directorships*

Having studied the association between shareholder dissent and subsequent likelihood of a director departing, we next address the question of whether dissent with a director at one firm is associated with increase or decrease in the outside directorship appointments of that person at other firms. As discussed earlier in Section 3, the key outcome variable *Increase in Outside Directorships*, is the two-year change in the number of outside directorships held by the director, not counting any changes in the focal firm directorship. Table 6 presents the results of ordinary least square models with *Increase in Outside Directorships* as the dependent variable.

In Table 6, the coefficients of *%Withheld* and *ISS Against* are negative and significant. Thus, both shareholder dissent and ISS opposition are related not only to director turnover at the firm in which the opposition occurs, but also at other firms. The sign and significance of other control variables are as expected – high profitability of the firm is significantly associated with the directors of that firm increasing their directorship in the next two years. Directors already serving on several boards, older directors, and directors with long tenures are more likely to have fewer directorships in the future. Interestingly, directors of better-governed firms are likely to reduce their total number of directorships. We interpret this as a preference of better-governed firms for less busy board members.

### *4.5 What About Directors Who Stay on Despite Dissent?*

The results reported so far indicate that directors are more likely to depart from the board of a firm if a large fraction of that firm's shareholders withhold their support. Such shareholder dissent also affects future directorship appointments in other firms. However, the results do not examine the consequences for directors that receive significant shareholder dissent but do not depart from the board. We turn to outcomes for directors who continue to remain on the board despite facing dissent in shareholder elections.

We partition all director-election events within a year into two mutually exclusive groups. The first group consist of directors who depart from the board within a year of the election. The second group comprises of directors who remain on the board until the end of the next fiscal year. We focus on the second group as by construction it only includes individual directors who survive the election (at least for the next year). For this group of "surviving" directors, we examine the directors' internal roles within the board, specifically a director's membership in key board committees. We test whether shareholder dissent explains the future likelihood of reassignment

away from such committees. We create three indicator variables *Comp_TO*, *Nom_TO*, and *Audit_TO* to capture departure from the compensation, the nomination and the audit committees respectively. These variables take the value equal to zero if an individual director stays on the committee following the re-election and one if the director departs the committee following the election (but continues to stay on as a board member).

As committee names are not standardized across companies or sometimes within the same company across years, we use manual intervention to ensure standardization and comparability of committee names. We look at each of the committee outcomes separately. For example, Abercrombie & Fitch Co. states in its May 2009 proxy that it has four standing committees: Compensation, Executive, Audit, and Nominating & Board Governance Committee. In the proxy filed in the following year in May 2010, the company states that it has five standing committees, adding a new Social Responsibility committee to the previous four committees. Consider an executive listed as a member of the Compensation and Nominating & Board Governance committees in 2009 who is reassigned in 2010 away from these committees but who gains a position on the Corporate Social Responsibility Committee. Because the executive continues on the board but is no longer a member of the compensation and nomination committees, we set *Comp_TO* and *Nom_TO* equal one in this case.

Table 7 provides descriptive statistics on internal committee reassignments. As before, we present univariate results on committee reassignments in relation to dissent by comparing outcomes for those who receive less or more than 30% dissent votes. On average, the probability of departure from any one of the committees, *conditional* on continuing in the same board, is 8.04% for directors receiving less than 30% dissent. This increases to 10.41% if dissent exceeds 30% and the difference between the two is statistically significant at the one percent level.

We next examine the relation between committee turnover and shareholder opposition after controlling for other factors. The dependent variable is committee turnover, and again two proxies are used as explanatory variables: *%Withheld* and *%ExcessWithheld*. We also include *ISS Against* to control for effect of the recommendation provided by the proxy advisor. All the earlier control variables are included as well. Columns 1 and 2 of Table 8 report results for compensation committee turnover. In column 1, the coefficient of *%Withheld* is positive and significant, as is the coefficient for *Excess%Withheld* reported in column 2. The results are stronger with the latter measure than with the former. Directors that are on the compensation committee and receive high shareholder opposition are more likely to be rotated off the compensation committee. The coefficient of *ISS Against* is not significant. Columns 3-4 and 5-6 repeat the analysis for turnover in the Nominating committee and the Audit committee, respectively. For all three committees higher shareholder dissent captured by withheld votes is associated with higher likelihood of a director departing from that committee. The results suggest that even if directors who are opposed by shareholders do not leave, they are more likely to experience some degradation of their status within the board as they are more likely to come off important committees.[9]

## 5. Additional Tests

In this section, we present additional tests that shed light on the responses to shareholder dissent. These tests examine the heterogeneity based on director roles on board and the nature of a firm's ownership. We also examine endogeneity issues. The key issue in our study is unobserved heterogeneity. To handle this issue we estimate a demanding specification that controls for unobserved, time-varying firm level unobservables and a model for unobserved heterogeneity in

[9] We examine dissent for new directors at firms. The average dissent for all directors who depart is 6.82% versus 5.39% for directors who stay on and 3.82% for new directors. Dissent thus appears to be director-specific.

director quality. Our basic results remain robust: dissent matters in all of the specifications that we consider. We describes these tests more fully below.

*5.1 Directors in Leadership Roles*

An individual director in a leadership role (e.g. chairman of the board or of an important committee) arguably has a higher profile relative to another director who is not a leadership role. It is possible that such a high profile director is more likely to be the target for shareholders to express their dissent. If this is true, we expect to find shareholder dissent to be significantly higher for directors in the board leadership positions. On the other hand, a director who has been appointed to a leadership role may be an individual that provides significantly higher value to the firm. If such directors do provide unique and valuable services, firms are more likely to ignore the low shareholder support for such directors. In this case we should expect that dissent will have less force for higher profile directors in leadership positions.

We search the BoardRole field of the BoardEx database and create a dummy variable *Board_Chair* which equals one if BoardEx describes the role as Chairman of the Board or Presiding Director. Thus, our *Board_Chair* variable identifies non-executive directors that are Chairman of the Board.[10] We also identify "lead directors" if the BoardRole field in BoardEx contained the text string "Lead" without any qualifiers such as "Deputy," "Interim," "Acting," or "Emeritus." Directors who meet this description are classified as *Lead_Directors*. We also search for leadership roles within significant board committees by searching for Chairman, Co-Chairman, President or Chairwoman text strings in the "CommitteeRoleName" field of BoardEx.

[10] BoardEx uses more than a dozen different titles such as "Independent Chairman", "Presiding Independent Chairman", "Joint Chairman", "Presiding Independent Director" etc.). We are careful to exclude roles that appear transitory or somewhat junior. For example, all roles with qualifiers such as "Interim", "Deputy", and "Emeritus", "Acting" etc. are not classified as board leadership roles.

Table 9 provides the turnover outcomes for directors in leadership positions relative to directors not in such leadership roles. With the exception of the Chairman of Audit Committee, directors in the leadership position get significantly higher dissent votes than those not in leadership roles. The fraction of votes withheld is higher for the Non-Executive Chairman, Lead Independent Director, Chairman of the Compensation Committee, and Chairman of the Nomination Committee. The fraction of directors receiving an ISS against recommendation is also higher for similar titled positions such as Non-Executive Chairman, Compensation Committee Chairman and Nomination Committee Chairman.

A notable exception to the directors in leadership positions is the case of the Audit Committee Chairman role. Directors listed as Audit Committee Chair are significantly less likely to be targeted by ISS, and such directors also receive significantly more shareholder support. These directors have statutorily endowed roles as watchdogs. They are likely held culpable in cases of financial irregularities but do not seem to be targeted for more normal performance related concerns.

We next examine the association between likelihood of departing from the board within a year of election and being in a leadership role. We find that even though directors in leadership roles receive significantly greater shareholder disapproval and negative ISS recommendations, the average departure rate for these directors is significantly lower compared to directors who are not in leadership positions. For example, on average, 1.23% of directors listed as the Lead Director depart in the year following the election. In contrast 2.14% of the directors that are not listed as Lead Directors depart within a year of the election.

To shed further light on this issue, Table 10 reports results from estimating a multivariate logit regression with *Dir_TO* as the dependent variable. We estimate this regression for two sub-

groups. The first consists of all directors who are not identified as being in a leadership position in the year of the election. The second group consists of directors that are identified as having a leadership role (e.g. non-executive chairman, lead director, chairman of the compensation, the nomination or the audit committee). Directors who serve as board chair or lead independent director are less likely to depart compared to directors who are not in these leadership roles. While shareholders hold directors in leadership positions more accountable, their votes have less of an impact on the leaders.

### *5.2 Ownership Structure*

We examine whether the ownership structure of a firm plays a role in the responses to dissent. We specifically focus on the different types of institutional investors who own shares in the firm immediately prior to the annual meeting in which a director faces re-election. We focus on investors classified by horizon based on Bushee (2001). Transient investors have high portfolio turnover and highly diversified portfolios. Dedicated investors hold few large investments and have low portfolio turnover. Quasi-indexers also have low portfolio turnovers but unlike dedicated investors, they hold a highly diversified portfolio. Following Bharath, Jayaraman, and Nagar (2013) and McCahery, Sautner and Starks (2015), the key hypothesis we examine is whether dissent has greater effect when firms are owned by short horizon investors.

For each firm-election event, we obtain holdings of institutional investors for the most recent quarter before the meeting date. We define a dummy variable *Hi_Transient* that takes the value of one if the aggregate fraction of shares held by transient investors in a firm is greater than the median transient holding across all firms in the calendar year and zero otherwise. We repeat the same process to create *Hi_Dedicated* and *Hi_QIndex* based on the fraction owned by dedicated investors and quasi-indexers, respectively.

Table 11 displays the results on director turnover and its interaction with investor horizons. The coefficient of the interaction term *%Withheld* and *Hi_Transient* is positive and significant. There is more director turnover in response to dissent when ownership of transient investors is high. These investors, who have high turnover, have short horizons and are more likely to exit if their concerns are not addressed. On the other hand, the coefficient of *%Withheld* interacted with *Hi_QIndex* is negative and significant. There is less exit threat from quasi as their turnover is low given their mandate to match their benchmark indexes.

5.3 *Endogeneity Due to Unobserved Heterogeneity*

In this section, we discuss a number of additional robustness tests that provide support for our earlier findings including those that control for heterogeneity in firms and directors. We report these results in Table 12.

First we examine alternative specifications for %*Withheld*, the main economic variable in this paper. We replace this continuous variable with two alternative proxies for significant shareholder dissent. First, we create a dummy variable that takes the value of one if the percentage of withheld votes is 30% or more. Column 1 of Panel A shows that there is a positive relation between director turnover and this measure. The coefficient of 0.601 is significant at the one percent level. Column 2 shows the marginal effect of shareholder votes after including the ISS recommendation. The coefficient continues to be statistically significant albeit at a lower level. The magnitude also remains similar. In columns 3 and 4 we use an even stronger measure of shareholder dissent. We create a dummy variable that equals one if the fraction withheld is greater than 50%. The results show that majority dissent is significantly related to a higher likelihood of a director departing from the board. As reported in Column 4, the coefficient for this variable is 1.498 (significant at one percent level) even after including the ISS recommendation in the

estimation. This is nearly three times as large when compared to the coefficient for "*%Withheld>30%"* reported in column 2. This suggests that in cases with extreme shareholder dissatisfaction there is a significantly higher likelihood of director turnover within next twelve months.

We re-estimate our baseline logit regression by including additional firm-specific characteristics. In columns 1 and 2 of Panel B, we include a dummy variable for firms that had a plurality voting system at the time of director re-elections. We find that the coefficient for %*Withheld* (column 1) as well as for *Excess%Withheld* (column 2) continue to be positive and significant. The coefficient for plurality is not significant. We repeat the same exercise by including an indicator variable for firms that have dual class stock. Again the results reported in columns 3 and 4 show that shareholder discontent is a significant predictor of director turnover. Many firms have a mandatory retirement age of 70 or 75 years for their directors. We want to make sure that our observed director departures are not driven by simple retirement age-based rules. We drop all observations in which a director was 65 years or older at the time of the re-election and re-estimate our baseline regression on the remaining subset of directors 64 years old or younger. Our results reported in columns 5 and 6 show that coefficients for both %*Withheld* and *Excess%Withheld* are positive and significant at the one percent level. Taken together, these results corroborate our earlier findings of a positive relationship between shareholder dissent and the probability of a director departing.

Panel C reports fixed effects estimates to address endogeneity issues arising out of unobserved heterogeneity. Fixed effects are a logical way of eliminating unobserved heterogeneity. We include a demanding version of fixed effects that takes out heterogeneity due to firm, year, and election, in the spirit of Gormley and Matsa (2014). This setup lets our

identification be driven exclusively by variation in the *within* firm election groups. Intuitively, we examine how the fraction withheld for an individual director affects the turnover probability when compared to other directors at the same firm who also are facing reelection at the same time. These results are reported in column 1 in Panel C. Note that in this specification, using %*Withheld* is equivalent to using *Excess*%*Withheld* because the entire variation is on the firm-election basis. The coefficient for fraction withheld is 3.28 and is significant at the 1% level. In columns 2 and 3 we estimate a director fixed-effects specification. This allows us to examine the effect of votes withheld for the same director across different firm elections. Again the coefficient for %*Withheld* and *Excess*%*Withheld* are positive and significant. Both the magnitude as well as the statistical significance of these coefficients is comparable to the coefficients we obtain in our baseline estimation, providing additional support for our earlier results.

The results suggest that shareholder votes have consequences. Greater dissenting votes result in greater director turnover, loss of outside directorships, and committee reassignments, even though the votes are advisory rather than mandatory.

## 6. Conclusion

In recent years there has been a movement by institutional investors and policy makers to strengthen shareholder voting rights. However, a debate has ensued on whether shareholder voting is an effective mechanism to bring about changes in corporate governance and firm policy. Voting in director elections is one way for shareholders to express their displeasure of firm policy.

Our paper examines the consequences of shareholder votes in 59,685 director election events held between 2003 and 2010, a period that has experienced heightened interest in and levels of shareholder activism. We find that dissent votes negatively impact directors: more withheld

votes are associated with increased director turnover. Our results are particularly strong for firms that have non-classified boards in which directors must stand for election every year. Elections are not necessarily inconsequential for directors who do not leave the board in the face of high dissent. Such directors are likely to lose membership on key committees, and are thus effectively demoted. There is some heterogeneity in this results. Directors in leadership positions are less likely to depart although they tend to be recipients of more dissent.

Directors with high dissent votes at one firm are likely to have fewer outside board seats at other firms even within a relatively conservative 12-month period. This finding is consistent with the Fama and Jensen (1983) view that the external market is an additional source of discipline for directors. Our findings suggest that voting in director elections is an informational channel that helps this market operate. High ownership by institutional investors that are more likely to turnover their portfolio serves as a threat, and results in dissent votes being associated with departure. Our results suggest that dissent by shareholders is consequential and negatively impacts director reputation. While proxy advisory services and their recommendations are important, our results hold even after controlling for ISS's recommendations. Dissent carries extra information. Thus, we conclude that even though director elections are only advisory, they have some power to bring about changes at the firm.

# Appendix A

**Firm Characteristics**

*Size*: Natural logarithm of book value of assets for the most recent fiscal year prior to the director election [SOURCE: COMPUSTAT]

*Excess Ret*: A stock's return minus the 125 characteristics based portfolios based on Daniel, Grinblatt, Titman and Wermers, 1997. (DGTW), annualized

*Adj ROA*: A firm's ratio of EBITDA to total assets, winsoized at 1% and 99% is used to compute mean EBIDTA/assets. For any firm the excess performance = EBITDA to assets minus average for corresponding to the firm's native SIC.

*Board size*: This equals the number of directors on the board at the start of fiscal year immediately preceding the director elections. [SOURCE: BoardEx]

*Staggered*: The is a dummy variable that equals one if a firm has a classified board i.e. only a fraction of the board members are up for election each year. We impute it by comparing the number of directors up for election in a year (i.e. SLATE) to the reported BOARDSIZE.

*Financial*: If the firm is listed with SIC code between 6000 and 6999, FINANCIAL takes the value of one and zero otherwise. [SOURCE: Compustat]

*Utility*: If the firm is listed with the primary SIC code between 4800 and 4999 UTILITY takes the value of one and zero otherwise. [SOURCE: Compustat]

*Dualclass*: Dummy variable that equals one if the firm is listed as having more than one class of stock and zero otherwise.[SOURCE: Andrew Metrick's Database available on his website]

*InstOwnership:* This is fraction of total ownership held by institutional investors [SOURCE: Thomson Financial 13(F) Filings}

*GOV41:* This is the percentage of the 41governance attributes that a firm meets, as described by Aggarwal, Erel, Ferreira and Matos (2011).An index of 100% means that a firm has adopted all 41 governance provisions. [SOURCE: RiskMetrics}

**Director Characteristics**

*Age*: Age in years at the time a particular director is up for election. We impute AGE by subtracting the year of birth of the director from the year of the election. [SOURCE: BoardEx]

*Tenure*: Length of time served on the current board in years. [SOURCE: BoardEx]

*Comp Comt*: Equals one if the director is member of compensation committee for the fiscal year before the year of immediately election and zero otherwise. [SOURCE: BoardEx]

*Nom Comt:* Equals one if the director is member of nomination committee for the fiscal year immediately before the year of election and zero otherwise. [SOURCE: BoardEx]

*Audit Comt*: Equals one if the director is member of audit committee for the fiscal year immediately before the year of election and zero otherwise. [SOURCE: BoardEx]

*#Dirships*: Equals the total number directorships held by the individual director at the start of the year in which the election meeting takes place. [SOURCE: BoardEx]

*Male*: Equal one if director is male and zero otherwise. [SOURCE: BoardEx]

*MBA*: Takes the value one if the director is reported in BoardEx as having an MBA degree. [SOURCE: BoardEx]

*Law*: Equals one if the director is listed as having a JD degree. [Source: BoardEx]

*Ivyplus*: is a dummy variable that takes the value one when the director up for election attended a high quality undergraduate institution, which is the Ivy definition proposed by Zawel (2005). [SOURCE: BoardEx]

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**Table 1**
**Firm and Director Characteristics**

The table below provides descriptive statistics for director-election events over the period January 2003-November 2010. We include management-sponsored director nominees as reported in the ISS Voting Analytics dataset. This data was matched with individual director characteristics from BoardEx, and merged with CRSP and Compustat to obtain firm-level characteristics for the year immediately preceding the year in which the board meeting was held. We exclude financials (SIC codes 6000-6999) and utilities (SIC codes 4800-4999). Also excluded are directors who were serving as executives at the time of the election. *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast. *ISS Against,* takes the value of one, if ISS recommends "Withhold", "Against" or "No" for a particular director, and zero otherwise. All other variables are described in Appendix A. Panels A and B provide descriptive statistics for the main variables used in the study. Panels C and D report pairwise correlations across these variables. *indicates significance at the 5% level.

**Panel A: Firm Characteristics**

| | N | Mean | Std Dev | 25th % | Median | 75th % |
|---|---|---|---|---|---|---|
| *Size* | 59,568 | 7.29 | 1.74 | 6.05 | 7.14 | 8.35 |
| *Excess Ret* | 59,272 | 17.31% | 73.83% | -18.43% | 7.42% | 36.24% |
| *Adj ROA* | 59,545 | 2.59% | 14.50% | -2.11% | 2.37% | 8.45% |
| *Boardsize* | 59,568 | 9.14 | 2.33 | 7.00 | 9.00 | 11.00 |
| *Staggered* | 59,568 | 32.15% | 46.71% | 0.0% | 0.0% | 100.0% |
| *Dualclass* | 59,568 | 12.25% | 32.79% | 0.0% | 0.0% | 0.0% |
| *GOV41* | 53,603 | 0.65 | 0.11 | 0.56 | 0.66 | 0.73 |
| *Inst Ownership* | 59,568 | 72.18% | 21.97% | 60.08% | 76.68% | 88.74% |

**Panel B: Director Characteristics**

| | | | | | | |
|---|---|---|---|---|---|---|
| *Age* | 59,446 | 60.68 | 8.90 | 55.00 | 61.00 | 67.00 |
| *Tenure* | 59,568 | 7.19 | 6.93 | 2.00 | 5.00 | 10.00 |
| *Compensation Comm* | 59,568 | 0.45 | 0.50 | 0.00 | 0.00 | 1.00 |
| *Nominating Comm* | 59,568 | 0.43 | 0.50 | 0.00 | 0.00 | 1.00 |
| *Audit Committee* | 59,568 | 0.48 | 0.50 | 0.00 | 0.00 | 1.00 |
| *#Directorships* | 59,568 | 1.64 | 1.94 | 0.00 | 1.00 | 2.00 |
| *Male* | 59,568 | 0.89 | 0.32 | 1.00 | 1.00 | 1.00 |
| *MBA* | 59,568 | 0.32 | 0.47 | 0.00 | 0.00 | 1.00 |
| *Law* | 59,568 | 0.12 | 0.32 | 0.00 | 0.00 | 0.00 |
| *Ivyplus* | 59,568 | 0.32 | 0.47 | 0.00 | 0.00 | 1.00 |
| *%Withheld* | 57,899 | 5.87% | 8.64% | 1.17% | 2.70% | 6.30% |
| *ISS Against* | 59,568 | 11.6% | 32.02% | 0.00% | 0.00% | 0.00% |

**Table 1 (continued)**

**Panel C: Correlations – Firm-Level Attributes**

| | *Size* | *Excess Ret* | *Adj ROA* | *Boardsize* | *Staggered* | *Dualclass* | *GOV41* | *Inst Ownership* | *%Withheld* |
|---|---|---|---|---|---|---|---|---|---|
| *Size* | 1.000 | | | | | | | | |
| *Excess ret* | -0.073* | 1.000 | | | | | | | |
| *Adj ROA* | 0.254* | 0.038* | 1.000 | | | | | | |
| *Boardsize* | 0.626* | -0.066* | 0.097* | 1.000 | | | | | |
| *Staggered* | -0.06* | 0.003 | 0.001 | 0.035* | 1.000 | | | | |
| *Dualclass* | 0.04* | -0.015* | -0.013* | 0.05* | -0.066* | 1.000 | | | |
| *GOV41* | 0.372* | -0.094* | 0.108* | 0.255* | -0.308* | 0.021* | 1.000 | | |
| *Inst Ownership* | 0.195* | -0.036* | 0.178* | 0.002 | 0.031* | -0.003 | 0.239* | 1.000 | |
| *%Withheld* | -0.024* | -0.05* | -0.028* | -0.036* | 0.051* | -0.057* | -0.023* | 0.072* | 1.000 |

**Panel D: Correlations – Director-Level Attributes**

| | *Age* | *Tenure* | *Comp Comm* | *Nom Comm* | *Audit Comm* | *#Directorships* | *Male* | *MBA* | *Law* | *Ivyplus* | *%Withheld* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Age* | 1.000 | | | | | | | | | | |
| *Tenure* | 0.395* | 1.000 | | | | | | | | | |
| *Comp Comm* | 0.069* | 0.055* | 1.000 | | | | | | | | |
| *Nom Comm* | 0.096* | 0.074 | 0.154* | 1.000 | | | | | | | |
| *Audit Comm* | 0.039* | -0.018* | -0.036* | 0.016* | 1.000 | | | | | | |
| *#Directorships* | 0.057* | -0.025* | 0.018* | 0.032* | 0.001 | 1.000 | | | | | |
| *Male* | 0.174* | 0.074* | 0.025* | -0.015* | 0.02* | 0.01* | 1.000 | | | | |
| *MBA* | -0.145* | -0.078* | 0.002 | -0.012* | 0.068* | 0.086* | 0.019* | 1.000 | | | |
| *Law* | 0.042* | 0.053* | -0.016* | 0.043* | -0.044* | 0.031* | 0.008 | -0.16* | 1.000 | | |
| *Ivyplus* | -0.049* | 0.027* | 0.005 | 0.028* | -0.021 | 0.11* | -0.013* | 0.339* | 0.086* | 1.000 | |
| *%Withheld* | 0.042* | 0.105* | 0.077* | 0.042* | -0.036* | 0.021* | 0.036* | -0.01* | 0.027* | 0.006 | 1.000 |
| *ISS Against* | 0.000 | 0.078* | 0.026* | -0.015 | -0.089* | 0.009* | 0.035* | -0.033* | 0.041* | -0.007 | 0.673* |

**Table 2**
**Director Elections**

The table below provides calendar time distribution of individual director-elections in terms of voting outcomes and proxy recommendations. The data on votes received and proxy recommendation is from ISS Voting Analytics database. Our sample period covers all board meetings between January 2003 and November 2010. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
|---|---|---|---|---|---|---|---|---|---|
| Year | # of Firms | # Director Nominees | Average % of Votes Withheld | # Directors with >30 % Votes Withheld | # Directors with >50 % Votes Withheld | % ISS Rec Against | % of Votes Withheld when ISS For | % of Votes Withheld when ISS Against | t-test for difference between Col 8 and Col 9 |
| 2003 | 1,353 | 5,727 | 5.31% | 126 | 1 | 13.43% | 3.41% | 17.55% | -64.43*** |
| 2004 | 1,735 | 7,346 | 5.51% | 154 | 8 | 11.45% | 3.84% | 18.19% | -66.51*** |
| 2005 | 1,663 | 7,135 | 5.38% | 165 | 13 | 10.40% | 3.67% | 20.16% | -74.59*** |
| 2006 | 1,767 | 7,762 | 4.78% | 164 | 7 | 8.53% | 3.41% | 19.84% | -73.32*** |
| 2007 | 1,695 | 7,740 | 5.57% | 246 | 27 | 9.69% | 3.75% | 22.67% | -77.25*** |
| 2008 | 1,759 | 8,161 | 5.57% | 235 | 26 | 9.01% | 3.88% | 22.93% | -77.36*** |
| 2009 | 1,846 | 8,625 | 7.89% | 557 | 68 | 16.86% | 4.36% | 25.14% | -95.70*** |
| 2010 | 1,511 | 7,072 | 6.56% | 394 | 68 | 13.48% | 3.67% | 25.12% | -83.22*** |
| Total | 13,329 | 59,568 | 5.87% | 2,041 | 218 | 11.59% | 3.77% | 21.95% | -219.21*** |

**Table 3**

**Frequency of Departure from Board**

The table below reports the observed departure from the board for directors that are up for reelection in a particular year. For each year we focus on individual directors who seek reelection. We follow these directors and check if they are still on the board at the start of next fiscal year i.e. if they survive beyond the fiscal year in which the election was held. We create a dummy variable *Director_TO* which equal one if the director departs and equals zero if otherwise. Each row in the table below reports the fraction of directors who were no longer on the board by the start of the year following the year in which they sought reelection. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | Voting Outcome | | |
|---|---|---|---|
| | Less than 30%Withheld | Greater than or equal to 30%Withheld | *t*-test for significance of difference |
| Departed from Board (All) | 1.93% | 3.11% | -3.75*** |
| Departed from Board (Member Comp Comm) | 1.82% | 3.02% | -2.87*** |
| Departed from Board (Member Nom Comm) | 1.75% | 2.73% | -2.29** |
| Departed from Board (Member Audit Comm) | 1.51% | 2.31% | -1.88* |
| Departed from Board (Not a Comm member) | 3.14% | 5.79% | -2.37** |

**Table 4**
**Director Turnover and Voting Outcome**

The table below reports the logit regression estimates for likelihood of an individual departing from the board in the year following the meeting in which he or she was up for reelection. The dependent variable in all specifications is a dummy variable *Director_TO* equals one if the director departs from the board, and equals zero otherwise. *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast. *Excess%Withheld* is estimated by subtracting the average fraction of withheld votes for all directors at a firm from each individual's director's *%Withheld*. *ISS Against*, takes the value of one, if ISS recommends Withhold/Against/No, and zero otherwise. All variables are described in Appendix A. All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroskedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| %Withheld | 2.017*** | | 2.615*** | | |
| | (4.43) | | (3.53) | | |
| Excess%Withheld | | | | 3.553*** | 3.994*** |
| | | | | (5.78) | (5.08) |
| ISSAgainst | | 0.396*** | -0.258 | | -0.150 |
| | | (3.77) | (-1.27) | | (-1.03) |
| Size | -0.042 | -0.051* | -0.040 | -0.042 | -0.042 |
| | (-1.41) | (-1.83) | (-1.37) | (-1.43) | (-1.41) |
| Excess Ret | -0.196** | -0.166* | -0.199** | -0.212** | -0.217** |
| | (-2.24) | (-1.87) | (-2.27) | (-2.41) | (-2.45) |
| Adj ROA | -0.478* | -0.475* | -0.477* | -0.504* | -0.509* |
| | (-1.77) | (-1.84) | (-1.76) | (-1.89) | (-1.92) |
| InstOwnship | -0.598*** | -0.387** | -0.653*** | -0.532*** | -0.552*** |
| | (-2.87) | (-2.00) | (-2.99) | (-2.62) | (-2.70) |
| Gov41 | 0.299 | 0.387 | 0.235 | 0.146 | 0.085 |
| | (0.70) | (0.97) | (0.56) | (0.34) | (0.20) |
| Post-Crisis | -0.436*** | -0.461*** | -0.431*** | -0.385*** | -0.374*** |
| | (-4.05) | (-4.57) | (-4.02) | (-3.70) | (-3.54) |
| Age | -0.022*** | -0.023*** | -0.023*** | -0.022*** | -0.022*** |
| | (-4.69) | (-5.04) | (-4.74) | (-4.57) | (-4.58) |
| Tenure | -0.000 | 0.000 | 0.000 | -0.001 | -0.001 |
| | (-0.03) | (0.03) | (0.02) | (-0.17) | (-0.14) |
| CommMember | -0.597*** | -0.618*** | -0.613*** | -0.599*** | -0.609*** |
| | (-6.97) | (-7.84) | (-7.19) | (-7.01) | (-7.14) |
| #Dirships | -0.002 | -0.002 | -0.001 | -0.006 | -0.005 |
| | (-0.10) | (-0.12) | (-0.06) | (-0.29) | (-0.27) |
| Male | 0.141 | 0.137 | 0.142 | 0.139 | 0.140 |
| | (1.20) | (1.23) | (1.21) | (1.18) | (1.19) |
| MBA | -0.013 | 0.018 | -0.014 | -0.011 | -0.012 |
| | (-0.16) | (0.23) | (-0.17) | (-0.13) | (-0.14) |
| Law | -0.327*** | -0.335*** | -0.322*** | -0.340*** | -0.337*** |
| | (-2.66) | (-2.88) | (-2.62) | (-2.76) | (-2.74) |
| IvyPlus | 0.035 | -0.015 | 0.033 | 0.031 | 0.030 |
| | (0.43) | (-0.20) | (0.41) | (0.38) | (0.36) |
| Intercept | -2.002** | -0.415 | -1.933** | -1.856** | -1.788** |
| | (-2.34) | (-0.53) | (-2.25) | (-2.16) | (-2.07) |
| Observations | 47321 | 48630 | 47321 | 47321 | 47321 |
| Pseudo $R^2$ | 0.033 | 0.032 | 0.033 | 0.034 | 0.034 |

## Table 5
## Director Turnover and Voting Outcome for Classified and non-classified boards

The table below reports the logit regression estimates for likelihood of an individual departing from the board in the year following the meeting in which he or she was up for reelection. The dependent variable in all specifications is a dummy variable *Director_TO* equals one if the director departs from the board, and equals zero otherwise. Columns 1 and 2 report the results for subsample of firms that have a classified (staggered board) while columns 2 and 4 report the estimates for the subsample of firms that do not have a classified (staggered board). *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast. *Excess%Withheld* is estimated by subtracting the average fraction of withheld votes for all directors at a firm from each individual's director's *%Withheld*. *ISS Against,* takes the value of one, if ISS recommends Withhold/Against/No, and zero otherwise. All variables are described in Appendix A. All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroskedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

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| | (1) Classified Board | (2) Non-Classified Board | (3) Classified Board | (4) Non-Classified Board |
|---|---|---|---|---|
| %Withheld | 0.003 | 3.533*** | | |
| | (0.00) | (4.34) | | |
| Excess%Withheld | | | 0.478 | 5.050*** |
| | | | (0.34) | (6.25) |
| ISS Against | 0.342 | -0.460** | 0.303 | -0.355** |
| | (1.07) | (-1.98) | (1.35) | (-2.02) |
| Size | -0.008 | -0.048 | -0.008 | -0.053 |
| | (-0.16) | (-1.37) | (-0.16) | (-1.52) |
| Excess Ret | -0.082 | -0.273** | -0.084 | -0.302** |
| | (-0.74) | (-2.23) | (-0.75) | (-2.43) |
| Adj. ROA | -0.520 | -0.501 | -0.521 | -0.546* |
| | (-1.14) | (-1.52) | (-1.14) | (-1.71) |
| InstOwnship | -0.087 | -0.876*** | -0.094 | -0.760*** |
| | (-0.22) | (-3.42) | (-0.25) | (-3.12) |
| Gov41 | 0.505 | 0.185 | 0.493 | 0.026 |
| | (0.66) | (0.35) | (0.64) | (0.05) |
| Post-Crisis | -0.355** | -0.465*** | -0.352** | -0.396*** |
| | (-2.03) | (-3.55) | (-2.01) | (-3.05) |
| Age | -0.018* | -0.023*** | -0.017* | -0.022*** |
| | (-1.93) | (-4.14) | (-1.91) | (-3.99) |
| Tenure | -0.003 | 0.003 | -0.004 | 0.002 |
| | (-0.33) | (0.43) | (-0.36) | (0.26) |
| CommMember | -0.493*** | -0.690*** | -0.496*** | -0.688*** |
| | (-3.31) | (-6.54) | (-3.36) | (-6.52) |
| #Dirships | -0.017 | 0.004 | -0.017 | -0.001 |
| | (-0.53) | (0.19) | (-0.53) | (-0.05) |
| Male | 0.144 | 0.124 | 0.143 | 0.120 |
| | (0.68) | (0.87) | (0.68) | (0.84) |
| MBA | 0.042 | -0.029 | 0.043 | -0.027 |
| | (0.30) | (-0.28) | (0.30) | (-0.26) |
| Law | 0.086 | -0.545*** | 0.084 | -0.559*** |
| | (0.47) | (-3.30) | (0.46) | (-3.40) |
| IvyPlus | 0.087 | 0.009 | 0.087 | 0.008 |
| | (0.62) | (0.09) | (0.62) | (0.07) |
| Intercept | -17.649*** | -1.067 | -17.633*** | -0.793 |
| | (-17.54) | (-1.36) | (-21.19) | (-1.02) |
| Observations | 14731 | 31519 | 14731 | 31519 |
| Pseudo $R^2$ | 0.030 | 0.050 | 0.030 | 0.051 |

**Table 6**
**Increase in Outside Directorships and Voting Outcome**

The dependent variable in all specifications is *Change in outside directorships* which is the difference between all the directorships at the end of the year and directorships at the start of the year. To ensure that we do not double count a loss of directorship for the firm where the individual director is facing an election, we exclude such departures in our estimation of *Increase in outside directorships*. *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast in the prior year. *Excess%Withheld* is estimated by subtracting the average fraction of withheld votes for all directors at a firm from each individual's director's *%Withheld*. *ISS Against*, equals one, if ISS recommends Withhold/Against/No, and zero otherwise. All variables are described in Appendix A. Director attributes are included as control but not shown. All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroskedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| %Withheld | -0.247*** | | -0.169*** | | |
| | (-5.60) | | (-2.69) | | |
| Excess%Withheld | | | | -0.412*** | -0.301*** |
| | | | | (-5.97) | (-3.88) |
| ISSAgainst | | -0.065*** | -0.030* | | -0.035** |
| | | (-5.24) | (-1.68) | | (-2.44) |
| Size | 0.015*** | 0.015*** | 0.015*** | 0.015*** | 0.015*** |
| | (3.97) | (4.04) | (3.97) | (3.99) | (3.98) |
| Excess Ret | -0.005 | -0.005 | -0.005 | -0.004 | -0.005 |
| | (-0.69) | (-0.71) | (-0.70) | (-0.61) | (-0.65) |
| Adj ROA | 0.077** | 0.076** | 0.077** | 0.081** | 0.079** |
| | (2.45) | (2.45) | (2.44) | (2.54) | (2.50) |
| InstOwnship | 0.038* | 0.019 | 0.032 | 0.030 | 0.026 |
| | (1.77) | (0.88) | (1.47) | (1.40) | (1.21) |
| Gov41 | -0.299*** | -0.303*** | -0.303*** | -0.282*** | -0.293*** |
| | (-7.00) | (-7.19) | (-7.08) | (-6.61) | (-6.84) |
| Post-Crisis | 0.017* | 0.014 | 0.018* | 0.011 | 0.014 |
| | (1.87) | (1.51) | (1.90) | (1.14) | (1.45) |
| Age | -0.008*** | -0.008*** | -0.008*** | -0.008*** | -0.008*** |
| | (-14.32) | (-14.36) | (-14.36) | (-14.40) | (-14.42) |
| Tenure | -0.006*** | -0.007*** | -0.006*** | -0.006*** | -0.006*** |
| | (-8.97) | (-9.41) | (-8.96) | (-8.92) | (-8.89) |
| CommMember | -0.013 | -0.020 | -0.015 | -0.012 | -0.014 |
| | (-0.80) | (-1.27) | (-0.90) | (-0.77) | (-0.90) |
| #Dirships | -0.074*** | -0.074*** | -0.074*** | -0.073*** | -0.073*** |
| | (-14.37) | (-14.25) | (-14.36) | (-14.30) | (-14.31) |
| Male | 0.015 | 0.014 | 0.015 | 0.015 | 0.015 |
| | (1.18) | (1.09) | (1.18) | (1.16) | (1.18) |
| MBA | 0.028*** | 0.031*** | 0.028*** | 0.028*** | 0.028*** |
| | (2.66) | (2.94) | (2.65) | (2.66) | (2.64) |
| Law | 0.023** | 0.025** | 0.024** | 0.025** | 0.025** |
| | (1.98) | (2.12) | (2.01) | (2.09) | (2.11) |
| IvyPlus | -0.033*** | -0.031*** | -0.033*** | -0.033*** | -0.033*** |
| | (-3.25) | (-3.13) | (-3.25) | (-3.22) | (-3.24) |
| Intercept | 0.497*** | 0.517*** | 0.503*** | 0.476*** | 0.491*** |
| | (5.63) | (6.27) | (5.77) | (5.57) | (5.73) |
| Observations | 41290 | 42575 | 41290 | 41290 | 41290 |
| Adjusted $R^2$ | 0.057 | 0.057 | 0.057 | 0.057 | 0.057 |

**Table 7**
**Votes and Departure from Prominent Board Committees**

The table below reports the observed departure from three high profile board committees, *Compensation Nominating*, and *Audit* for directors that retain their board position the following year.

| | Voting Outcome | | |
|---|---|---|---|
| | Less than 30% Withheld | Greater than or equal to 30% Withheld | *t*-test for significance of difference |
| Departed from Compensation Committee | 5.29% | 6.42% | -1.60 |
| Departed from Nominating Committee | 5.18% | 6.96% | -2.43** |
| Departed from Audit Committee | 5.16% | 7.70% | -3.26*** |
| Departed from one of the three committees | 8.04% | 10.41% | -3.53*** |

## Table 8
## Board Committee Turnover and Voting Outcome

The table below reports the Logit regression estimates for likelihood of an individual surviving on the board but departing from three high profile board committees, *Compensation*, *Nominating* and *Audit Committee* within a year following the board meeting in which he or she was up for reelection. The dependent variable in columns 1-2 is a dummy variable *Comp _TO* which equals one if the director was a member of compensation committee at the start of the year but is no longer on the committee even though the individual continues as a board member. The dependent variable in columns 3-4 is a dummy variable *Nom _TO* which equals one if the director was a member of nominating committee at the start of the year but is no longer on the committee even though the individual continues as a board member. The dependent variable in columns 5-6 is a dummy variable *Audit _TO* which equals one if the director was a member of audit committee at the start of the year but is no longer on the committee even though the individual continues as a board member. *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast in the prior year. *Excess%Withheld* is estimated by subtracting the average fraction of withheld votes for all directors at a firm for the year from each individual's director's *%Withheld*. *ISS Against*, takes the value of one, if ISS recommends "Withhold", "Against" or "No" for a particular director, and zero otherwise. All variables are described in Appendix A. Director attributes are included as control but not shown. All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroskedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | *Comp _TO* | *Comp _TO* | *Nom _TO* | *Nom _TO* | *Audit _TO* | *Audit _TO* |
|---|---|---|---|---|---|---|
| %Withheld | 0.876* | | 2.129*** | | 1.070** | |
| | (1.75) | | (4.14) | | (2.11) | |
| Excess%Withheld | | 2.698*** | | 2.194*** | | 2.626*** |
| | | (4.17) | | (3.15) | | (4.05) |
| ISSAgainst | 0.076 | -0.021 | -0.233 | -0.007 | 0.318** | 0.287** |
| | (0.52) | (-0.18) | (-1.45) | (-0.05) | (2.11) | (2.31) |
| Size | 0.095*** | 0.095*** | 0.091*** | 0.090*** | 0.100*** | 0.098*** |
| | (3.85) | (3.85) | (3.17) | (3.12) | (4.32) | (4.28) |
| Excess Ret | -0.067 | -0.070 | 0.052 | 0.048 | 0.046 | 0.040 |
| | (-0.85) | (-0.89) | (0.88) | (0.82) | (0.58) | (0.51) |
| Adj ROA | -0.621** | -0.628*** | -0.705*** | -0.718*** | -0.735*** | -0.744*** |
| | (-2.56) | (-2.59) | (-2.70) | (-2.78) | (-3.13) | (-3.19) |
| InstOwnship | -0.010 | -0.016 | -0.221 | -0.132 | 0.086 | 0.111 |
| | (-0.05) | (-0.09) | (-1.13) | (-0.68) | (0.52) | (0.70) |
| Gov41 | -0.205 | -0.323 | -1.027*** | -1.105*** | -0.839*** | -0.927*** |
| | (-0.58) | (-0.91) | (-2.66) | (-2.86) | (-2.60) | (-2.86) |
| Intercept | -3.778*** | -3.674*** | -2.728** | -2.644** | -2.870*** | -2.761*** |
| | (-4.84) | (-4.74) | (-2.48) | (-2.36) | (-3.42) | (-3.28) |
| Observations | 22454 | 22454 | 21630 | 21630 | 23561 | 23561 |
| Pseudo $R^2$ | 0.023 | 0.024 | 0.029 | 0.028 | 0.035 | 0.036 |

**Table 9**
**Outcomes for Directors in Leadership versus Non-Leadership Roles**

The table below provides the average outcomes for directors in leadership positions within the board and directors who are not serving in a leadership role on the board. The first group consists of directors who are not identified as being in leadership position in the year of the election. The second group consists of directors that are identified as having a leadership role (e.g. Non-Executive Board Chair, Lead Director, Chair of Compensation, Nomination or Audit Committees). All variables are described in detail in appendix A. t-statistics are calculated based on standard errors which are corrected for heteroscedasticity and clustering at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | **Non Board_Chair** | **Board_Chair** | **t-test for significance of difference** |
|---|---|---|---|
| **Fraction Departed** | 2.13% | 1.67% | 1.56 |
| **%Withheld** | 5.61% | 6.95% | -7.77*** |
| **ISSAgainst** | 10.46% | 17.12% | -10.57*** |
| | Non Lead_Director | Lead_Director | |
| **Fraction Departed** | 2.14% | 1.23% | 2.75*** |
| **%Withheld** | 5.66% | 6.15% | -2.49** |
| **ISSAgainst** | 10.83% | 10.09% | 1.04 |
| | Non Comp_Chair | Comp_Chair | |
| **Fraction Departed** | 2.17% | 1.77% | 2.21** |
| **%Withheld** | 5.57% | 6.30% | -6.96*** |
| **ISSAgainst** | 10.52% | 12.34% | -4.72*** |
| | Non Nom_Chair | Nom_Chair | |
| **Fraction Departed** | 2.21% | 1.48% | 3.87*** |
| **%Withheld** | 5.55% | 6.47% | -8.31*** |
| **ISSAgainst** | 10.61% | 12.00% | -3.44*** |
| | Non Audit_Chair | Audit_Chair | |
| **Fraction Departed** | 2.26% | 1.29% | 5.33*** |
| **%Withheld** | 5.78% | 5.12% | 6.28*** |
| **ISSAgainst** | 11.53% | 6.76% | 12.39*** |

## Table 10
## Turnover of Directors in Leadership Roles

The dependent variable in the logit estimate is *Director_TO*. We estimate this regression for two sub-groups. The first consists of all directors who are not identified as being in leadership position in the year of the election. The second group consists of directors that are identified as having a leadership role (e.g. Non-Executive Board Chair, Lead Director, Chair of Compensation, Nomination or Audit Committees). *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast. *ISS Against*, takes the value of one, if ISS recommends "Withhold", "Against" or "No" for a particular director, and zero otherwise. All variables are described in Appendix A. Director attributes are included as control but not shown. All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroscedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | (1) *Board_Chair* | (2) *Non Board_Chair* | (3) *Lead_Director* | (4) *Non Lead_Director* | (5) *Comp_Chair* | (6) *Non Comp_Chair* | (7) *Nom_Chair* | (8) *Non Nom_Chair* | (9) *Audit_Chair* | (10) *Non Audit_Chair* |
|---|---|---|---|---|---|---|---|---|---|---|
| %Withheld | -1.786 | 2.849*** | 3.807 | 2.658*** | 4.466*** | 2.282** | 5.426*** | 2.443** | -1.199 | 2.918*** |
| | (-0.58) | (3.00) | (1.42) | (2.79) | (3.90) | (2.31) | (4.47) | (2.40) | (-0.36) | (3.29) |
| ISS Against | 0.276 | -0.267 | -0.287 | -0.236 | -0.927* | -0.123 | -2.100*** | -0.112 | 0.293 | -0.310 |
| | (0.37) | (-0.95) | (-0.26) | (-0.86) | (-1.83) | (-0.43) | (-3.01) | (-0.39) | (0.28) | (-1.20) |
| Size | -0.046 | -0.047 | -0.242 | -0.042 | -0.118 | -0.042 | -0.114 | -0.040 | 0.114 | -0.067* |
| | (-0.38) | (-1.27) | (-1.03) | (-1.16) | (-1.31) | (-1.07) | (-0.81) | (-1.13) | (1.01) | (-1.83) |
| Excess Ret | 0.291 | -0.135 | 0.319 | -0.100 | 0.020 | -0.122 | -0.532 | -0.064 | 0.116 | -0.128 |
| | (0.81) | (-1.20) | (0.47) | (-0.90) | (0.11) | (-0.98) | (-1.02) | (-0.61) | (0.39) | (-1.17) |
| Adj. ROA | -0.848 | -0.523* | -1.355 | -0.580* | -0.813 | -0.493 | -0.083 | -0.625* | -1.365** | -0.485 |
| | (-1.02) | (-1.72) | (-0.93) | (-1.90) | (-1.24) | (-1.62) | (-0.10) | (-1.93) | (-2.51) | (-1.45) |
| InstOwnship | -2.017** | -0.842*** | -1.404 | -0.874*** | -1.233** | -0.836*** | -1.866*** | -0.778*** | 0.381 | -1.024*** |
| | (-2.29) | (-3.14) | (-1.13) | (-3.36) | (-1.99) | (-3.04) | (-2.61) | (-2.86) | (0.49) | (-3.87) |
| Gov41 | 2.820 | 0.680 | 4.987* | 0.691 | 0.730 | 0.799 | 2.798** | 0.535 | 1.029 | 0.685 |
| | (1.46) | (1.34) | (1.83) | (1.41) | (0.60) | (1.53) | (2.06) | (1.04) | (0.67) | (1.37) |
| Post-Crisis | -0.846* | -0.305** | -0.196 | -0.320** | -0.270 | -0.330** | -0.866** | -0.261* | -0.712* | -0.280** |
| | (-1.67) | (-2.16) | (-0.33) | (-2.30) | (-0.87) | (-2.28) | (-2.18) | (-1.85) | (-1.66) | (-2.00) |
| Age | 0.003 | -0.027*** | -0.016 | -0.025*** | 0.003 | -0.029*** | -0.025 | -0.025*** | -0.006 | -0.025*** |
| | (0.12) | (-4.67) | (-0.58) | (-4.33) | (0.15) | (-4.86) | (-1.20) | (-4.22) | (-0.30) | (-4.26) |
| Tenure | -0.013 | 0.004 | -0.005 | 0.004 | -0.020 | 0.007 | 0.006 | 0.004 | 0.014 | 0.001 |
| | (-0.64) | (0.53) | (-0.12) | (0.59) | (-1.06) | (1.00) | (0.25) | (0.55) | (0.80) | (0.19) |
| #Dirships | -0.045 | 0.000 | -0.468** | 0.003 | 0.035 | -0.007 | 0.026 | -0.004 | -0.009 | -0.006 |
| | (-0.35) | (0.02) | (-2.03) | (0.15) | (0.65) | (-0.27) | (0.31) | (-0.17) | (-0.14) | (-0.22) |
| Intercept | -15.648*** | -18.044*** | -13.017*** | -18.144*** | -13.648*** | -17.954*** | -13.210*** | -18.119*** | -20.380*** | -17.756*** |
| | (-6.78) | (-13.94) | (-5.37) | (-14.05) | (-9.38) | (-13.70) | (-7.65) | (-17.06) | (-9.98) | (-13.76) |
| Observations | 1410 | 34134 | 732 | 34496 | 4600 | 30821 | 3830 | 31375 | 3972 | 30372 |
| Pseudo $R^2$ | 0.110 | 0.029 | 0.126 | 0.027 | 0.070 | 0.030 | 0.083 | 0.027 | 0.045 | 0.031 |

**Table 11**
**Director Turnover and Type of Institutional Ownership**

The table below reports the logit regression estimates for likelihood of an individual departing from the board in the year following the meeting in which he or she was up for reelection. The dependent variable in all specifications is a dummy variable *Director_TO* equals one if the director departs from the board, and equals zero otherwise. *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast in the prior year prior. *Excess%Withheld* is estimated by subtracting the average fraction of withheld votes for all directors at a firm from each individual's director's *%Withheld*. Institutional ownership type *Hi_Transient* takes the value of one if the aggregate fraction of shares held by transient investors in a firm is greater than the median transient holding across all firms in the calendar year, and zero otherwise. We repeat the same process to create *Hi_Dedicated* and *Hi_QIndex* based on fraction owned by dedicated investors and quasi-indexers respectively. All other variables are described in Appendix A. Firm and director attributes are included as control but not shown. All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroskedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

| | (1) | (2) | (3) | (5) | (6) | (7) |
|---|---|---|---|---|---|---|
| %Withheld | 1.701** | 3.742*** | 3.386*** | | | |
| | (2.21) | (4.77) | (3.91) | | | |
| Excess%Withheld | | | | 3.135*** | 5.117*** | 3.994*** |
| | | | | (3.34) | (5.99) | (4.37) |
| Hi_Transient | 0.133 | | | 0.250** | | |
| | (1.21) | | | (2.40) | | |
| %Withheld*Hi_Transient | 1.603** | | | | | |
| | (2.10) | | | | | |
| Hi_QIndex | | -0.054 | | | -0.200* | |
| | | (-0.43) | | | (-1.76) | |
| %Withheld*Hi_ QIndex | | -2.046*** | | | | |
| | | (-2.63) | | | | |
| Hi_Dedicated | | | -0.043 | | | -0.141 |
| | | | (-0.33) | | | (-1.18) |
| %Withheld*Hi_Dedicated | | | -1.100 | | | |
| | | | (-1.28) | | | |
| Excess%Withheld*Hi_Transient | | | | 1.223 | | |
| | | | | (1.16) | | |
| Excess%Withheld *Hi_ QIndex | | | | | -2.268** | |
| | | | | | (-2.09) | |
| Excess%Withheld *Hi_Dedicated | | | | | | 0.000 |
| | | | | | | (0.00) |
| Intercept | -1.711* | -1.861* | -1.466 | -1.623 | -1.675 | -1.251 |
| | (-1.65) | (-1.71) | (-1.32) | (-1.52) | (-1.54) | (-1.12) |
| Observations | 42105 | 42105 | 42105 | 42105 | 42105 | 42105 |
| Pseudo $R^2$ | 0.036 | 0.036 | 0.035 | 0.036 | 0.036 | 0.035 |

## Table 12
## Additional Robustness Tests

The table reports the estimates of alternative specifications of our baseline logit regression estimates reported in Table 4. The dependent variable in all specifications is a dummy variable *Director_TO* equals one if the director departs from the board, and equals zero otherwise. *%Withheld* is total votes cast against a particular director divided by the sum of all votes cast in the prior year prior. *Excess%Withheld* is estimated by subtracting the average fraction of withheld votes for all directors at a firm from each individual's director's *%Withheld*. All variables are described in Appendix A. All the independent variables are included in our estimation but to conserve space we only report the coefficients of the main variables of interest. Panel A replaces the fraction withheld variable by a dummy variable denoting high levels of votes withheld. Panel B shows results for inclusion of some additional firm characteristics such as majority voting and dual class. This panel also reports the results for sample of those directors whose age was less than 65 years at the time of the reelection. Panel C reports two fixed effects estimations. Column 1 reports the results for firm-election fixed effect. This specification focuses on the effect of votes withheld variation across directors facing election *at the same firm and at the same time.* Columns 2 and 3 report the results of director fixed effects. In these specifications, we estimate the effect of votes with held on the probability of that director departing for the *same director* (across different firms). All specifications include industry fixed effects. t-statistics are based on standard errors corrected for heteroskedasticity and clustered at the firm-level. ***, **, and* indicate significance at 1%, 5%, and 10%, respectively.

**Panel A**

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| %Withheld>30% | 0.601*** | 0.527* | | |
| | (3.00) | (1.90) | | |
| %Withheld>50% | | | 1.640*** | 1.498*** |
| | | | (4.70) | (4.16) |
| ISS Against | | 0.090 | | 0.177 |
| | | (0.55) | | (1.53) |
| Observations | 47321 | 47321 | 47321 | 47321 |
| Pseudo $R^2$ | 0.030 | 0.030 | 0.031 | 0.031 |

**Panel B**

| | (1) Plurality | (2) Plurality | (3) Dualclass | (4) Dualclass | (5) Director <65 yrs | (6) Director <65 yrs |
|---|---|---|---|---|---|---|
| %Withheld | 2.612*** | | 2.584*** | | 2.383*** | |
| | (3.52) | | (3.46) | | (2.98) | |
| Excess%Withheld | | 3.987*** | | 3.964*** | | 3.051*** |
| | | (5.08) | | (5.02) | | (3.56) |
| ISS Against | -0.261 | -0.152 | -0.250 | -0.143 | -0.200 | -0.041 |
| | (-1.28) | (-1.04) | (-1.22) | (-0.98) | (-0.85) | (-0.23) |
| Plularity | 0.101 | 0.103 | | | | |
| | (0.76) | (0.78) | | | | |
| DualClass | | | -0.081 | -0.128 | | |
| | | | (-0.62) | (-0.97) | | |
| Observations | 47321 | 47321 | 47321 | 47321 | 29382 | 29382 |
| Pseudo $R^2$ | 0.033 | 0.034 | 0.033 | 0.034 | 0.045 | 0.044 |

**Panel C**

| | (1) Firm Election FE | (2) Director FE | (3) Director FE |
|---|---|---|---|
| %Withheld | 3.284*** | 2.579*** | |
| | (4.21) | (3.09) | |
| Excess%Withheld | | | 3.610*** |
| | | | (3.17) |
| ISS Against | -0.163 | -0.523** | -0.437* |
| | (-0.77) | (-2.06) | (-1.86) |
| Observations | 4167 | 2635 | 2635 |
| Pseudo $R^2$ | 0.031 | 0.157 | 0.157 |