

SYMBOLIC SHAREHOLDER DEMOCRACY: SHAREHOLDER VOTING AS A POLITICAL PROCESS

J. (Hans) van Oosterhout *

Rotterdam School of Management, Erasmus University

joosterhout@rsm.nl

Steve Sauerwald

University of Illinois at Chicago

ssauerw@uic.edu

ABSTRACT

In light of empirical research that has questioned the effectiveness and utility of shareholder voting in corporate governance, this study develops a symbolic understanding of shareholder democracy. In this view, shareholders use their voting rights symbolically to challenge the legitimacy of management, while management also responds symbolically to such legitimacy challenges by implementing outside board turnovers that have little to do with the substance of the proposals voted on. Using instrumental variable regressions on voting data of 3,291 Say-on-Pay proposals from 1,249 US firms from 2011 to 2013, this study documents empirical support for understanding shareholder voting as a political process.

Keywords: Shareholder democracy, symbolic management, shareholder dissent, board turnover

*Corresponding author. This is work in progress, so please do not quote or paraphrase at this stage without consulting the authors. We thank Pursey Heugens, Peer Fiss, Ed Zajac, Joep Cornelissen, as well as participants in seminars at the University of Pennsylvania, Erasmus University, and Martin Luther University, for useful comments on earlier versions of this manuscript.

INTRODUCTION

Due to persistent discontent with managerial performance and growing disappointment with the monitoring efficacy of the board of directors, the last decades have witnessed a global movement to empower shareholders of public firms to take up a more active role in the firms they own (Davis & Thompson, 1994; Denes, Karpoff, & McWilliams, 2016; Goranova & Ryan, 2014). A key aim of this movement has been to strengthen the role of shareholder voting in corporate governance. The right to vote in shareholder meetings is potentially the most powerful control right that shareholders can use to secure their residual interests in the firm (Easterbrook & Fischel, 1991). It enables shareholders to veto major corporate decisions that harm shareholder interests (Kraakman et al., 2004), refuse to elect directors to the board (Cai, Garner, & Walkling, 2009), and promote value-enhancing corporate governance reforms (Bebchuk, 2005).

To infuse the objective of enabling shareholders to more actively use their voting rights with values beyond the highly technical and legal issues involved in shareholder voting (Kahan & Rock, 2008), proponents have invoked the notion of “shareholder democracy” as a corporate governance ideal for public firms (Fairfax, 2008). Because of its explicit connection to the political concept of civil democracy, and its appealing doctrine of “one shareholder, one vote”, the shareholder democracy ideal became a powerful model for the governance of public firms. It has proven highly effective in gathering support from a broad variety of stakeholders and policy makers beyond the investor interests at stake (Bebchuk, 2005; European Commission, 2006).

Yet in spite of its strong normative appeal and a significant decline of the transaction costs of shareholder voting (Yermack, 2010), the shareholder democracy ideal remains a virtual reality to date. In practice, shareholder voting hardly ever sways voting outcomes, as shareholders almost never vote down proposals put to the vote by management (Cai et al., 2009; Fischer, Gramlich,

Miller, & White, 2009). Even proposals submitted by shareholders themselves are typically rejected (Cziraki, Renneboog, & Szilagyi, 2010). The accumulated empirical evidence to date therefore seriously questions the feasibility of the corporate governance role of shareholder voting that proponents of shareholder democracy have in mind for to it.

These findings do not imply, however, that there is no meaningful role for shareholder voting in corporate governance. A central, but mostly implicit assumption in the literature, is that voting serves only to produce formal corporate decision outcomes and that it is hence to be understood exclusively in terms of its instrumental efficacy in producing decision outcomes. An emergent research stream in corporate governance has increasingly challenged this instrumental perspective, and has consistently shown that the motivations behind, and the social outcomes of corporate governance practices, are much more complex than any exclusively instrumental perspective would be able to capture (Westphal & Zajac, 2013). Specifically, studies in this research stream have documented that the social meaning of corporate governance practices often mediates the complex relationship between the adoption of these practices and their intended outcomes, and that governance practices may have symbolic meaning over and above their formal instrumental purposes (Westphal & Zajac, 1998, 2001; Zajac & Westphal, 2004).

In this study, we draw on this research stream to develop an understanding of the corporate governance role of shareholder voting that is more consistent with the available empirical evidence than currently available models of shareholder democracy. Specifically, the symbolic shareholder democracy model that we propose understands shareholder dissent—defined as shareholder votes cast in opposition to management’s voting recommendations (Sauerwald, van Oosterhout, & van Essen, 2016)—as well as managerial responses to it (Bednar, 2012; Westphal

& Zajac, 2013), in terms of the symbolic role that shareholder voting plays in corporate governance (Grundfest, 1993).

Our symbolic shareholder democracy model comprises two main theses. First, we develop the expressive voting thesis, according to which shareholders vote not only to produce a formal outcome on the decision at stake, but also to symbolically express their general discontent with management (Sauerwald, van Oosterhout, & van Essen, 2016). We then draw on the symbolic management literature to develop the “symbolic management thesis”, according to which management may also react symbolically to such legitimacy challenges by implementing outside board turnovers that have little, if anything, to do with the issue voted on. Consistent with this explanation, we predict that such symbolic responses to legitimacy challenges are likely to take place only in firms in which CEOs have sufficient power to implement them.

To empirically test the two theses that constitute the central tenets of our symbolic shareholder democracy model, we turn to an empirical context that is uniquely suited to test our hypotheses. We use a three-year sample of mandatory but merely advisory Say-on-Pay (SoP) proposals voted on in 1,249 US firms from 2011 to 2013, to predict outside board turnover in the two years following each shareholder meeting. Using instrumental variable regressions that enable a relatively ‘clean’ estimation of the predicted effects, we find support for our predictions.

Overall, our study seeks to make two contributions to the literature. First, by developing and empirically validating the central tenets of our symbolic shareholder democracy model, we contribute to the interdisciplinary corporate governance literature, which to date has struggled to give the shareholder democracy ideal empirical meaning (Yermack, 2010). By understanding shareholder voting as a political process in which shareholders use their voting rights symbolically to challenge the legitimacy of incumbent management, while managers also

symbolically respond to such challenges to secure their legitimacy, this study provides a more realistic understanding of the corporate governance role of shareholder voting.

Second, by documenting that not only managers but also shareholders may use the voting process symbolically, this study extends the symbolic management literature to the realm of investor behavior which the symbolic management literature to date has often portrayed as gullible victims of cunning managers (Fiss & Zajac, 2004; Westphal & Zajac, 1994, 1998, 2001).

THEORY AND HYPOTHESES

Varieties of Shareholder Democracy

In spite of the strong appeal of the shareholder democracy ideal to investors, policy makers and academics, proponents do not agree on what, precisely, the role of shareholder voting is in corporate governance. We synopsise the interdisciplinary literature on shareholder voting by developing three models of shareholder democracy based on the different governance role that they envisage for shareholder voting (Thompson & Edelman, 2009; Yermack, 2010).

Direct shareholder democracy. Definitely the strongest form of shareholder democracy involves what is best understood as the direct shareholder democracy (DSD) model (cf. Budge, 2006). Rather than completely reversing the separation of ownership and control, proponents promote a more direct involvement of shareholders in corporate decision-making by increasing the role of shareholder voting in major corporate decisions, such as decisions on acquisitions or corporate governance reforms (Bebchuk, 2006). Because the board of directors mostly sets the agenda for shareholder meetings, proponents of the DSD model also seeks to strengthen the ability of shareholders to add their own proposals to the slate (Bebchuk, 2003).

In spite of a broad array of legal, technological, and economic developments that have jointly reduced the costs of shareholder voting significantly, the DSD model remains a virtual

reality at best (Bebchuk, 2007). In practice, shareholders hardly ever reject proposals submitted by the board (Cai et al., 2009; Fischer et al., 2009), whilst they typically reject proposals they put to the vote themselves (Cziraki et al., 2010). As a result, levels of shareholder dissent are generally way too low to sway corporate decision outcomes, which makes the DSD model an unrealistic governance ideal at best.

Representative shareholder democracy. Because most shareholders are poorly positioned to make informed decisions on complicated firm-specific issues (Easterbrook & Fischel, 1991), it was argued that the shareholder democracy ideal was never meant to grant any major decision making role to shareholders (Bainbridge, 2006). Instead, representative shareholder democracy (RSD) would be a more appropriate model for understanding the governance role of shareholder voting (Lipton & Rosenblum, 2003). In the RSD model, the role of shareholder voting is reserved mainly to electing directors to the board, which is the most important decision-making and monitoring body in the firm (Bainbridge, 2003). To secure their residual interests, shareholders are able to either refuse to (re)appoint directors to the board (Cai et al., 2009; Hillman, Shropshire, Certo, Dalton, & Dalton, 2011), or wage a proxy contest to appoint their own candidates (Fos & Tsoutsoura, 2014), thereby exercising only indirect influence on firms.

The problem with the RSD model, however, is that it is hardly more realistic than the DSD model (Bebchuk, 2007). In practice, the bulk of director elections in U.S. firms go uncontested, while candidates proposed by the board virtually always receive majority support (Cai et al., 2009; Cai, Garner, & Walkling, 2013). And although the ineffectiveness of director elections is often attributed to the plurality voting system in many US corporations, in which directors may be appointed if they acquire only a single vote, director nominees are even less likely to be rejected in firms that have adopted majority-voting rules (Choi, Fisch, Kahan, & Rock, 2016).

These findings not only challenge the feasibility of the RSD model, but also raise the question of why shareholders seem to be less willing to use their voting rights the more consequential these rights become.

Corrective shareholder democracy. A more realistic but rather minimalist alternative involves the corrective shareholder democracy (CSD) model. In the CSD model, shareholder voting is understood as a kind of emergency break (Kang, 2013), which is to be used to intervene with the board only in exceptional circumstances (Easterbrook & Fischel, 1991). These include situations in which grossly incompetent or self-dealing directors need to be replaced or in which a value-destroying acquisition need to be blocked, both of which fall outside the fair-weather conditions of everyday business.

The strength of this corrective understanding of the governance role of shareholder voting is that it requires very little from shareholders in terms of effort and capabilities (Kang, 2013), and that it is consistent with the documented exceptionality of shareholders intervening with the board. After all, one does not assess the functioning of an emergency break by the frequency in which it is used. A major weakness, however, is that that the CSD model is unable to account for the everyday reality of shareholder voting under fair-weather conditions, and explain why shareholders seem less willing to challenge incumbent managers the more powerful their voting rights become (Choi et al., 2016). This is not only problematic for scholarly reasons, but also for practice, as much of the institutional infrastructure required for the CSD model to function well could not be sustained if shareholders took their voting rights seriously only in exceptional cases.

Indirect outcomes. Yet in spite of the fact that research has consistently shown that shareholders hardly ever sway voting outcomes, it has also documented that even low levels of shareholder dissent may have indirect consequences (Cai et al., 2009) beyond the substance of

the proposals voted on (Ertimur, Ferri, & Oesch, 2015a). Studies have documented that relatively low levels of shareholder dissent in director elections increase the likelihood of subsequent CEO turnover, board turnover, repealing poison pills and staggered boards, and the implementation of fewer and more profitable acquisitions (Fischer et al., 2009), while also negatively affecting the career prospects of directors targeted by dissent (Aggarwal, Dahiya, & Prabhala, 2015).

Although these findings, which are mostly from the field of financial economics (Yermack, 2010), suggest that shareholder dissent has social meaning beyond the formal voting outcomes and the substance of the proposals at stake, finance scholars have had difficulties aligning them with the agency theoretical paradigm that has long dominated their field (Shleifer & Vishny, 1997). This is mainly because from the rational-consequentialist perspective of agency theory, shareholder voting is conceived solely instrumentally as a corporate decision-making practice that serves to produce value-maximizing decisions, or correct managerial decisions that do not, including decisions to appoint or dismiss directors (Easterbrook & Fischel, 1991). Like the models of shareholder democracy examined above, this understanding of shareholder voting would be difficult to reconcile with the facts as we know them to be.

The Symbolic Use of Shareholder Voting Rights

Research in management, however, hosts a long tradition of understanding managerial actions and organizational practices to be motivated by considerations that go beyond their formally professed objectives and may acquire social meaning quite independent of their instrumental efficacy in realizing these objectives (Bromley & Powell, 2012; Meyer & Rowan, 1977). Specifically, researchers in the symbolic management literature have consistently shown that instead of being solely instrumental, managerial actions and organizational practices may also be motivated by the intentions to signal responsiveness to shareholders (Westphal & Zajac, 1998),

appease outside constituencies (Bednar, 2012; Westphal & Graebner, 2010), and secure the legitimacy of incumbent management more generally (Westphal & Zajac, 2001).

Although this literature was mostly developed from the perspective of management (see below), recent work has extended it to the perspective of shareholders. Hillman and colleagues (Hillman et al., 2011), for example, suggest that shareholders use their voting rights in director elections not only to elect directors, but also to evaluate both their individual and collective performance as a board. Building on this study, Sauerwald, Van Oosterhout and Van Essen (2016) develop an “expressive” understanding of shareholder dissent, and document that independent of the substance of the proposal put to the vote, shareholder dissent can be seen to express an evaluation of the corporate governance of the firm.

Drawing on the political science literature (Brennan & Buchanan, 1984; Brennan & Lomasky, 1993; Hamlin & Jennings, 2011), we can conceptually distinguish instrumental and expressive shareholder voting in a way that is useful for our present purposes. In this conceptualization, shareholder voting is instrumental insofar as it serves to produce a decision outcome on the proposal voted on, while it is expressive to the extent that it also functions to symbolically express an evaluation of management irrespective of whether the proposal receives majority support or not (Sauerwald, van Oosterhout, & van Essen, 2016).

This conceptualization involves two important differences between instrumental and expressive voting that we will draw on in developing our hypotheses and research design. First, whereas instrumental voting is useful *only* when it produces a formal decision outcome (i.e. the proposal is accepted or not), expressive voting may be useful regardless of the formal decision outcome because it may have symbolic meaning quite independent of this outcome. Second, while instrumental voting is exclusively about the substance of the proposal voted on, expressive

voting may be substantively decoupled from the proposal at stake, precisely because it may function symbolically (Bromley & Powell, 2012; Meyer & Rowan, 1977).

Mandatory Say-On-Pay Proposals and the Expressive Voting Thesis

To develop our theoretical model and explain our research design, we now turn the empirical context of our study. Specifically, we focus on shareholder voting on SoP proposals, which became mandatory for US public firms as of January 2011 as a result of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. As of this date, all public firms in the U.S. that under SEC proxy rules are required to disclose compensation agreements of named executive officers (NEOs), have to put to the vote a resolution for shareholder approval of the disclosed executive compensation agreements and practices at least once in three years.

We focus on voting on SoP proposals because these votes are *advisory* only, meaning that voting on these proposals has no formal decision consequences. Not only is management free to ignore SoP voting outcomes at will, but empirical research on SoP voting has also documented that such votes hardly affect the composition and levels of executive pay (Armstrong, Gow, & Larcker, 2013; Ferri & Maber, 2013; Iliev & Vitanova, 2014), suggesting that shareholders may expect SoP votes to be instrumentally inconsequential. It is precisely this expected instrumental inconsequentiality that makes SoP voting conducive to expressive voting.

Specifically, the disconnect between the voting outcome and the formal decision consequences of SoP votes enables shareholders to safely decouple the substance of the proposal voted on from the meaning to be expressed by the vote, because they can disregard the formal consequences when casting their vote and use it to express discontent instead. Thus, whereas an instrumental understanding of shareholder voting in a director election, for example, would only involve the forward-looking question of whether to appoint a particular director, an expressive

understanding of that same election would allow shareholders to vote symbolically and express a backward-looking evaluation of the performance of the director in question, or even of the board or firm of which this director is part (Hillman et al., 2011). Consistent with this understanding, prior research has surmised that in spite of the fact that SoP voting does not have the intended effect on executive compensation, it could be interpreted as a vote of confidence in management that may have more or less to do with the proposal voted on (Cunat, Gine, & Guadalupe, 2016). Building upon this interpretation, we predict that SoP dissent is not only driven by the executive compensation practices that SoP proposals seek to address, but also by more general shareholder concerns with regard to the performance and governance of the firm.

Specifically, we predict that in addition to evaluating executive pay practices, shareholders will use SoP proposals to symbolically express their concerns about firm financial performance. Not only does firm performance capture the most important interest that shareholders have in the firm, but it is also an easy to interpret yardstick by which shareholders can measure and evaluate the quality and performance of management (Jensen, 2002). Consistent with this view, research has documented that firm performance is the single most important piece of information that shareholders pay attention to in evaluating management and shaping their voting behavior (Krause, Whittler, & Semadeni, 2014). We hence predict:

Hypothesis 1: Shareholder dissent on SoP proposals is negatively affected by firm performance.

Because corporate governance is the most important factor standing between firm value creation and shareholder's ability to appropriate that value (Core, Guay, & Rusticus, 2006; Gompers, Ishii, & Metrick, 2003), we also predict that SoP dissent is driven by concerns about the degree in to which the governance set-up of the firm shields managers from disciplinary market forces

and shareholder monitoring. Research has documented that ‘entrenched’ managers are more likely to create agency costs that burden shareholder returns (Jensen & Ruback, 1983). Entrenched managers may ‘enjoy the quiet life’, for example, and avoid conflicts with employees by unnecessarily increasing wages or by securing employment in unproductive plants (Bertrand & Mullainathan, 2003). Moreover, entrenched managers may indulge in value destroying acquisitions (Masulis, Wang, & Xie, 2007) and allow executives to stay in office beyond their ability to add value to the firm (Bebchuk & Cohen, 2005; Miller, 1991). We hence predict that SoP dissent will also reflect shareholders’ negative evaluations of the degree of managerial entrenchment in the firm:

Hypothesis 2: Shareholder dissent on SoP proposals is positively affected by managerial entrenchment.

Symbolic Responses to SoP Dissent

Although research in finance has documented leadership and governance changes to be associated with shareholder dissent (Cai et al., 2009; Ertimur et al., 2015a; Fischer et al., 2009), it has not yet identified the specific mechanisms that lead to these outcomes. Specifically, it has not considered the possibility that such responses may be symbolic rather than real, because they are undertaken to secure managerial legitimacy in the face of external legitimacy challenges. Yet if the management literature has anything to contribute to understanding the corporate governance role of shareholder voting, it must be that managers may respond to shareholder dissent by means of symbolic rather than substantive actions (Westphal & Zajac, 2013), similar to how prior research has found managers to respond to other external legitimacy challenges (Bednar, 2012; Westphal & Graebner, 2010).

An central research focus of the management literature has been the question how management deals with external pressures to implement certain management or governance practices, or to abandon others (Arthaud-Day, Certo, Dalton, & Dalton, 2006). One widely documented way of doing so is by decoupling the formal adoption from the actual implementation of a governance practice. Studies have documented that managers are able to effectively appease investors by merely announcing the adoption of long term incentive plans for managers or share buyback programs, for example, but without implementing them (Westphal & Zajac, 1998, 2001; Zajac & Westphal, 2004).

Because of increasing disclosure obligations and investor scrutiny over time (Goranova & Ryan, 2014), managers may shy away from such blatant symbolic management practices to more subtle forms of decoupling (Bromley & Powell, 2012). An easy but potentially highly effective way of doing so is to symbolically implement governance practices because of widely shared beliefs about their effectiveness and desirability (Davis, 2005), but without any evidence or expectation that they will actually contribute to realizing their presumed objectives (Westphal, 1998; Westphal & Bednar, 2008). Given the ambiguity of empirical findings on means-ends relationships in corporate governance research (Dalton, Hitt, Certo, & Dalton, 2007; Denes et al., 2016), the field of corporate governance offers fertile ground for such “means-ends decoupling” by management (Bromley & Powell, 2012).

Recent research has documented how managers proceed, and often succeed, in symbolically addressing pressures exerted by external parties in corporate governance. Investigating managerial responses to negative investment analyst reports, Westphal and Graebner (2010) show that management adopts symbolic board reforms that increase the formal independence of outside directors, but not the social independence of these directors from the

CEO, and are able to solicit more positive subsequent analyst reports nevertheless. Similarly, Bednar (2012) found that board turnovers that improve formal board independence, but not the social independence of the board, are able to solicit more positive subsequent media coverage, documenting both the establishment of board turnovers as a symbolic governance strategy, as well as its effectiveness in appeasing external parties.

Building upon these findings, we predict that management may respond to shareholder SoP dissent by implementing board turnovers that have no connection to the substance of the SoP proposal voted on, but that may be undertaken instead to publically signal managerial responsiveness to the firms' shareholder base. Because even modest degrees of shareholder dissent constitute a public signal of shareholder dissatisfaction that may be noted by media and activist investors (Yermack, 2010), we hypothesize that the higher the level of shareholder dissent on SoP proposals becomes, the higher the level of subsequent turnover of non-remuneration committee outside directors will be. We exclude remuneration committee member turnovers, because these may be undertaken for reasons having to do with the substantive issue at stake on the SoP vote. Yet in the theoretical view that we develop in this study, SoP dissent can be seen to symbolically challenge the legitimacy of incumbent management independent of the substance of the proposal voted on, and which management may also interpret and respond to as such. We hence hypothesize:

Hypothesis 3: Shareholder dissent on SoP proposals will positively affect outside board turnover.

Precisely because outside board turnovers may be initiated by management as a symbolic response to SoP dissent, we should also expect that such responses are likely to take place only in firms in which CEOs are sufficiently powerful to successfully initiate and implement them.

This is, first, because the nomination process, rather than the subsequent director election, is where outside board turnovers are truly effected because in practice shareholders rarely reject a director nominated by the board (Choi et al., 2016). Specifically, powerful CEOs are able to influence the nomination process, even if they have no formal role in this process (Shivdasani & Yermack, 1999; Westphal & Graebner, 2010). Second, powerful CEOs may enjoy their substantial authority as an end in itself and do everything to stay in office (Fehr, Herz, & Wilkening, 2013). Third, stronger CEOs may be more politically savvy, in that they respond more decisively to early signals that would threaten their survival as the CEO. Research has documented that longer-tenured CEOs have fewer career concerns (Gibbons & Murphy, 1992; Matta & Beamish, 2008). They may therefore be more likely to engage in symbolic actions, which carry the risk of being exposed and reduce CEOs career prospects. Conversely, shorter-tenured CEOs may be unwilling to take such risks. Because longer-tenured CEOs are considered to be more powerful than those with a shorter track record within the firm, we predict:

Hypothesis 4: The positive relationship between shareholder dissent on SoP proposals and outside director turnover is positively moderated by CEO tenure, such that firms with longer-tenured CEOs will feature more outside board turnover.

METHODS

Sample

Our dataset covers firms listed on the Standard & Poor's (S&P) 1,500 index from 2011 until 2015. We chose 2011 as the starting date for our sample because this is the first year in which SoP voting in publicly traded U.S. firms became mandatory. We use SoP voting information for the years 2011 until 2013 because our main dependent variable of interest outside director turnover includes a two-year forward lag. For instance, a SoP vote in 2013 may result in director

turnover sometime after the vote took place in 2013 (t), 2014 (t+1), or 2015 (t+2) (see below). After merging this sample with data provided by ISS (i.e., Voting Analytics, Governance, and Directors), Compustat (Financials and ExecuComp), and Thomson Reuters Institutional (13f) Holdings, our final sample includes 1,249 firms covering 3,291 firm-years.

Dependent Variable

Outside board turnover. Outside board turnover is measured as the percentage of outside directors who left the firm within three years of the SoP vote. This turnover window was chosen because some boards are classified, meaning that directors are appointed to longer terms (up to three years). The election of these directors is often staggered, meaning only a subset of directors is up for election each year (Arthaud-Day et al., 2006; Fich & Shivdasani, 2007; Marcel, Cowen, & Ballinger, 2014; Srinivasan, 2005). Our approach ensures that all directors in our sample stood for re-election at least once after the SoP dissent event took place.

We exclude directors who serve on the remuneration committee from our turnover measure as these directors may be removed for reasons having to do with the executive compensation issues addressed by the SoP proposals voted on. Further, we measure board turnover (a group-level variable) rather than director turnover (an individual-level variable) because we are interested in how management seeks to secure the legitimacy of the board rather than the legitimacy of any individual director (Cowen & Marcel, 2011; Marcel & Cowen, 2014).

Explanatory and Moderator Variables

Tobin's q. We use Tobin's q as a measure of firm performance. Tobin's q is a fitting measure of firm performance for our purposes, as it captures the market value of the firm, adjusted for debt in its numerator and scaled by assets in its denominator (Coles, Daniel, &

Naveen, 2008), resulting in a proxy for performance that is readily interpretable and comparable between firms.

E-index. We use a shareholder rights index comprising six corporate governance provisions (four of which limit shareholder rights and two of which make hostile takeovers more difficult) to measure managerial entrenchment. This index is based on data provided by the ISS Governance database and has been proposed by Bebchuk et al. (2009) as an “entrenchment index” (or E-index). The E-index ranges from 0 to 6, with low scores indicating high levels of shareholder influence and high scores capturing low levels of shareholder influence (Bebchuk et al., 2009). Prior studies have used the e-index to measure the degree to which management is structurally entrenched in the firm (Bhagat & Bolton, 2008; Fisman, Khurana, Rhodes-Kropf, & Yim, 2013; Kang & Kroll, 2014).

SoP Dissent. Shareholder dissent on SoP proposals (SoP dissent) was measured as the percentage of shareholder votes that oppose management’s executive compensation arrangements. Shareholders have three options when voting on SoP proposals: “for”, “against”, or “abstain”. Because management as the sponsor of the SoP proposal recommends shareholders to vote “for” the executive compensation arrangements, we count all shareholder votes that do not follow this recommendation as shareholder dissent. Our measure hence includes not only votes “against” the SoP proposal, but also “abstain” votes, because abstaining also transmits a signal of skepticism vis-à-vis management (Conyon & Sadler, 2010; Sauerwald, van Oosterhout, & van Essen, 2016). For instance, Warren Buffett voted ‘abstain’ on Coca Cola’s SoP proposal in 2014 to express his concerns but avoid a war with the board (Das & Holm, 2014). It is also important to note that voting ‘abstain’ counts toward fulfilling quorum requirements at the shareholder meeting, in contrast to shares ‘not voted’, which are not counted in the voting tallies.

CEO tenure. We operationalized CEO power as the number of years since the CEO became CEO of the focal firm, with longer-tenured CEOs considered to be more powerful than more recently appointed CEOs (Hill & Phan, 1991).

Control Variables

Annual SoP vote is a dummy variable taking the value 1 if the firm chose to hold an annual SoP vote, and a value of 0 in case of only once in three-years.

Board size was measured as the total numbers of directors on the board. Larger boards may face external pressure to downsize, which may increase board turnover.

Board age was measured as the average age of the directors on the board. This variable was included because older directors may be less likely to seek renomination to the board.

Board tenure was measured as the average tenure of the directors on the board in years since being first appointed to the board. It was included because term limits for directors are increasingly enforced (Vafeas, 2003)

CEO duality was measured as dummy variable taking the value “1” if the CEO is also chairperson of the board, and “0” otherwise.

Outside director ownership was measured as the total shares owned by outside directors divided by total shares outstanding.

CEO ownership was measured as the total shares owned by the CEO divided by total shares outstanding

Board independence was measured as the fraction of outside directors over board size.

Busy board was measured as a dummy variable taking the value “1” if the board was overboarded in a firm-year. Overboarding occurs when more than half of the outside directors of the firm have three or more outside board appointments in other major S&P 1,500 firms. It was

included because these directors may be more likely to leave the firm or forced from their positions due to attention and time problems (Harris & Shimizu, 2004).

Board attendance problems was measured as the ratio of outside directors on the board who missed more than 75% of board meetings in a firm-year.

Firm size was measured as the log of the total assets of the firm.

Non-dedicated and **dedicated institutional ownership** was measured as the percentage of the total year-end shares owned by different types of institutional investors: non-dedicated institutional investors such as transient institutional owners and dedicated institutional investors. We followed Bushee's (1998) classification scheme. We include dedicated owners with at least one percent of the firm equity in the total year-end, which allows an active role in the firm (Connelly, Tihanyi, Certo, & Hitt, 2010; Tihanyi, Johnson, Hoskisson, & Hitt, 2003).

Election dissent was measured as the percentage of shareholder votes opposing the election of directors to the board (Hillman et al., 2011). Firms determine whether directors are elected by plurality or majority voting. In majority voting systems, shareholders can vote "for", "against", or "abstain" for director candidates. A director is elected when more than 50 percent of the votes cast at the meeting vote "for" the director. In plurality voting systems, however, a director may be elected with a single "for" vote when the election is uncontested, making "against" votes meaningless. Shareholders in plurality systems can therefore "withhold" votes from a director to express dissent. We sum all "against" and "abstain" votes (in majority systems) as well as all "withhold" votes (in plurality systems) divided by the total number of shares voted at the meeting (in percentage terms). Consistent with previous studies, "abstain" (Sauerwald, van Oosterhout, & van Essen, 2016) and "withhold" votes (Hillman et al., 2011) are included in

election dissent because they capture shareholder discontent. We aggregated election dissent to the board level by averaging election dissent for each board in a given firm-year.

Analytical Strategy

As our aim is to get a clean estimate of the causal effect on SoP dissent on outside board turnover, we need to develop a causal identification strategy. We acknowledge that SoP dissent may be endogenous in our model, because some factors explaining SoP dissent may also be associated with outside board turnover. Ignoring endogeneity may therefore yield biased coefficient estimates. We performed the Durbin-Wu-Hausman (DWH) test for endogeneity. The null hypothesis for this test predicts that an OLS estimator of SoP dissent would yield consistent estimates, meaning that no significant endogenous relations in our model bias OLS estimates. We reject this null hypothesis ($p = 0.84$), suggesting that endogeneity is a concern in our model.

To address these concerns, we conduct a two-stage least squares (2SLS) instrumental variable estimation instead of an OLS estimation. Valid instruments must be able to predict the endogenous explanatory variable SoP dissent (i.e. the relevance requirement), but be uncorrelated with the dependent variable and the error terms of our explanatory model (i.e. the exclusion restriction). We identify two instruments that presumably satisfy these conditions.

First, CEO compensation has been widely documented to drive SoP dissent (Armstrong et al., 2013; Conyon, 2016; Krause et al., 2014), by which it satisfies the relevance requirement. At the same time, there are currently no established theories or empirical findings available that would lead us to predict that CEO compensation would affect non-remuneration committee outside board turnover (supporting the exclusion restriction). CEO compensation was measured as total compensation received by the CEO in a particular firm-year, which includes base salary, bonus payments, and equity incentives such as restricted stock and stock options granted.

Second, ISS negative voting recommendations have been found to strongly affect shareholder voting (Larcker, McCall, & Ormazabal, 2015; Sauerwald, van Oosterhout, van Essen, & Peng, 2016). Specifically, Malenko and Chen (2016) estimate the effect of ISS negative recommendations on SoP proposals at about 25%, indicating strong relevance of this instrumental variable. The exclusion restriction for this instrument is met when negative ISS recommendations on SoP proposals do not affect outside board turnover through any other path than through its effect on shareholder dissent. While evidence is available that ISS negative recommendations do affect compensation arrangements (Larcker et al., 2015), there are currently no established theories or empirical findings available that would predict that ISS SoP negative recommendations are associated with outside board turnover through some other path than its effect on SoP dissent. ISS SoP negative recommendations is a dummy variable in our models, taking the value “1” if ISS advises shareholders to vote against the executive compensation arrangements in the firm, and “0” if ISS supports the executive compensation arrangements.

In addition to inspecting the correlation table for any significant associations between our instruments and our outcome variable, which there are none, we conducted two additional tests to assess the validity of our instruments. First, we examine the possibility of “weak instruments”, which tests the relevance requirement. Although both variables are highly significant in our first-stage model predicting SoP dissent ($p < 0.001$), we also examine the combined significance of our instrumental variables with the Cragg-Donald Wald F statistic. Stock and Yogo (2005) recommend that the Cragg-Donald Wald F statistic exceeds 12 for two instrumental variables. In our case, the Cragg-Donald Wald F statistic is 50, suggesting that we use strong instruments.

Second, our structural model is over-identified by one degree of freedom, because we have one endogenous independent variable and two instrumental variables. For over-identified

models, we can test whether the instrumental variables are appropriately independent of the error term in the outcome regression (Baum, 2006). To perform this test, the residuals from the outcome regression are regressed on all instruments, which is also known as the Sargan test. The null hypothesis of the Sargan test is that the instruments are exogenous to the explanatory model. We failed to reject the null hypothesis (Sargan statistic 1.159; $p = 0.28$), supporting our assumption that our instruments are empirically exogenous to the second stage model.

RESULTS

Table 1 reports correlation coefficients and descriptive statistics. Outside board turnover in our sample is 9%. This is lower than recent studies (Marcel et al., 2014), presumably because we exclude compensation committee turnover. SoP dissent is on average 9.3%, which is about twice as high as mean dissent values on director election proposals in our own sample (see Table 1) and on all other proposals reported by prior research (Hillman et al., 2011; Sauerwald, van Oosterhout, & van Essen, 2016). This suggests that shareholders are more likely to dissent with advisory SoP proposals than with other binding proposals, presumably because shareholders do not expect adverse formal decision outcomes from their dissenting votes.

[Insert Table 1 about here]

Table 2 shows the results of the first-stage regression model with SoP dissent as the dependent variable. Model 1 in Table 2 tests the hypothesized effects. Consistent with Hypothesis 1, we find that firm performance as measured by Tobin's q has a negative effect on SoP dissent ($b = -0.09$; $p < 0.001$). Consistent with Hypothesis 2, we find that managerial entrenchment as measured by the e-index increases SoP dissent ($b = 0.03$; $p < 0.01$). Model 2 in Table 2 examines the instrumental variables. CEO compensation increases SoP dissent significantly ($b = 0.35$; $p < 0.001$). A one standard deviation increase of \$6.48 million in

CEO compensation increases SoP dissent by 2.3%. Given the mean level of SoP dissent of 10.10% in our sample, this translates to a 23% relative increase in SoP dissent. ISS SoP negative recommendation also significantly increases SoP dissent ($b = 32.49$; $p < 0.001$). In practical terms, a negative recommendation against executive compensation arrangements increases SoP dissent by 32.49%, which is even higher than the 25% reported by Malenko and Shen (2016).

[Insert Table 2 about here]

Table 3 shows the results of the second-stage regression model with outside board turnover as the dependent variable. Model 2 includes SoP dissent to test Hypothesis 3. Consistent with Hypothesis 3, SoP dissent increases outside board turnover ($b = 0.01$; $p < 0.001$). In terms of practical significance, a one percent increase in SoP dissent leads to a 7.9% increase in outside board turnover. Given the average outside board turnover in our sample of 9.48%, an increase in SoP dissent in the order of one standard deviation (12.92%) would roughly double the mean value of outside board turnover. Model 3 includes a product term between CEO tenure and SoP dissent to test Hypothesis 4. Consistent with Hypothesis 4, the coefficient on the product term is significant and positive ($b = 0.01$; $p < 0.01$).

[Insert Table 3 about here]

Figure 1 graphically examines this interaction effect. The graph supports the argument that firms with longer-tenured CEOs are more likely to initiate outside director turnover in response to SoP dissent. Note that firms with short-tenured CEOs actually *reduce* outside board turnover with increasing levels of SoP dissent. This supports our theoretical prediction that management uses outside board turnover for symbolic management purposes because it suggests that symbolic outside board turnovers are *only* likely to be implemented in response to SoP dissent in firms that have powerful CEOs.

[Insert Figure 1 about here]

Robustness Checks

We conducted several robustness checks. First, we conducted further tests to evaluate the effectiveness of our instrumental variable regressions. Following Semadeni et al. (2014), we compare the coefficients estimated via OLS with the coefficients estimated via instrumental variable regressions. The instrumental variable coefficient equals 0.0079 (see Table 3) whereas the OLS coefficient equals 0.0089 ($p < 0.001$). This amounts to a 13% increase in the size of the coefficient for OLS estimation, suggesting that our instrumental variable regressions correct for at least some endogeneity bias that may result from association between the independent variable and the error term. To further test the exclusion restriction, second, we also included the instrumental variables directly into the second-stage regressions. Neither CEO compensation nor ISS SoP negative recommendation is significantly related to outside director turnover.

Second, we excluded abstain votes from the measure of SoP dissent because abstain may be a weaker form of shareholder dissent. The instrumental variables CEO compensation and ISS SoP negative recommendation continue to exert a positive and significant influence on this alternative measure of SoP dissent, while hypotheses 1 through 4 continue to be supported.

DISCUSSION

In light of the available evidence that has consistently challenged both the empirical and practical significance of the shareholder democracy model in corporate governance, this study set out to develop an alternative understanding of the corporate governance role of shareholder voting that is more consistent with the facts as we know them to be. Proceeding from the view that shareholder voting may have social meaning over and above its formal instrumental purposes,

this study has developed and empirically validated two theses that jointly constitute the theoretical backbone of what we have coined the ‘symbolic shareholder democracy’ model.

Consistent with the expressive voting thesis, first, we present empirical evidence that shareholders vote against SoP proposals to express discontent with firm performance and governance more generally, thereby at least partially decoupling the substance of the proposal voted on from the meaning they seek to express through their votes. We also present evidence, second, that management may in turn respond symbolically to such expressions of shareholder dissent by implementing outside board turnovers that have little, if anything, to do with the proposals voted on. We now explore the contributions that this study seeks to make to the symbolic management and interdisciplinary corporate governance literatures respectively.

Contributions to the Symbolic Management Literature

First, this study draws on, and also seeks to contribute to, the symbolic management literature in corporate governance. To date, this literature has largely focused on how management may succeed in appeasing shareholders by decoupling substance from symbolism in corporate governance (Fiss & Zajac, 2004; Markoczy, Sun, Peng, Shi, & Ren, 2013; Westphal & Zajac, 1994, 2001, 2001, Zajac & Westphal, 1995, 2004). Specifically, this literature has documented that rather than evaluating corporate governance practices on the basis of their actual implementation and proven effectiveness, shareholders often rely on the “logic of confidence and good faith” (Zajac & Westphal, 2004: 441). As a result, the symbolic management literature has generally portrayed shareholders as gullible victims of cunning managers.

This study presents evidence that not only management, but also shareholders may act symbolically in corporate governance, albeit not in as blatant forms as managers do. In exercising their voting rights, shareholders may do so by decoupling the substance of the

proposal voted on from the meaning they seek to express to management. In addition to opening up a channel to engage with and influence management (see below), this symbolic use of voting rights may also explain the observed anomaly that shareholders seem to dissent less in director elections the more powerful their voting rights become (Choi et al., 2016). Presumably, this is because shareholders are better able to decouple the substance of the proposal voted on from the social meaning to be expressed by the vote, the lower the chance that their voting will have any formal decision consequences (Hamlin & Jennings, 2011).

Shareholder Voting as a Political Process

More broadly, this study also seeks to contribute to the interdisciplinary literature on the corporate governance role of shareholder voting. We have summarized this literature earlier in terms of the Direct (DSD), Representative (RSD), and Corrective Shareholder Democracy (CSD) models, that each envisage a different role for shareholder voting in corporate governance.

The symbolic shareholder democracy (SSD) model developed in this study provides an empirically more veracious understanding of the corporate governance role of shareholder voting than the ones offered by either the DSD or the RSD model. Whereas the empirical evidence to date is inconsistent with the corporate decision making and director election outcomes predicted by the DSD and RSD models, the SSD model developed in this study essentially understands shareholder voting as a political process. In this process shareholders may symbolically use their voting rights to challenge the legitimacy of incumbent management, while management may in turn also symbolically respond to such challenges to appease such legitimacy challenges. Although compared to the DSD and RSD models, the SSD model may paint a somewhat cynical picture of the everyday reality of shareholder voting because of its divergence from the formal

purpose of shareholder voting, one need not be cynical about the potential that this reality has in store for the role of shareholder voting in corporate governance.

First, the SSD model identifies a communication and influence channel functioning in the fair-weather conditions of annually recurrent shareholder meetings through which shareholders can contest the legitimacy mandate of incumbent management by using their voting rights symbolically. That management may also respond symbolically to such legitimacy challenges may not be what shareholders may have hoped or voted for, but it does show that the messages that they send are received and taken seriously by management. As more and more shareholders come to realize the influence that they may have through a symbolic use of voting rights, second, this influence channel might even become more influential in the future. This may be, third, because shareholders may learn to use this influence channel more effectively over time. Shareholders may, for example, start publicly communicating the reasons for dissenting with any given proposal, which would then create explicit expectations towards management on how to respond and which may constrain options for management to react purely symbolically (Ertimur, Ferri, & Oesch, 2015b). Finally, shareholders, may learn to better identify merely symbolic responses from management over time, thereby sharpening the blunt instrument that shareholder voting has been in corporate governance to date.

It is important to note that the SSD model complements the CSD model in a practical sense. Because the SSD model provides an understanding of the everyday reality of shareholder voting under fair-weather conditions in which shareholder voting may play a mostly symbolic role, it would ultimately be consistent with the CSD envisaged role of shareholders making an instrumental use of their voting rights to correct corporate failures under extreme weather conditions that obtain relatively rarely. Moreover, a symbolic use of voting rights in everyday

reality will contribute to developing and sustaining the complex institutional infrastructure that is required for shareholders to use these rights effectively when needed. Without shareholders voting regularly in fair weather conditions, proxy advisors like ISS would be unable to offer their services, while no one would have the incentives to develop or maintain the complex and costly infrastructure through which contemporary shareholder voting takes place.

Avenues for Future Research

The notion that formal shareholder voting rights constitute a channel for symbolic engagement with management may stimulate innovative and exciting future research. One avenue for future research might be to investigate whether a symbolic use of voting rights may enable shareholders to prompt corporate governance reforms that they have no legal right to initiate (Bebchuk, 2005). Being aware that in the US shareholders are usually unable to initiate and directly decide on corporate governance reforms (Bebchuk, 2006), shareholders may start using their voting rights symbolically by voting down proposals submitted by management while publicly communicating the reasons for their dissent in order to indirectly push the envelope on corporate governance reforms that shareholders have no formal right to initiate.

Another avenue for future research may be to explore the use that other stakeholders can make of this communication and influence channel to promote social or political causes (McDonnell, King, & Soule, 2015). That share-owning stakeholders submit social or political proposals to the vote is well documented in the literature, as well as the fact that such proposals are typically rejected by shareholders themselves (Goranova & Ryan, 2014). Shareholding stakeholders may more successfully use their voting rights by voting against management-sponsored proposals, even if only because management may find it more difficult to trace shareholder dissent to either stakeholders or investor interests.

Finally, our study may also have important implications for the strategic management of shareholders (Connelly et al., 2010). Given that with a symbolic use of voting rights there is no unambiguous relationship between the substance of the proposals voted on and the meaning expressed through shareholder dissent, management may need to put in more effort and learn how to interpret and react to dissent, but may be able to develop new repertoires of responses to secure their legitimacy mandate from the firm's shareholder base along the way.

Conclusion

In light of empirical research that has consistently questioned the effectiveness and utility of shareholder voting in corporate governance, this study developed and empirically tested a symbolic understanding of the corporate governance role of shareholder voting. In what we have coined the symbolic shareholder democracy model, shareholders use their formal voting rights symbolically to express their discontent with management, while management may in turn respond symbolically by implementing outside board turnovers that have little, if anything, to do with the proposals voted on. In spite of the symbolic nature of the interaction documented between shareholders and management, this study has identified shareholder voting as a political process through which shareholders may engage with managers and influence firm level outcomes in the fair-weather conditions of everyday business, but that also provides the basic infrastructure required for a corrective role of shareholder voting that may be needed under extreme weather conditions that will occur relatively rarely.

REFERENCES

- Aggarwal, R., Dahiya, S., & Prabhala, N. 2015. *The power of shareholder votes: Evidence from director elections*. Working paper. Washington, D.C.: Georgetown University.
- Armstrong, C. S., Gow, I. D., & Larcker, D. F. 2013. The efficacy of shareholder voting: Evidence from equity compensation plans. *Journal of Accounting Research*, 51(5): 909–950.

- Arthaud-Day, M. L., Certo, S. T., Dalton, C., & Dalton, D. 2006. A changing of the guard: Executive and director turnover following corporate financial restatements. *Academy of Management Journal*, 49(6): 1119–1136.
- Bainbridge, S. M. 2003. Director primacy: The means and ends of corporate governance. *Northwestern University Law Review*, 97(2): 547–606.
- Bainbridge, S. M. 2006. The case for limited shareholder voting rights. *UCLA Law Review*, 53: 601–636.
- Baum, C. F. 2006. *An introduction to modern econometrics using Stata*. College Station, TX: Stata Press.
- Bebchuk, L. A. 2003. The case for shareholder access to the ballot. *Business Lawyer*, 59: 43–66.
- Bebchuk, L. A. 2005. The case for increasing shareholder power. *Harvard Law Review*, 118(3): 833–914.
- Bebchuk, L. A. 2006. Letting shareholders set the rules. *Harvard Law Review*, 119(6): 1784–1813.
- Bebchuk, L. A. 2007. The myth of the shareholder franchise. *Virginia Law Review*, 93(3): 675–732.
- Bebchuk, L. A., & Cohen, A. 2005. The costs of entrenched boards. *Journal of Financial Economics*, 78(2): 409–433.
- Bebchuk, L., Cohen, A., & Ferrell, A. 2009. What matters in corporate governance? *Review of Financial Studies*, 22(2): 783–827.
- Bednar, M. K. 2012. Watchdog or lapdog? A behavioral view of the media as a corporate governance mechanism. *Academy of Management Journal*, 55(1): 131–150.
- Bertrand, M., & Mullainathan, S. 2003. Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy*, 111(5): 1043–1075.
- Bhagat, S., & Bolton, B. 2008. Corporate governance and firm performance. *Journal of Corporate Finance*, 14(3): 257–273.
- Brennan, G., & Buchanan, J. 1984. Voter choice: Evaluating political alternatives. *American Behavioral Scientist*, 28(2): 185–201.
- Brennan, G., & Lomasky, L. 1993. *Democracy and decision: The pure theory of electoral preference*. Cambridge: Cambridge University Press.
- Bromley, P., & Powell, W. W. 2012. From smoke and mirrors to walking the talk: Decoupling in the contemporary world. *Academy of Management Annals*, 6(1): 483–530.
- Budge, I. 2006. Direct democracy. In R. A. W. Rhodes, S. A. Binder, & B. A. Rockman (Eds.), *The Oxford Handbook of Political Institutions*: 595–610. New York: Oxford University Press.

- Bushee, B. J. 1998. The influence of institutional investors on myopic R&D investment behavior. *Accounting Review*, 73(3): 305–333.
- Cai, J., Garner, J. L., & Walkling, R. A. 2009. Electing directors. *Journal of Finance*, 64(5): 2389–2421.
- Cai, J., Garner, J. L., & Walkling, R. A. 2013. A paper tiger? An empirical analysis of majority voting. *Journal of Corporate Finance*, 21: 119–135.
- Campbell, J. T., Campbell, T. C., Sirmon, D. G., Bierman, L., & Tuggle, C. S. 2012. Shareholder influence over director nomination via proxy access: Implications for agency conflict and stakeholder value. *Strategic Management Journal*, 33(12): 1431–1451.
- Choi, S. J., Fisch, J. E., Kahan, M., & Rock, E. B. 2016. Does majority voting improve board accountability? *University of Chicago Law Review*, 83: 1119–1180.
- Coles, J. L., Daniel, N. D., & Naveen, L. 2008. Boards: Does one size fit all? *Journal of Financial Economics*, 87(2): 329–356.
- Connelly, B. L., Tihanyi, L., Certo, S. T., & Hitt, M. A. 2010. Marching to the beat of different drummers: The influence of institutional owners on competitive actions. *Academy of Management Journal*, 53(4): 723–742.
- Canyon, M. J. 2016. *Shareholder dissent on say-on-pay and CEO compensation*. Working paper. Philadelphia, PA: Wharton School.
- Canyon, M., & Sadler, G. 2010. Shareholder voting and directors' remuneration report legislation: Say on pay in the UK. *Corporate Governance: An International Review*, 18(4): 296–312.
- Core, J. E., Guay, W. R., & Rusticus, T. O. 2006. Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. *Journal of Finance*, 61(2): 655–687.
- Cowen, A. P., & Marcel, J. J. 2011. Damaged goods: Board decisions to dismiss reputationally compromised directors. *Academy of Management Journal*, 54(3): 509–527.
- Cunat, V., Gine, M., & Guadalupe, M. 2016. Say pays! Shareholder voice and firm performance. *Review of Finance*, 20(5): 1799–1834.
- Cziraki, P., Renneboog, L., & Szilagyi, P. G. 2010. Shareholder activism through proxy proposals: The European perspective. *European Financial Management*, 16(5): 738–777.
- Dalton, D. R., Hitt, M. A., Certo, S. T., & Dalton, C. M. 2007. The fundamental agency problem and its mitigation. *Academy of Management Annals*, 1(1): 1–64.
- Das, A., & Holm, E. 2014, May 3. Warren Buffett defends Coca-Cola abstention at Berkshire Meeting. *Wall Street Journal*.
- Davis, G. F. 2005. New directions in corporate governance. *Annual Review of Sociology*, 31: 143–162.

- Davis, G. F., & Thompson, T. A. 1994. A social movement perspective on corporate control. *Administrative Science Quarterly*, 39(1): 141–173.
- Denes, M. R., Karpoff, J. M., & McWilliams, V. B. 2016. Thirty years of shareholder activism: A survey of empirical research. *Journal of Corporate Finance*, (in press).
- Easterbrook, F., & Fischel, D. R. 1991. *The economic structure of corporate law*. Cambridge: Harvard University Press.
- Ertimur, Y., Ferri, F., & Oesch, D. 2015a. Does the director election system matter? Evidence from majority voting. *Review of Accounting Studies*, 20(1): 1–41.
- Ertimur, Y., Ferri, F., & Oesch, D. 2015b. *Understanding uncontested director elections*. Working paper. Boulder, CO: University of Colorado at Boulder.
- European Commission. 2006. *Annex to the proposal for a directive of the European Parliament and of the council on the exercise of voting rights by shareholders of companies having their registered office in a member state and whose shares are admitted to trading on a regulated market and amending directive 2004/109/EC impact assessment*. Report. Brussels: European Union.
- Fairfax, L. M. 2008. Making the corporation safe for shareholder democracy. *Ohio State Law Journal*, 69: 53–107.
- Fehr, E., Herz, H., & Wilkening, T. 2013. The lure of authority: Motivation and incentive effects of power. *American Economic Review*, 103(4): 1325–1359.
- Ferri, F., & Maber, D. A. 2013. Say on pay votes and CEO compensation: Evidence from the UK. *Review of Finance*, 17(2): 527–563.
- Fich, E. M., & Shivdasani, A. 2007. Financial fraud, director reputation, and shareholder wealth. *Journal of Financial Economics*, 86(2): 306–336.
- Fischer, P. E., Gramlich, J. D., Miller, B. P., & White, H. D. 2009. Investor perceptions of board performance: Evidence from uncontested director elections. *Journal of Accounting and Economics*, 48(2–3): 172–189.
- Fisman, R. J., Khurana, R., Rhodes-Kropf, M., & Yim, S. 2013. Governance and CEO turnover: Do something or do the right thing? *Management Science*, 60(2): 319–337.
- Fiss, P. C., & Zajac, E. J. 2004. The diffusion of ideas over contested terrain: The (non)adoption of a shareholder value orientation among German firms. *Administrative Science Quarterly*, 49(4): 501–534.
- Gibbons, R., & Murphy, K. J. 1992. Optimal incentive contracts in the presence of career concerns: Theory and evidence. *Journal of Political Economy*, 100(3): 468–505.
- Gompers, P., Ishii, J., & Metrick, A. 2003. Corporate governance and equity prices. *Quarterly Journal of Economics*, 118(1): 107–155.
- Goranova, M., & Ryan, L. V. 2014. Shareholder activism: A multidisciplinary review. *Journal of Management*, 40(5): 1230–1268.

- Grundfest, J. A. 1993. Just vote no: A minimalist strategy for dealing with barbarians inside the gates. *Stanford Law Review*, 45(4): 857–937.
- Hamlin, A., & Jennings, C. 2011. Expressive political behaviour: Foundations, scope and implications. *British Journal of Political Science*, 41(3): 645–670.
- Harris, I. C., & Shimizu, K. 2004. Too busy to serve? An examination of the influence of overboarded directors. *Journal of Management Studies*, 41(5): 775–798.
- Hill, C. W. L., & Phan, P. 1991. CEO tenure as a determinant of CEO pay. *Academy of Management Journal*, 34(3): 707–717.
- Hillman, A. J., Shropshire, C., Certo, S. T., Dalton, D. R., & Dalton, C. M. 2011. What I like about you: A multilevel study of shareholder discontent with director monitoring. *Organization Science*, 22(3): 675–687.
- Iliev, P., & Vitanova, S. 2014. *The effect of the say-on-pay vote in the U.S.*. Working paper. University Park, PA: Pennsylvania State University.
- Jensen, M. C. 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, 12(2): 235–256.
- Jensen, M. C., & Ruback, R. S. 1983. The market for corporate control: The scientific evidence. *Journal of Financial Economics*, 11(1–4): 5–50.
- Kahan, M., & Rock, E. B. 2008. The hanging chads of corporate voting. *Georgetown Law Journal*, 96(4): 1227–1281.
- Kang, E., & Kroll, M. 2014. Deciding who will rule: Examining the influence of outside noncore directors on executive entrenchment. *Organization Science*, 25(6): 1662–1683.
- Kang, M. S. 2013. Shareholder voting as veto. *Indiana Law Journal*, 88: 1299–1593.
- Kraakman, R. H., Davies, P., Hansmann, H., Hertig, G., Hopt, K., Kanda, H., et al. (Eds.). 2004. *The anatomy of corporate law: A comparative and functional approach*. New York: Oxford University Press.
- Krause, R., Whitley, K., & Semadeni, M. 2014. Power to the principals! An experimental look at shareholder say-on-pay voting. *Academy of Management Journal*, 57(1): 94–115.
- Larcker, D. F., McCall, A. L., & Ormazabal, G. 2015. Outsourcing shareholder voting to proxy advisory firms. *Journal of Law & Economics*, 58(1): 173–204.
- Lipton, M., & Rosenblum, S. A. 2003. Election contests in the company’s proxy: An idea whose time has not come. *Business Lawyer*, 59(1): 67–94.
- Malenko, N., & Shen, Y. 2016. The role of proxy advisory firms: Evidence from a regression-discontinuity design. *Review of Financial Studies*, 29(12): 3394–3427.
- Marcel, J. J., & Cowen, A. P. 2014. Cleaning house or jumping ship? Understanding board upheaval following financial fraud. *Strategic Management Journal*, 35(6): 926–937.

- Marcel, J. J., Cowen, A. P., & Ballinger, G. A. 2014. Are disruptive CEO successions viewed as a governance lapse? Evidence from board turnover. *Journal of Management*, (in press).
- Markoczy, L., Sun, S. L., Peng, M. W., Shi, W. S., & Ren, B. 2013. Social network contingency, symbolic management, and boundary stretching. *Strategic Management Journal*, 34(11): 1367–1387.
- Masulis, R. W., Wang, C., & Xie, F. 2007. Corporate governance and acquirer returns. *Journal of Finance*, 62(4): 1851–1889.
- Matta, E., & Beamish, P. W. 2008. The accentuated CEO career horizon problem: Evidence from international acquisitions. *Strategic Management Journal*, 29(7): 683–700.
- McDonnell, M.-H., King, B., & Soule, S. 2015. A dynamic process model of private politics: Activist targeting and corporate receptivity to social challenges. *American Sociological Review*, 80(3): 654–678.
- Meyer, J. W., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2): 340–363.
- Miller, D. 1991. Stale in the saddle: CEO tenure and the match between organization and environment. *Management Science*, 37(1): 34–52.
- Sauerwald, S., van Oosterhout, J. (Hans), & van Essen, M. 2016. Expressive shareholder democracy: A multilevel study of shareholder dissent in 15 Western European countries. *Journal of Management Studies*, 53(4): 520–551.
- Sauerwald, S., van Oosterhout, J. (Hans), van Essen, M., & Peng, M. W. 2016. Proxy advisors and shareholder dissent: A cross-country comparative study. *Journal of Management*, (in press).
- Semadeni, M., Withers, M. C., & Certo, S. T. 2014. The perils of endogeneity and instrumental variables in strategy research: Understanding through simulations. *Strategic Management Journal*, 35(7): 1070–1079.
- Shivdasani, A., & Yermack, D. 1999. CEO involvement in the selection of new board members: An empirical analysis. *Journal of Finance*, 54(5): 1829–1853.
- Shleifer, A., & Vishny, R. W. 1997. A survey of corporate governance. *Journal of Finance*, 52(2): 737–784.
- Srinivasan, S. 2005. Consequences of financial reporting failure for outside directors: Evidence from accounting restatements and audit committee members. *Journal of Accounting Research*, 43(2): 291–334.
- Stock, J. H., & Yogo, M. 2005. Testing for weak instruments in linear IV regression. In D. W. K. Andrews & J. H. Stock (Eds.), *Identification and Inference for Econometric Models: Essays in Honor of Thomas Rothenberg*: 80–107. New York: Cambridge University Press.
- Thompson, R. B., & Edelman, P. H. 2009. Corporate voting. *Vanderbilt Law Review*, 62: 129–175.

- Tihanyi, L., Johnson, R. A., Hoskisson, R. E., & Hitt, M. A. 2003. Institutional ownership differences and international diversification: The effects of boards of directors and technological opportunity. *Academy of Management Journal*, 46(2): 195–211.
- Vafeas, N. 2003. Length of board tenure and outside director independence. *Journal of Business Finance & Accounting*, 30(7–8): 1043–1064.
- Westphal, J. D. 1998. Board games: How CEOs adapt to increases in structural board independence from management. *Administrative Science Quarterly*, 43(3): 511–537.
- Westphal, J. D., & Bednar, M. K. 2008. The pacification of institutional investors. *Administrative Science Quarterly*, 53(1): 29–72.
- Westphal, J. D., & Graebner, M. E. 2010. A matter of appearances: How corporate leaders manage the impressions of financial analysts about the conduct of their boards. *Academy of Management Journal*, 53(1): 15–44.
- Westphal, J. D., & Zajac, E. J. 1994. Substance and symbolism in CEOs' long-term incentive plans. *Administrative Science Quarterly*, 39(3): 367–390.
- Westphal, J. D., & Zajac, E. J. 1998. The symbolic management of stockholders: Corporate governance reforms and shareholder reactions. *Administrative Science Quarterly*, 43(1): 127–153.
- Westphal, J. D., & Zajac, E. J. 2001. Decoupling policy from practice: The case of stock repurchase programs. *Administrative Science Quarterly*, 46(2): 202–228.
- Westphal, J. D., & Zajac, E. J. 2013. A behavioral theory of corporate governance: Explicating the mechanisms of socially situated and socially constituted agency. *Academy of Management Annals*, 7(1): 607–661.
- Yermack, D. 2010. Shareholder voting and corporate governance. *Annual Review of Financial Economics*, 2(1): 103–125.
- Zajac, E. J., & Westphal, J. D. 1995. Accounting for the explanations of CEO compensation: Substance and symbolism. *Administrative Science Quarterly*, 40(2): 283–308.
- Zajac, E. J., & Westphal, J. D. 2004. The social construction of market value: Institutionalization and learning perspectives on stock market reactions. *American Sociological Review*, 69(3): 433–457.

TABLE 1: Descriptive Statistics

# Variable name	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1 Outside board turnover	9.28	10.291.00																					
2 SoP dissent	10.10	12.920.09*	1.00																				
3 Annual SoP vote	0.91	0.280.04	0.18*	1.00																			
4 Board size	9.41	2.240.31*	-0.01	0.06	1.00																		
5 Board age	63.74	3.98-0.03	0.03	-0.03	0.05	1.00																	
6 Board tenure	6.68	2.55-0.04	-0.01	0.09*	0.09*	0.41*	1.00																
7 CEO duality	0.49	0.500.01	0.06	-0.02	0.04	0.02	0.07*	1.00															
8 Outside director ownership	0.92	4.530.03	-0.05	-0.09*	0.01	-0.05	0.03	-0.07*	1.00														
9 CEO ownership	1.62	4.63-0.04	-0.07*	-0.25*	-0.18*	-0.01	-0.03	0.20*	0.03	1.00													
10Board independence	0.79	0.110.09*	0.07*	0.23*	0.17*	-0.09*	0.24*	0.13*	0.01	-0.24*	1.00												
11Busy board	0.01	0.10-0.06	-0.01	-0.02	-0.04	0.02	-0.05	0.01	-0.02	-0.01	-0.07*	1.00											
12Board attendance problems	0.01	0.030.01	0.02	-0.02	0.02	-0.02	-0.04	-0.02	0.08*	0.01	-0.07*	0.00	1.00										
13Firm size	8.20	1.670.14*	0.08*	0.17*	0.59*	0.08*	0.07	0.13*	-0.07*	-0.23*	0.26*	-0.02	-0.03	1.00									
14Non-dedicated inst. ownership	47.86	16.16-0.06	0.03	-0.01	-0.32*	-0.08*	-0.06	-0.05	0.03	0.01	-0.10*	0.05	0.02	-0.47*	1.00								
15Dedicated inst. ownership	8.86	13.48-0.06	0.01	0.01	-0.03	0.03	0.04	0.00	0.08*	-0.05	0.01	0.02	0.02	0.02	-0.18*	1.00							
16Election dissent	5.38	7.04-0.01	0.24*	-0.04	-0.12	0.10*	0.03	0.02	0.01	0.03	-0.18*	0.09*	0.14*	-0.10*	0.03	0.03	1.00						
17Tobin's q	1.47	1.17-0.11*	-0.13*	-0.09*	-0.23*	-0.12*	-0.04	-0.04	-0.01	0.08*	-0.10*	0.01	0.02	-0.34*	0.03	0.07*	-0.01	1.00					
18E-index	3.54	1.010.03	0.04	0.06	0.03	0.05	0.13*	0.00	0.00	-0.12*	0.10*	0.00	-0.02	-0.11*	0.08*	-0.08*	0.08*	-0.08*	1.00				
19CEO tenure	8.03	7.19-0.10*	0.01	-0.09*	-0.12*	0.12*	0.18*	0.36*	-0.05	0.41*	-0.18*	0.02	0.03	-0.14*	0.04	0.01	0.08*	0.06	-0.02	1.00			
20CEO compensation	6.28	6.480.06	0.20*	0.10*	0.28*	0.01	-0.02	0.14*	-0.06	-0.11*	0.16*	0.02	-0.01	0.52*	-0.25*	0.03	-0.03	0.04	-0.10*	-0.03	1.00		
21ISS SoP negative recomm.	0.10	0.300.06	0.78*	0.07*	-0.02	0.02	-0.02	0.03	-0.01	0.01	-0.01	0.00	0.03	0.04	0.02	0.04	0.15*	-0.06	0.00	0.05	0.12	1.00	

Notes: N = 3,291. * $p < 0.05$

TABLE 2: First Stage Regression (DV: SoP Dissent)

Variables	Model 1	Model 2
Annual SoP vote	5.15*** (0.71)	2.96*** (0.42)
Board size	-0.32** (0.11)	-0.20** (0.07)
Board age	0.09* (0.04)	0.04+ (0.02)
Board tenure	-0.37*** (0.09)	-0.06 (0.05)
CEO duality	1.44*** (0.44)	0.78** (0.26)
Outside director ownership	0.02 (0.05)	-0.09** (0.03)
CEO ownership	-0.12* (0.05)	-0.09** (0.03)
Board independence	-0.63 (2.20)	1.76 (1.30)
Busy board	-2.80 (2.17)	-0.46 (1.29)
Board attendance problems	-2.41 (6.51)	-7.08+ (3.86)
Firm size	0.70*** (0.18)	-0.53*** (0.12)
Non-dedicated institutional ownership	0.04* (0.02)	0.02* (0.01)
Dedicated institutional ownership	0.06** (0.02)	0.01 (0.01)
Election dissent	0.15*** (0.03)	0.08*** (0.02)
CEO tenure	0.10** (0.03)	-0.01 (0.02)
Hypotheses and Instrument Testing		
Tobin's q (Hypothesis 1, -)	-0.94*** (0.19)	-0.87*** (0.12)
E-index (Hypothesis 2, +)	0.43* (0.21)	0.40** (0.12)
CEO compensation (Instrument 1)		0.35*** (0.02)
ISS SoP negative recommendation (Instrument 2)		32.49*** (0.39)
Constant	-7.14 (7.47)	2.96 (4.45)
Adjusted R ²	0.07	0.67
Observations	3,291	3,291

Notes: Year effects included, but not reported. Standard errors in parentheses.

+ p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

TABLE 3: Second Stage Regression (DV: Outside Board Turnover)

Variables	Model 1	Model 2	Model 3
Annual SoP vote	0.08 (0.08)	0.02 (0.09)	0.00 (0.08)
Board size	0.20*** (0.01)	0.21*** (0.01)	0.21*** (0.01)
Board age	0.01+ (0.01)	0.01+ (0.01)	0.01 (0.01)
Board tenure	-0.05*** (0.01)	-0.04*** (0.01)	-0.04*** (0.01)
CEO duality	0.05 (0.05)	0.04 (0.05)	0.05 (0.05)
Outside director ownership	0.01+ (0.01)	0.01+ (0.01)	0.01+ (0.01)
CEO ownership	0.02** (0.01)	0.02** (0.01)	0.02*** (0.01)
Board independence	2.71*** (0.25)	2.63*** (0.25)	2.46*** (0.25)
Busy board	-0.53* (0.24)	-0.49* (0.24)	-0.46* (0.24)
Board attendance problems	-0.09 (0.75)	-0.08 (0.74)	-0.47 (0.74)
Firm size	-0.08*** (0.02)	-0.08*** (0.02)	-0.08*** (0.02)
Non-dedicated institutional ownership	0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)
Dedicated institutional ownership	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Election dissent	0.01** (0.00)	0.01+ (0.00)	0.01 (0.00)
Tobin's q	-0.05* (0.02)	-0.04* (0.02)	-0.05* (0.02)
E-index	-0.03 (0.02)	-0.03 (0.02)	-0.04 (0.02)
CEO tenure	-0.01* (0.00)	-0.01* (0.00)	-0.04*** (0.00)
Hypotheses Testing			
SoP dissent (Hypothesis 3, +)		0.01*** (0.00)	-0.02*** (0.00)
SoP dissent X CEO tenure (Hypothesis 4, +)			0.00*** (0.00)
Constant	-2.47*** (0.52)	-2.35*** (0.52)	-1.87*** (0.52)
Adjusted R ²	0.14	0.15	0.17
Observations	3,291	3,291	3,291

Notes: Year effects included, but not reported. Standard errors in parentheses.

+ p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

FIGURE 1: Interaction Between SoP Dissent and CEO Tenure

