

Busy Season and Proxy Recommendations

Paul Calluzzo and Simi Kedia¹

October 2020

Preliminary. Please do not cite without Permission

Abstract

The short period of time, from the fourth week of April to the end of May, referred to as the proxy season has about 331 proposals voted a day relative to 27 proposals voted per day outside the proxy season. The compressed workload results in 17.6% fewer negative recommendations from ISS during this busy period. The proxy season also entails busy voting schedules for institutional investors who respond by increasing their reliance on ISS recommendations. Aggregate support for proposals with a negative recommendation from ISS is 10% lower during the busy period. Stock price reaction to vote outcomes in close elections show that successful negative recommendations during the busy period, that is when negative proposals fail, are associated with a reduction in firm value. In sum, ISS recommendations during busy voting periods are less likely to be negative, have greater influence on voting, and are associated with lower firm value. The results inform the policy debate on the role and influence of proxy advisors.

¹ Paul Calluzzo is Associate Professor and Toller Family Fellow of Finance at Queens University and can be reached at paul.calluzzo@queensu.ca. Simi Kedia is the Gamper Chair in Finance at Rutgers University and can be reached at skedia@business.rutgers.edu. We thank Nagpuranand Prabhala and Yushan Tang for helpful comments. We acknowledge support from the Whitcomb Center. All errors and omissions are ours.

1. Introduction

ISS is one of the leading proxy advisory firms that provide institutional investors with guidance on their voting decisions. ISS recommendations have a significant impact on voting patterns with a negative ISS recommendation significantly reducing the aggregate support for management.² The substantial influence of proxy advisors has sparked a discussion on whether their recommendations are informative and increase shareholder value.³

ISS uses inputs from institutional clients, firms and governance experts to develop its voting guidelines. These policy-driven guidelines are published at the beginning of the year and form the basis of its recommendations on specific proposals voted throughout the year. Along with these voting guidelines, ISS also considers company size, financial performance and industry practices to make its final voting recommendations.⁴ Complicating the process of making voting recommendations on individual proposals is the fact that the annual meetings of firms are compressed in a short period of time. About 52% of all shareholder meetings happen in the proxy season, a short period from the fourth week of April till the end of May. Hayne and Vance (2019) report that “most research analysts [at proxy advisory firms] would work 12 to 16 hours every day including weekends” during the busy season. Concerns about the value of ISS recommendations are likely to be further heightened during the busy period when ISS analysts are under intense pressure. In this paper, we examine if this requirement for a large number of

² See Bethel and Gillan (2002), Choi, Fisch and Kahan (2009), Alexander, Chen, Seppi and Spatt (2010), and Malenko and Shen (2016) show lower support when the recommendation is negative. Cai, Garner, and Walkling (2009), Aggrawal, Dahiya, and Prabhala (2017) and Fos, Li, and Tsoutsoura (2017) document the effect of low support on management.

³ Ertimur, Ferri and Oesch (2013) do not find evidence that ISS follows “one size fit all” policies in a sample of say on pay proposals. However, Iliev and Lowry (2015) show that ISS recommendations are not always in the interest of shareholders. See also Larker, McCall, and Ormazabal (2015). Gallagher (2013) points that ISS is subject to conflicts of interests as it may provide consulting services to firms whose proposals it is evaluating.

⁴ For details see Nov 7, 2018 response of ISS to SEC and available at <https://www.sec.gov/comments/4-725/4725-4629940-176410.pdf>

vote recommendations in a short period of time impacts the nature of ISS recommendations. Examining the effect of time constraints on ISS recommendations not only sheds light on the pressures that impact the recommendations on the majority of the proposals voted but also increases understanding of how and what ISS prioritizes in its recommendations.

Compression of workload or busyness has been shown to negatively impact outcomes. Albuquerque, Carter and Gallani (2019) examine negative assessments by ISS of firm's compensation packages and document that they are associated with lower firm performance, except for firms with December fiscal year ends that have their annual meetings scheduled in the proxy season. Albuquerque, Carter and Gallani (2019) argue that the workload during the proxy season makes ISS assessments on compensation proposals uninformative. Gunny and Hermis (2020) examine how the concentration of firm fiscal year ends in December results in a busy period for SEC reviews and SEC's issuance of comment letters. Gunny and Hermis (2020) find that the SEC is less likely to issue a comment letter for December fiscal year end firms, however, the comment letters that are issued "focus on more serious issues of noncompliance." In contrast, Ege, Glenn and Robinson (2020) document that unexpected resource constraints reduce the quality of SEC comment letters.

Hayne and Vance (2019) report that analysts working at proxy advisory firms spend most of their time on proposals that have medium to high concerns and are likely to elicit a negative recommendation. As negative recommendations from ISS reduce support for proposals, firms are likely to question negative recommendations and engage with ISS on these issues. The SEC has also expressed concerns regarding the proxy advisory process and whether firms have a voice in the voting recommendations, putting pressure on proxy advisors to provide access to

firms.⁵ Negative recommendations also receive more attention from institutional investors who may more carefully review their own voting decisions, along with being approached by firms soliciting their support for management proposals given the conflict with ISS (Babenko, Choi and Sen (2019)). As negative recommendations get attention from both firms and institutional investors, it is highly likely that proposals that receive a negative recommendation from an ISS analyst will be scrutinized by senior members on the ISS research team before they are distributed to investors. This suggests that issuing a negative recommendation entails substantially more effort from ISS. Facing time constraints during the proxy season, ISS would be less likely to issue negative recommendations.

A similar implication also arises in a framework of “Decision Fatigue” that captures a decline in decision quality after an extensive session of decision making. Hirshleifer, Levi, Lourie and Teoh (2019) document that analyst forecast accuracy declines over the course of the day as analyst move from rigorous reasoning to heuristic and easy cognitive processes. During busy season, ISS analysts facing greater pressure and fatigue are less likely to issue negative recommendation that require effort and reasoning to convince shareholders.⁶

We examine Risk Metrics voting data for management proposals over the period 2004 to 2018. As firms have a choice in scheduling their annual meetings we identify and restrict the sample to firms that do not move the timing of their annual meetings from year to year. The majority of the firm-years are classified as not moving and we analyze the firms that move their annual meeting later in the paper. The heaviest concentration of proposals voted is from the

⁵ An ISS senate hearing, details available at <https://corpgov.law.harvard.edu/2018/07/12/iss-senate-hearing-statement/>, revealed a concern for whether firms have the ability to engage with ISS in the event of disagreements. The new SEC guidance on proxy advisory firms issued in August 2019 allow for “greater opportunity for issuers to dispute voting recommendations that can be challenged as factually or analytically flawed” see <https://corpgov.law.harvard.edu/2019/11/23/the-secs-evolving-views-regarding-proxy-advisors/>.

⁶ See also Baumeister et. al (1998) for the psychological underpinning of Decision Fatigue and Danziger et. al. (2011) for further empirical evidence of decision fatigue.

fourth week of April to the end of May, a period we refer to as the proxy season. There are on average 331 proposals voted a day during the proxy season, about 6.5 times greater than the 27 proposals voted a day outside the proxy season. The concentration of meetings varies within the proxy season and meetings continue at somewhat elevated levels in early June as well. To capture the varying concentration of meetings we also create a continuous measure of ISS workload, referred to as *Vote Count*, that is the count of the number of proposals to be voted during the seven day period encompassing the day of the meeting and the subsequent six days.

ISS on average issues a negative recommendation for about 10.1% of the proposals during the proxy season. In contrast, about 13.2% of ISS recommendations are negative outside the proxy season. This lower likelihood of issuing a negative recommendation is robust to the inclusion of granular fixed effects. Specifically, we include year-industry-proposal type fixed effects that control for voting guidelines for certain type of proposals in industries in a year with qualitatively similar results. Based on estimated coefficients, we find that proposals during the proxy season are 17.6% less likely to get a negative recommendation from ISS.

Though there may be fewer negative recommendations overall, it is not clear how ISS prioritizes its work and distributes its resources when it is constrained. We examine several firm, proposal type, meeting and ownership characteristics to understand the dynamics of ISS recommendations when the voting schedule get busy.

We find that negative recommendations are concentrated among fewer firms during the proxy season relative to outside the proxy season. Firms with negative recommendations and low shareholder support in the past are more likely to get negative recommendations and this proclivity increases during busy times. There is also evidence that proposal types that garner lower shareholder support in the past are more likely to get negative recommendations during

busy periods. The higher likelihood that negative recommendations during busy periods reflect prior low support is consistent with proxy advisors focusing on cases that involve lower effort. The results also suggest that proxy advisors consider the views of institutional and other investors that is reflected in the low prior shareholder support. If negative recommendations from ISS during busy periods reflect the dissatisfaction of shareholders, the proposals are less likely to be scrutinized and questioned by institutional investors, easing the pressure on ISS.

We also find that meetings where shareholder proposals are being voted are less likely to have a negative recommendation during busy times. Iliev, Kalomodis, Lowry (2019) document that meetings with shareholder proposals on the agenda are associated with higher institutional search. Greater ownership by institutions that vote independently, is also associated with a lower likelihood of getting a negative recommendation during busy periods. These results point to proxy advisors trying to reduce scrutiny and questioning from independent institutions during busy periods. Spatt (2020) compares proxy advisory firms to credit rating agencies and auditing firms, two other informational intermediaries that are also “involved in multiple relationship with underlying firms that can create conflicts”. Both credit rating agencies and auditing firms emphasize the importance of “reputation”.⁷ The above results, that a time constrained ISS is relatively more likely to issue negative recommendations where the effort required and outside scrutiny are low, are consistent with ISS acting to preserve and minimize the potential damage to its reputation.

Along with the presence of independent voters, a higher number of institutional investors is also associated with fewer negative recommendations from ISS during busy periods. As the busy proxy season is also associated with heavy voting schedules for institutional investors,

⁷ See Bolton, Freixas and Shapiro (2012), Mathis, McAndrews and Rochet (2009) and Becker and Milbourn (2009) among others.

evidence of fewer negative recommendations when the number of institutional owners is large is consistent with ISS considering the convenience of its institutional clients. Spatt (2020) points out that “proxy advisory firms are oriented to maximize their value rather than the shareholder value of the companies for which they make recommendations”. That recommendations from proxy advisory firms are likely to be driven by their profit motive has also been modeled by Malenko and Malenko (2019), Levit and Tsoy (2019), and Ma and Xiong (2020). Ma and Xiong (2020) argue that the profits of proxy advisory firms are determined by the value of their recommendations to its clients. In line with that, we find that negative recommendations from ISS during busy periods reflect the views and workload of their institutional clients.⁸

As discussed above, the proxy season is not just characterized by heavy workload for ISS analysts, but also entails heavy voting schedules for institutions. As institutions are required to vote on thousands of proposals in a short period of time, they are also likely to be time constrained and engage in less independent research during the proxy season (Iliev, Kalomodis and Lowry (2019)). We next examine if the busy voting schedule impacts institutions voting patterns.

Institutions differ in their reliance on ISS, with some mostly voting with ISS and others with management. Institutions that rely mostly on ISS, may increase this reliance when they are busy, and similarly, institutions that vote with management may be more inclined to favor management when they are busy. We create a variable, *ISS Voter*, that takes the value of one if the institution has mostly voted with ISS in negative recommendation in the past three years. We find that when the voting schedule is busy, *ISS Voters* are more likely to rely on ISS recommendations. We also find that the “Big 5” institutions (i.e. Vanguard, Fidelity, State Street,

⁸ As an input to its annual voting guidelines, ISS conducts an annual Global Benchmark Policy survey that is open to and primarily reflects the views of institutional investors and corporate executives.

Blackrock and T. Rowe Price), that are likely to be independent voters, are less likely to vote with ISS in conflict situations and this tendency of being pro management gets amplified during busy times. In short, when institutions are time-constrained they tend to move towards their dominant strategy and the institutions proclivity to vote with ISS or with management gets amplified during the busy season. For the overall sample of mutual funds, we find that as the voting schedules get tight, institutions are more likely to vote against management (and with ISS) in conflict situations.

The lower support of mutual funds for management in busy times when ISS recommendations are negative is reflected in the aggregate support for the proposals. Aggregate support takes into account not only mutual funds voting decisions but also those of other institutions and retail shareholders. In a model with year-industry-proposal type fixed effects, we find that during busy times aggregate support for management increases if ISS recommendations are positive and decrease if ISS recommendations are negative. In short, the influence of ISS, as reflected in overall support, gets amplified as voting schedules gets busy. The estimated coefficient suggests that support for management in conflict situations is about 10% lower in the proxy season relative to outside the proxy season.⁹ In summary, ISS is less likely to issue negative recommendations during the proxy season but these recommendations have more sway and are associated with lower aggregate support for the proposal.

Next, we examine whether ISS recommendations during busy periods, relative to those outside the proxy season, are associated with an increase in firm value. A time constrained ISS may issue fewer negative recommendations but focus its efforts on the more substantive issues (Gunny and Hermis (2020)). In this case, the negative recommendations from ISS in busy

⁹ The difference in the coefficient of Conflict is 0.013 which is about 10% of the non proxy season coefficient of -0.134.

periods, when successful, should be associated with an increase in firm value. Alternatively, negative recommendations in busy periods could reflect the attempts of a constrained proxy advisor to preserve its reputation and cater to its institutional clients. In this case, ISS recommendations that are successful in busy periods should be associated with no, or a negative, impact on firm value.

To study the value impact of ISS recommendations, we examine three day returns to vote outcomes in close elections. The variable, *WithISS*, takes the value of one if the vote outcome is in line with ISS recommendations, that is when ISS recommendations are successful. For proposals voted outside the Proxy Season, vote outcomes in line with ISS recommendations are associated with an increase in firm value. However, for proposals voted during the Proxy Season successful ISS recommendations are associated with negative firm value. The negative impact on firm value during the Proxy Season is primarily seen when negative ISS recommendations are successful, that is when the proposal in question fails.

Overall, the results show a substantial impact of time compression on ISS recommendations and institutional voting patterns. The higher workload during the proxy season results in fewer negative recommendations, that are more effective and result in lower support for management. However, when negative recommendations in busy periods succeed, there is a significant reduction in firm value.

Lastly, we examine firms that move their annual meetings into or out of the proxy season. This is not a large sample as most firms tend to schedule their annual meetings around the same calendar time. The results suggest the importance of industry concentration and firm size, with larger firms that have more of their industry in the proxy season choosing to move into the proxy

season. There is some evidence that firms that have a higher proportion of negative recommendations from ISS and lower support move out of the proxy season.

Our paper contributes to the public policy debate on the role and influence of ISS by examining its behavior when it faces resource constraints relative to when it does not, to shed light on the firm, proposal and institutional characteristics that are important for its recommendations. Further, a comparison of its recommendations during busy and not busy times sheds light on the priorities of ISS. Further, our results highlight that informed mutual funds can mitigate the influence of ISS during busy times but face their own time constraints. The results also underscore the potential limitation of regulatory oversight on proxy advisors. If concerns about uninformative recommendations are primarily seen in the proxy season, the schedule of annual meetings limits the efficacy of regulatory or other solutions.

The rest of the paper is organized as follows. Section 2 discusses data, Section 3 examines ISS recommendations, Section 4 studies institutional voting, Section 5 examines the market reaction to ISS recommendations, Section 6 examines firms that move their annual meeting in or out of the proxy season and finally Section 7 concludes.

2. Data

We use the Risk Metrics' ISS Voting Analytics database to access mutual fund proxy voting records over the period 2004 to 2018. For every vote cast, the database includes variables that describe the item being voted on, the time of the meeting, the voting recommendation of the firm's management and that of ISS.

Firms have some discretion in the scheduling of their annual meetings, whether they take place in the busy proxy season or outside it.¹⁰ Several firm characteristics, including voting patterns, might influence the firm's decision on when to hold its annual meeting. To reduce the likelihood that firms strategically moving in and out of the proxy season account for the results, we identify and restrict the sample to firms that do not move their annual meetings. A firm is considered to not have moved its meeting date if the firm did not change the date of its annual meeting by more than 30 days in the past three years.¹¹ The remaining firms, referred to as movers, are examined later in the paper.

Table 1A provides summary statistics on the firms that move and those that do not move their annual meetings, and if the annual meeting is in the proxy season or outside it. The proxy season spans from the fourth week of April until the end of May. The largest group is firms with meetings held in the proxy season and that stay in the proxy season. These firms are the largest in size, have the highest institutional ownership and account for 52% of meetings in the sample. Firms that are outside the proxy season and do not move their meetings are the next biggest group accounting for 42% of the meetings. They are smaller in size, and with somewhat lower institutional ownership. The remaining sample, about 6% of meetings are by firms that move and tend to have lower profitability and lower institutional ownership. As there are difference in firm characteristics and firms have some discretion in scheduling their annual meeting date, we examine firms that are classified as not moving their annual meeting, and later in the paper study firms that

¹⁰ State and stock exchange law requires firms to hold a shareholder meeting every year. Firms tend to hold meeting in the months after fiscal year end. The tight schedule of annual meetings during the proxy season reflects the dominance of December as fiscal year end.

¹¹ SEC rules on the timing of shareholder proposals also use a 30 day window to characterize if the annual meeting date has moved or not. For details refer to <https://www.sec.gov/divisions/corpfin/rule-14a-8.pdf>. We also require that there was at least one meeting in the past three years or the subsequent year in our dataset. If there are no prior meetings, we require that the date of the meeting did not change by more than 30 days in the subsequent year. For robustness, we also estimate results with a tighter definition that requires the firm to not have moved its annual meeting by more than 30 days over the entire sample period with qualitatively similar results.

move their annual meetings. As the decision to have their annual meeting in the proxy season or not in the non-mover sample, precedes the ISS recommendations by several years, it controls for the potential endogeneity in the timing of the annual meeting.

In the sample of firms that do not move their annual meetings, we tabulate the number of meetings held and management proposals voted on throughout the calendar year, and the ISS recommendation and voting outcomes of those these proposals. As seen in Table 1B the number of proposals sharply increase in the last week of April and continues at the high level until the end of May when it starts dropping. We define the period, beginning at the 4th week of April to the end of May (roughly a 5 week period) as the proxy season and it has an average of 331 proposals a day during the proxy season. In contrast, outside the proxy season the average number of proposals are about 27 proposals a day. The workload is about 12 times higher during the 5 weeks of the proxy season. The classification of the proxy season from the last week of April to the end of May is based on this being the busiest period of the year. However, the concentration of meetings varies within the proxy season and meetings continues at somewhat elevated levels into early June. To capture this varying concentration of meetings we also create a continuous variable, referred to as *Vote Count*, that is the count of the number of proposals to be voted over the next seven days.¹² *Vote Count* captures the number of proposals the ISS analyst needs to make recommendations on in a short period of time and reflects the work load of the ISS analyst. As seen in Table 2, the average *Vote Count* during the Proxy Season is 3663 and significantly higher than 1054 outside the proxy season.

¹² This includes the day of and the next six days. For the purpose of estimating the work load we take into account all management proposals voted in annual meetings in the Riskmetrics database, including of firms not included in our sample due to not being matched to Compustat data. We count the number of proposals over the week to smooth out the differences across days of the week. For robustness we have also examined the lagged work load, that is the number of proposals voted the day of and the past six days. The results are qualitatively similar.

The concentration of meetings in the proxy season has an impact on ISS recommendations. ISS recommends voting against the proposal, that is issues a negative recommendation, in 10.1% of all management proposals voted during the proxy season (Table 2). This is significantly lower than then 13.2% of negative recommendations on proposals voted outside the proxy season. The negative recommendations garner aggregate support of 82.3% in the proxy season, that is lower than the average aggregate support of 82.7% outside the proxy season. In contrast, the positive recommendations garner significantly higher support during proxy season. Negative recommendations from ISS also span fewer firms and fewer proposal types during the proxy season suggesting narrower scrutiny focused on some firms and proposal types. In the following section, we control for other factors that are likely to impact ISS recommendations.

3. ISS Recommendations

We study factors that impact ISS recommendations of management proposals in the sample of firms that do not move annual meetings. The dependent variable is *Negative ISS*, an indicator variable that takes the value of one if ISS recommends voting against the proposal. We control for firm characteristics that are likely to impact ISS recommendations. Specifically, we control for firm size by including the log of total assets, and for firm performance by including return on assets (ROA). To control for firm growth, we include the market to book ratio. ISS provides voting recommendations to institutional clients and we include institutional ownership to control for their influence. The main variable of interest is *Vote Count* that reflects ISS work load. Standard errors are clustered at the firm level consistent with Iliev and Lowry (2016) and Calluzzo and Kedia (2019).

As seen in Table 3, column 1 the coefficient of *Vote Count* is negative and significant. The tighter the voting schedule, the lower is the likelihood of getting a negative recommendation from

ISS. The coefficients of the firm level characteristics are also significant. Not surprisingly, larger firms, those with higher performance (ROA) and higher growth are less likely to get negative recommendations from ISS. The coefficient of institutional ownership is also negative and significant. The larger the level of institutional ownership the less likely ISS is to give a negative recommendation. Firm characteristics, like good governance are likely to be associated with higher institutional ownership and elicit fewer negative recommendations from ISS.

ISS publishes voting guidelines, the basis of its recommendations, at the beginning of the year.¹³ We try to capture the influence of these guidelines on ISS recommendations by including year, industry and proposal type fixed effects. This controls for greater pressure against some proposals, yearly trends in scrutiny and if there are some common practices within industries that are the focus of ISS recommendations. The inclusion of these fixed effects substantially improves the fit of the model and increases the estimated effect of *Vote Count* (Column 2). The results are robust to using Logit estimation as seen in Column 3. Finally, in column 4, we include year-industry-proposal type fixed effects. These granular fixed effects capture ISS recommendations for a given proposal type in a year for an industry and are associated with the highest R square. The coefficient of *Vote Count* continues to be negative and significant. This OLS model, with the inclusion of year-industry-proposal type fixed effects and standard errors clustered at the firm level serves as the base model for further estimations.

Lastly, we replace the continuous measure of busyness with the *Proxy Season* dummy. As seen in Column 5, the coefficient of *Proxy Season* is negative and significant. The coefficient

¹³ ISS has been publishing voting guidelines since 2013. For further details and the policy guidelines, refer to <https://www.issgovernance.com/policy-gateway/iss-global-voting-principles/>

estimate of *Proxy Season* suggests that proposals during the proxy season are 17.6% less likely to get a negative recommendation from ISS.¹⁴

3.1 Proxy Season and Dynamic of Negative Recommendations

As seen above, there are fewer negative ISS recommendations during busy times. In this section, we examine the dynamic of whether the reduction of negative recommendations during the proxy season is related to firm, proposal, and ownership characteristics.

3.1.1 Firm Characteristics

We examine if the lower propensity to issue negative recommendation during the proxy season is a function of firm characteristics. As discussed earlier, firms are likely to ask questions and engage with ISS following a negative recommendation. ISS bases its recommendations on publicly available data and is not required to get its recommendations reviewed by firms before they are distributed to investor clients. However, as a courtesy it does share its recommendation with a few large firms, specifically those included in the S&P 500, to check for material errors. Firms can communicate with ISS regarding any factual errors and if warranted ISS will issue a “Proxy Alert” notifying the investor clients of any change. A negative recommendation for a S&P 500 firm is likely to entail dialog and communication in the busy proxy season that can be ill afforded. Therefore, we first examine if S&P 500 firms are less likely to get a negative recommendation during the busy season by including a S&P 500 dummy variable and its interaction with *Vote Count*. As seen in Column 1 of Table 4, the coefficient of S&P 500 is negative and significant but its interaction with *Vote Count* is not significant. Firms that are part

¹⁴ The estimated coefficient is 0.020 and the unconditional likelihood of getting a negative recommendation in the sample is 11.38% representing a 17.6% decrease in the likelihood of getting a negative recommendation during the proxy season.

of S&P 500 are less likely to get a negative recommendation, but this propensity is not changed during the proxy season.¹⁵

We examine firm characteristics other than size, that might involve lower effort in generating a negative recommendation or lower scrutiny of a negative recommendation. First, we examine if firms that received a negative recommendation last year are more likely to get one this year. A prior negative recommendation from ISS suggests that ISS did a detailed analysis on the firm in the prior year and is likely to be more informed about the firm and its policies. Further, as firms are likely to engage with ISS over the negative recommendation it is also likely that ISS has been in contact with the firm over the year and is aware of the changes the firm is making and whether it deems the changes sufficient. Therefore, a prior negative recommendation reduces the marginal effort of giving another negative recommendation, and we expect this to be more pronounced when ISS is busy. We create a dummy, *Past Conflict*, that takes the value of one if the firm had a negative recommendation from ISS on any of its management proposals in the prior year. As seen in Column 2, the coefficient of *Past Conflict* and its interaction with *Vote Count* are both positive and significant. Firms with a negative recommendation from ISS in the prior year are significantly more likely to get a negative recommendation and this propensity is increased when the ISS workload increases.

We also examine if firms that had low shareholder support in the prior year are more likely to get a negative recommendation. A low level of support for management proposals implies that shareholders, including institutional investors who are clients of ISS, are unhappy

¹⁵ 64.3% of S&P 500 firms have their meeting within the proxy season. In contrast, 50.3% of non S&P 500 firms have their meeting within the proxy season. We also examine recommendations for larger firms, as captured by the top tercile by total assets, and found no difference during the proxy season. These results were not tabulated for brevity.

with the firm's policies. Giving a negative recommendation for firms with low prior support not only reflects the views of institutional investors but is also likely to be less controversial and less likely to be scrutinized. This is consistent with Aggrawal, Erel and Starks (2019) who find that ISS takes into account public opinion in its recommendations. To examine this issue, we create the variable *Past Support*, which is the average support across all management proposals voted in the prior year. As seen in column 3, the coefficient of *Past Support* and its interaction with *Vote Count* are both negative and significant. The evidence suggests that firms with low shareholder support are more likely to get a negative recommendation, and this tendency of ISS is amplified as its workload increases.

Lastly, we examine the effect of having a shareholder proposal at the meeting. Iliev, Kalamodis and Lowry (2019) document higher search by institutional investors prior to meetings that involve shareholder proposals. This suggests greater interest and scrutiny for these meetings and a constrained ISS is less likely to issue negative recommendations on management proposals voted at these meetings. We include *Shareholder Proposal*, a dummy variable that takes the value of one for management proposals voted at a meeting that also has a shareholder proposal. The coefficient of *Shareholder Proposal* is positive and significant while its interaction with *Vote Count* is negative and significant (See Model 4). During busy times, ISS is less likely to issue a negative recommendation on firms that have a shareholder proposal being voted.

Overall, the results suggest that firm size does not impact the likelihood of getting a negative recommendation during proxy season. However, firms with a prior negative recommendation and prior low shareholder support are more likely to get a negative recommendation during proxy season. Firms with shareholder proposals are less likely to get a

negative recommendation during proxy season. The evidence is consistent with a busy ISS issuing negative recommendations when its effort and outside scrutiny are low.

3.1.2 Proposal Characteristics

In this section, we examine if some proposal characteristics are more likely to influence ISS recommendations during the proxy season. Director elections are the most frequent proposal type accounting for about 70% of the management proposals voted and we examine ISS recommendations for director elections. As we include year-industry-proposal type fixed effects in the base model, proposal type, that is director elections, is subsumed by the fixed effects and we include its interaction with *Vote Count*. As seen in Column 1 (Panel A, Table 5) the coefficient of the interaction is negative and significant. ISS issues significantly fewer negative recommendations for *Director Elections* during the proxy season.

To understand ISS recommendation for *Director Elections* in general we also report a specification where we replace the year-industry-proposal type fixed effects with year-industry fixed effects. Though this specification reduces the overall fit of the model, it allows for the inclusion of *Director Elections* and sheds light on ISS recommendations on this proposal type. As seen in column 1 of Panel B, the coefficient of *Director Elections* is positive and significant while its interaction with *Vote Count* is negative and significant. *Director Election* proposals are more likely to get a negative recommendation from ISS though this propensity is reduced during the proxy season, in line with the result from Panel A.

To examine if the above result for director elections can be generalized to the frequency of other proposal types, we create the variable *Rare Proposal* that is one minus the frequency of the proposal type. Frequency of proposal type is the fraction of all proposals in the current year that were of a given type. The higher is the value of *Rare Proposal* the lower is frequency of that

proposal type.¹⁶ As seen in column 2 of Panel A, the coefficient of the interaction of *Rare Proposal* with *Vote Count* is positive and significant suggesting that during the busy season, ISS is less likely to reduce its effort and the likelihood of negative recommendation on proposals that are less frequent. This is not surprising as *Rare Proposals* are likely to get more attention from institutional investors and further reducing effort on these less frequent proposals is unlikely to save them much time. It might be harder to develop policy guidelines on these rare proposals as well. Column 2 in Panel B replaces the fixed effect from the base model with just year-industry fixed effects, and we find that the coefficient of *Rare Proposal* is negative – the less frequent the proposal is the less likely it is to get a negative recommendation, but this propensity is mitigated during proxy season.¹⁷

We also examine another aspect of proposal type, that is if the proposal type got lower support from shareholders in the prior year. Proposal types with lower support from shareholders point to proposals that institutional investors are less likely to view favorably, and a higher likelihood of negative recommendations on these proposals is consistent with both catering to the institutional investor views as well as reducing the likelihood of their recommendations being questioned and scrutinized. The variable *Past Proposal Support* is the average shareholder support for this proposal type in the prior year. The interaction of *Past Proposal Support* with *Vote Count* is not significant in Panel A but is negative and significant in Panel B.¹⁸ As the *Past Proposal Support* captures the effect at the proposal year level, more of its

¹⁶ The frequency of the more common proposal types is as follows. Elect Directors (74.5%), Ratify Auditor (11%), Ratify Exec Comp (8.3%), Amend Omnibus Stock Plan (2%), Elect Subsidiary Director (1.8%), Approve Omnibus Stock plan (1.2%), Approve/Amend Exec incentive Bonus Plan (0.8%) and the rest is below this.

¹⁷ It is difficult to disentangle whether this effect arises from the frequency of the proposal or the proposal's relevance. More relevant proposals are likely to be more frequent.

¹⁸ The number of observations drop as there are years when past proposal type support is not available.

impact is subsumed by the granular year-industry-proposal type fixed effects leading to the insignificant results in Panel A.

In summary, the evidence suggests that the more frequent proposal types are more likely to get negative recommendations from ISS with this proclivity reduces during busy times. Proposal types that get low support from shareholders are more likely to get a negative recommendation from ISS and this tendency is amplified during the proxy season.

3.1.3 Institutional Owners

Lastly, we examine the role of institutional ownership on ISS recommendations during the proxy season. The main clients of ISS are institutional investors who seek guidance on voting decision for their portfolio firms. Though institutional clients vary in their reliance on ISS, most agree that ISS recommendations inform their voting decisions (McCahery, Sautner and Starks (2016)). A negative recommendation from ISS is likely to prompt many institutional clients to pay more attention to the proposal and their voting decision increasing their effort. Further, many firms choose to file additional proxy material when they receive a negative recommendation to respond to ISS's evaluation. Some firms may get more active and engage directly with institutional shareholders or hire proxy solicitation firms to generate support for the proposal (Babenko, Choi and Sen (2019)). Thus, proposals with a negative ISS recommendation are likely to entail more work for institutional investors. ISS caters to its institutional investors and seeks to make the process convenient for its institutional investors (See Hayne and Vance (2019)). Therefore, as the proxy season is also a busy season for the institutional clients, ISS is likely to issue fewer negative recommendations during the proxy season when a larger number of institutions are likely to be impacted by it.

We use the number of fund families and the number of funds that voted in the firm's meeting last year to proxy for the breadth of institutional ownership in the firm.¹⁹ We posit that the greater the number of institutions that are required to vote on the proposal the lower will be the likelihood of ISS issuing a negative recommendation. As seen in Table 6, the greater is the number of fund families (column 1) and the greater is number of funds (column 2) the less likely is ISS to issue a negative recommendation and this tendency gets stronger as voting schedules get tighter. This effect is related to the number of institutions, but not to the level of institutional ownership. As seen in column 3, the interaction of institutional ownership with *Vote Count* is not significant. If some institutions hold a large stake in the firm, high institutional ownership could still entail a small number of institutional investors. Institutions with a large stake in a firm may not be concerned about the potentially higher effort arising from a negative recommendation.

Lastly, we examine the effect of institutional reliance on ISS recommendations and its effect on ISS recommendations during busy season. Mutual funds vary in their reliance on ISS recommendations and we create two measures to capture their reliance on ISS. First, the variable *ISS Voter* takes the value of one if the fund family voted with ISS in negative recommendations more than 80% of the time in the past three years. Institutions classified as *ISS Voters* rely more heavily on ISS recommendations in their voting decisions. *ISS Voter Count (Non ISS Voter Count)* is the number of (non) ISS voters that voted in the firm in the prior year.²⁰ In line with prior results, a higher number of both kind of institutions is associated with a lower likelihood of a negative recommendation. However, only the number of ISS voters is associated with a lower likelihood of negative recommendation during busy times.

¹⁹ As we capture the number of fund families that vote on a firm's proposal in the prior year we lose some observations due to limited data for some institutions in 2003.

²⁰ Matching these to 13F data or CRSP data to get their ownership level leads to loss of observations. We therefore use the count of these institutions available within the ISS data.

Second, in line with Illiev, Kalomodis and Lowry (2019) we use the top five fund families, that is Vanguard, Fidelity, State street, Blackrock and T. Rowe Price to capture institutions more likely to vote independently of ISS. We include ownership by the five families and all other institutions (Non-Big Five), in the firm in the quarter prior to the voting and its interaction with *Vote Count*. As seen in Column 5, both kind of institutional ownerships are associated with a lower likelihood of a negative recommendation from ISS. This proclivity to give lower negative recommendation when the big five institutions have higher ownership is further strengthened during the proxy season. The coefficient of interaction of *Big Five Ownership* with *Vote Count* is negative and significant while that of *Non Big Five ownership* with *Vote Count* is positive and significant. A larger ownership by independent institutions implies a greater scrutiny of the ISS negative recommendations with the potential of higher reputational losses if these institutions choose to disagree with the ISS recommendations.²¹

4. Voting during Proxy Season

The evidence so far shows that ISS is less likely to issue negative recommendations when the voting schedule gets busy. The proxy season is not just characterized by heavy work load for ISS analysts, but also entails tight voting schedules for institutions. As institutions are required to vote on thousands of proposals in a short period of time, they are also likely to be time constrained and engage in less independent research during the proxy season (Iliev et. al. (2019)). In this section we examine institutional voting patterns during the busy proxy season.

To capture institutional voting, we create the variable *With Management* which is the fraction of all funds within the institution (Family) that vote with management or for the proposal.

²¹ Alternatively, as these institutions are likely to do their own research ISS might conclude that putting in effort in these proposals might have lower marginal benefit.

Conflict, a dummy variable takes the value of one when ISS recommends voting against the proposal, that is issues a negative recommendation. We interact *Vote Count* with *Conflict* to capture the effect of busy season on institutions voting on conflicted proposal. As before, we include year-industry-proposal type fixed effects that control for ISS voting guidelines for proposal types in different industries in a year. We also include year-institution-proposal type fixed effects to control for institution specific voting on proposal types and cluster the errors at the firm level. As expected, the coefficient of *Conflict* is negative and significant as a negative recommendation by ISS significantly reduces support for management (Column 1, Table 7). The coefficient of *Vote Count* is not significant, though its interaction with *Conflict* is negative and significant. As the voting schedules get busier, institutions are more likely to vote against management in conflict situations. This is consistent both with a higher influence of ISS on institution's voting decisions or might reflect that institutions, like ISS, tend to make similar expedient decisions during busy times.

To shed further light on this we characterize institutional reliance on ISS, by including *ISS Voter* in the estimation.²² As seen in Column 2, the coefficient of the interaction of *ISS Voter* with *Conflict* is negative and significant. Not surprisingly, institutions that vote with ISS are significantly more likely to vote against management in conflict situations. The coefficient of interaction of *ISS voter* with *Vote Count* is positive and significant and that of the triple interaction of *ISS Voter*, *Vote Count* and *Conflict* is negative and significant. When the voting schedule gets busier, *ISS Voters* vote with ISS – supporting management when ISS recommendations are positive and voting against management when ISS recommendation is negative.

²² We take the average of the annual fraction of voting with ISS in conflict situations in the past three years

We also use the *Big Five* indicator to examine how these families that vote independently of ISS recommendations vote during the busy season. As seen in Column 3, *Big Five* families are more likely to vote with management in conflict situation and this tendency gets amplified as the work load increase.²³ The coefficient of the triple interaction between *Big Five*, *Conflict* and *Vote Count* is positive and significant. In short, when institutions are time constrained, they tend to move towards their dominant strategy - institutions that tend to rely on ISS are more likely to vote with ISS and those that vote with management are more likely to vote with management.

Iliev et al. (2019) also argue that institutions with larger ownership have incentives to do their own research and vote independently. *Fund Family Ownership* is the ownership of the fund family in the firm in the quarter prior to the meeting as obtained from their 13F filing.²⁴ As ownership in the firm increases, institutions are more likely to vote with management in conflict situation and this tendency increases during the busy season (See Column 4). In sum, *ISS Voters* who are more likely to vote with ISS, increase their proclivity to vote with ISS during busy times. The Big Five institutions and institutions with higher ownership in the firm vote more independently of ISS and are more likely to support management in conflict situations, further increasing their support of management during busy times. The aggregate effect, a sum of the above opposing tendencies is small and suggests a higher influence of ISS during busy times.

4.1 Aggregate Support

The analysis in the above section is informative about how mutual funds voting decisions are impacted by the busy season. The evidence suggests that mutual funds vary in their support

²³ Note that as we have year-institution-proposal type fixed effects this subsumes the effect of *ISS Voter* and *Big Five* indicator variable. Therefore, these indicator variables have not been included.

²⁴ We match the institution name as it appears in the Risk Metrics dataset with the name in the 13F. As we are not able to match all the institutions there is a drop in the number of observations for this estimation. Fund Families who register no ownership in the quarter prior to the meeting are excluded. In robustness tests, we included these families by assigning a value of zero to their ownership with qualitatively similar results.

for management during busy times. In this section, we examine aggregate support for proposals that reflects not only mutual fund vote, but also voting by other institutions and retail investors. The dependent variable in this analysis is *Aggregate Support* for the proposal, that is the fraction of votes cast for the proposal. We control for firm characteristics included in prior analysis and as before, include year-industry-proposal type fixed effects. The estimation is at the proposal level.

We first capture the busy schedule by including *Vote Count* and its interaction with *Conflict*. As seen in Column 1 of Table 8, we find that the coefficient of *Vote Count* is positive while that of its interaction with *Conflict* is negative and significant. The results suggest that during busy times, support for management increases when ISS recommendations are positive and decreases when ISS recommendations are negative. In short, the influence of ISS recommendations on voting outcomes increases as voting schedules gets busy. We also estimate the model separately in the subset of proposals voted during the proxy season (column 2) and outside it (Column 3). We find that support for management in conflict situations is about 10% lower in proxy season relative to outside the proxy season.²⁵

In summary, ISS is less likely to issue negative recommendations during the proxy season and these recommendations have more sway and are associated with lower aggregate support for the proposal.

5. Market Reaction to ISS recommendations

In this section, we examine the impact of ISS recommendations issued under time constraints on firm value. As evidenced by prior results, ISS issues fewer negative recommendations during the busy voting season. Though time constraints may force ISS to focus

²⁵ The difference in the coefficient of *Conflict* is 0.013 which is about 10% of the non proxy season coefficient of -0.134.

on fewer issues it may nevertheless focus on the more salient ones. In this case, the few negative recommendations that are issued are likely to be more serious and substantive and when these recommendations succeed, that is the proposal fails, they should be associated with an increase in firm value. The positive recommendations of ISS in busy times are likely to be noisy, and their success is likely to not be associated with an increase in firm value. Alternatively, the fewer negative recommendations issued by ISS during peak times might not reflect salient concerns, but instead reflect ISS attempts to manage its work load with the least reputational loss. In this case, ISS recommendations issued during the busy proxy season are less likely to be associated with an increase in firm value.

To examine the effect of ISS recommendations issued during busy times on firm value, we create a sample of close elections, that is management proposals that passed or failed within a 5% margin. As the outcome of these proposals is not known the market reaction to their passing or failing is indicative of whether the market views these vote outcomes as value enhancing. We calculate market adjusted three day cumulative abnormal return, referred to as $CAR[0,+2]$.²⁶ We include firm characteristics and year-industry fixed effects with standard errors clustered at the firm level.

To capture the impact of ISS recommendations, we create *With ISS*, an indicator variable that takes the value of one if the proposal outcome is in line with the ISS recommendation. Specifically, *With ISS* takes the value of one if 1) ISS recommend voting for the proposal and it passes, or 2) ISS recommends voting against the proposal and the proposal fails. A positive coefficient of *With ISS* implies that ISS recommendations when successful are associated with

²⁶ For robustness we also estimated the results with a two day cumulative abnormal return, $CAR[0,+1]$ with qualitatively similar results. We did not tabulate these for brevity. There can be two close elections in one meeting. For robustness, we have also estimated the model at the meeting level that include only one observation per meeting. These results are not tabulated for brevity and are qualitatively similar.

increase in firm value. We also include the interaction of *With ISS* and *Vote Count* and the coefficient captures the incremental impact of ISS recommendations as voting schedules get busy. As seen in Table 9, Column 1 the coefficient of *With ISS* is positive and significant and that of its interaction with *Vote Count* is negative and significant. ISS recommendations are value enhancing, but become less so as voting schedules get tighter. We also estimate the model with a *Proxy Season* dummy instead of the *Vote Count*, the continuous measure of busyness. As seen in Column 2, the coefficient of *With ISS* is positive and significant while its interaction with *Proxy Season* is negative and significant. Outside the proxy season, vote outcomes in line with ISS recommendations are value enhancing while in the proxy season vote outcomes in line with ISS recommendations are associated with a reduction in firm value. The evidence is consistent with ISS recommendations not being informative and value enhancing during busy times.

To examine if there is a difference between negative and positive recommendations, we separate the sample into the respective subsamples. When we examine the sample of negative recommendations (Panel B) we find that that the coefficient of *With ISS* is positive but not significant while its interaction with *Proxy Season* is negative and significant. The interaction of *With ISS* and *Vote Count* is negative but not significant. Overall, there is little evidence that ISS focuses on a few salient issues that are associated with increased firm value when it gets busy. There is little evidence of a significant impact on firm value for positive recommendation of ISS in busy times or otherwise (Panel C). As there are fewer close elections when ISS issues a positive recommendation the subsample analysis suffers from power issues. Overall, the evidence suggests that ISS recommendations are less value enhancing during the proxy season and this effect is primarily coming from its negative recommendations.

6. Firms that move Annual Meetings

In this section, we examine firms that schedule their annual meetings to move in or out of the proxy season. We define firms that move annual meetings in year T as those that have meetings in year T and year T-1, and whose day of the meeting date changed by more than 30 days. Firms that move out of the proxy season are those whose meetings in year T-1 was in the proxy season while in year T is more than 30 days away and out of the proxy season. Similarly, firms that move into the proxy season are those whose annual meeting in year T-1 was out of the proxy season and their annual meeting in year T is in the proxy season and more than 30 days away.²⁷

From the prior results we know that ISS gives fewer negative recommendations during the proxy season. Firms that are out of the proxy season, may want to move into the proxy season for the lower likelihood of getting a negative recommendation. Further, firms with meeting in the proxy season that had negative recommendations or low shareholder support in the prior year are more likely to get negative recommendations. These firms should be more likely to move out of the proxy season. We also control for other factors that are likely to determine the timing of the meeting. Firms in industries that are concentrated in the proxy season are more likely to want to be in the proxy season. We therefore include the industry concentration, at the two-digit SIC level during the proxy season.

We begin by examining why firms choose to move out of the proxy season. Along with firms that move out of the proxy season, the control group consists of firm that have their annual meeting in the proxy season as these firms have the choice of moving out. The dependent variable is an indicator variable, *Moving Out*, that takes the value of one if the firm moves its annual meeting out of the proxy season that year. The variable of interest is the fraction of proposals voted last year that had a negative recommendation from ISS, referred to as

²⁷ Firms that move annual meetings by more than 30 days but stay within the proxy season or outside the proxy season are not included in this analysis. Proxy Season, as before is from the fourth week of April to the end of May.

Proportion of ISS Conflicts. We include the industry concentration, the fraction of the two digit industry with its annual meeting scheduled in the proxy season along with firm characteristics that have been included before. We also include growth in assets and institutional ownership as we know that larger firms and those with higher institutional ownership tend to not move their annual meetings.

As seen in Panel A of Table 10, we find that firms that had a higher fraction of negative recommendation in the prior year are significantly more likely to move out of the proxy season. Firms in industries, with a larger concentration during the proxy season are significantly less likely to move out of the proxy season. Larger firms, those that are growing (higher M/B), performing well (higher ROA) and with higher institutional ownership are less likely to move out of the proxy season. Growth in assets or institutional ownership and industry concentration are not significant factors. In column 2, we include *Management Support* that is the average support across all proposals in the previous year. The coefficient of *Management Support* is negative positive and significant implying that firm that get low shareholder support are also more likely to move out of the proxy season.

Next, we examine the likelihood of firms moving into the proxy season. The sample consists of all firms that have their annual meetings outside the proxy season in the prior year, and with the indicator variable *Move In* taking the value of one if the firm chooses to move its annual meeting in the proxy season in the current year. As seen in Panel B, firms with low support for its management proposal are more likely to move their annual meetings in the proxy season. The incidence of negative ISS recommendations is not significant in the decision to move into the proxy season. A high concentration of the industry in the proxy season is significant in explaining the move of firms in the proxy season. Firm characteristics are less important in the decision to

move the meetings in the proxy season, though firms that are doing well and have higher institutional ownership are less likely to move their annual meetings.

Overall, the results suggest that whereas past negative recommendations and low shareholder support have some explanatory power on why firms move their annual meetings, industry concentration in the proxy season is likely to be the dominant reason for firms move in and out of the proxy season.

7. Conclusions

In this paper we examine the effect of the concentration of annual meetings in the calendar year and the resulting busy voting schedule on ISS recommendations. The compressed work load for ISS during this busy proxy season results in fewer negative recommendations. When it is busy ISS is more likely to give negative recommendations to firms with prior negative recommendations and low shareholder support and to proposal types that got low support in the prior year. A busy ISS also issues fewer negative recommendations when the expected number of funds voting on the proposal are high. The evidence is consistent with a time constrained ISS managing its priorities to minimize its effort and the scrutiny by investors along with catering to the interests of its institutional clients.

The proxy season with its busy voting schedules also puts time constraints on institutional investors. Institutional investors that tend to rely more on ISS recommendations increase this reliance during busy times while those that tend to vote with management increase this propensity during busy periods. Though the busy voting season is associated with increased propensities of some investors to vote with ISS and others to vote with management, in the aggregate we find a significant increase in the influence of ISS in conflict situations. Negative

recommendations by ISS during the proxy season are associated with a 10% lower support for management. Busy voting schedules and time constraints reduce independent research by institutional investors and increase the influence of ISS recommendations on voting outcomes.

Finally, we examine the effect of time constraints on value relevance of ISS recommendations. Time constraints could be associated with ISS focusing on a few salient and relevant issues or with ISS prioritizing to reduce their effort and preserve their reputation. The evidence suggests that negative ISS recommendations during busy periods when successful, that is when the proposal with a negative recommendation fails, are associated with reductions in firm value. Time constraints arising from a concentrated season of annual meetings, lead to value decreasing ISS recommendations and also prevent institutional investors from engaging in independent research to mitigate ISS's influence. The results are relevant for the policy debate on the role and influence of proxy advisors. As instances when ISS recommendations are not value enhancing also tend to be when institutions are not well positioned to scrutinize these recommendations limits the mitigating effect of independent institutional voting and policies designed to encourage it.

References

- Aggarwal, R., Dahiya, S. and Prabhala, N., 2016. The power of shareholder votes: Evidence from uncontested director elections. Forthcoming *Journal of Financial Economics*.
- Aggarwal, R., I. Erel, and L. Starks, 2015, *Influence of Public Opinion on Investor Voting and Proxy Advisors*, Working Paper
- Ai, C. and Norton, E.C., 2003. Interaction terms in logit and probit models. *Economics letters*, 80(1), 123–129.
- Albuquerque, A. M. Carter and S. Gallani, 2019, *Are ISS Recommendations Informative? Evidence from Assessments of Compensation Practices*, Working Paper
- Alexander, C.R., Chen, M.A., Seppi, D.J. and Spatt, C.S., 2010. Interim news and the role of proxy voting advice. *Review of Financial Studies*, 23(12), 4419–4454.
- Ashraf, R., Jayaraman, N. and Ryan, H.E., 2012. Do pension-related business ties influence mutual fund proxy voting? Evidence from shareholder proposals on executive compensation. *Journal of Financial and Quantitative Analysis*, 47(3), 567–588.
- Babenko, I, G. Choi, and R. Sen, 2019, *Management (of) Proposals*, Working Paper.
- Baumeister, R., E.Bratslavsky, M. Muraven and D.M. Tice, 1998, Ego Depletion: Is the Active Self a Limited Resource, *Journal of Personality and Social Psychology*
- Belinfanti, T.C., 2009. The proxy advisory and corporate governance industry: The case for increased oversight and control. *Stanford Journal of Law, Business & Finance*, 14, 384–439.
- Bethel, J., and Gillan, S.L., 2002. The impact of the institutional and regulatory environment on shareholder voting. *Financial Management*, 31(4), 29–54.
- Cai, J., Garner, J., Walkling, R.A., 2009. Electing Directors. *Journal of Finance*, 64, 2389–2421.
- Calluzzo, P and S. Kedia, 2019, *Mutual Fund Board Connections and Proxy Voting*, *Journal of Financial Economics*
- Choi, S., Fisch, J. and Kahan, M., 2009. The power of proxy advisors: Myth or reality. *Emory Law Journal*, 59, 869.
- Cvijanović, D., Dasgupta, A. and Zachariadis, K.E., 2016. Ties that bind: How business connections affect mutual fund activism. *Journal of Finance*, 71(6), 2933–2966.

Davis, G.F. and Kim, E.H., 2007. Business ties and proxy voting by mutual funds. *Journal of Financial Economics*, 85(2), 552–570.

Danziger, S., J. Levay, L. Avnaim-Pesso, 2011, Extraneous Factors in Judicial Decisions, *Proceeding of the National Academy of Sciences*

Ertimur, Y., F. Ferri and D. Oesch, 2013, Shareholder Votes and Proxy Advisors: Evidence from Say on Pay, *Journal of Accounting Research*

Ege, M, J. Glenn and J. Robinson, 2020, Unexpected SEC Resource Constraints and Comment Letter Quality, *Contemporary Accounting Review*.

Fos, V., Li, K. and Tsoutsoura, M., 2017. Do director elections matter? Forthcoming *Review of Financial Studies*.

Gunny, K and J. Hermis, 2020, How Busyness Influences SEC Compliance Activities: Evidence from the Filing Review Process and Comment Letters, *Contemporary Accounting Review*

Gallagher, D. 2013, “Remarks at Society of Corporate Secretaries and Governance Professionals, available at <https://www.sec.gov/news/speech/spch071113dmghtm>

Hayne, C and M. Vance, 2019, Information Intermediary or DeFacto Standard Setter? Field Evidence on the Indirect and Direct Influence of Proxy Advisors, *Journal of Accounting Research*

Hirshleifer, D., Y. Levi, B. Lourie and S.H Teoh, 2019, Decision Fatigue and Heuristic Analyst Forecasts, *Journal of Financial Economics*

Iliev, P. and Lowry, M., 2015. Are mutual funds active voters? *Review of Financial Studies*, 28(2), 446–485.

Iliev, P, J. Kalodimos and M. Lowry, 2019, Investor’s Attention to Corporate Governance, Working paper.

Larcker, D.F., McCall, A.L. and Ormazabal, G., 2015. Outsourcing shareholder voting to proxy advisory firms. *Journal of Law and Economics*, 58(1), 173–204.

Levit, D and A. Tsoy, 2019, One Size Fits All: Voting Recommendations by Proxy Advisors, Working paper.

McCahery, Joseph A., Zacharias Sautner, and Laura T. Starks, 2016, Behind the scenes: The corporate governance preferences of institutional investors, *Journal of Finance* 71, 2905.2932.

Malenko, N. and Shen, Y., 2016. The role of proxy advisory firms: Evidence from a regression-discontinuity design. *Review of Financial Studies*, 29(12), 3394–3427.

Malenko, A and N. Malenko, 2018, Proxy Advisory Firms: The Economics of Selling Information to Voters, *Journal of Finance*

Ma, S. and Y.Xiong, 2019, Information Bias in the Proxy Advisory Market, *Forthcoming Review of Corporate Finance Studies*.

Spatt, C, 2020, Proxy Advisory Firms, Governance, Market Failure, and Regulation, *Review of Corporate Finance Studies*, *Forthcoming*

Table 1A: Annual Meetings and Proxy Season

The table describes summary statistics for annual meetings held over the years 2004 to 2018. A firm is considered not to have moved if the date of the meeting is within 30 days of the annual meetings over the past three years. The other firms are classified as moving. The proxy season is from the last week of April to the end of May. Within Proxy Season; No Move (Outside proxy Season: No move) consist of all meetings held during (outside) the proxy season by firms that are classified as not having moved their annual meeting. Into Proxy Season; Move (Out of the Proxy Season; Move) consists of all meetings by firms that moved into (Out of) the proxy season when they were outside (in) the proxy season in the year before. Within Proxy Season; Move (Outside Proxy Season; Move) consists of all meetings held in the proxy season by firms classified as having moved their annual meeting. Assets is the value of total assets in millions of dollars, ROA is return on asset, MB is market to book ratio and Institutional Ownership is the average ownership in the year before. The table reports average values for all variables and median values of ROA.

Category	Total number of Meetings	Assets	ROA	MB	Institutional Ownership
Within Proxy Season; No Move	20873	9157	2.97%	1.89	62.46%
Outside Proxy Season; No Move	16913	4926	3.44%	2.15	57.02%
Into Proxy Season; Move	580	5287	0.97%	2.20	49.48%
Out of Proxy Season; Move	520	4980	0.73%	1.90	44.46%
Within Proxy Season; Move	32	13572	2.18%	2.22	47.01%
Outside Proxy Season; Move	1208	1951	0.34%	2.25	38.62%

Table 1B: Distribution of Annual Meetings over the Year

This table reports distribution of meetings and management proposals voted at annual meetings over the calendar year for the period 2004 to 2018. The sample consists of firms that do not move the date of their annual meetings and with data in ISS risk metrics database. Meetings are categorized based on the date of their annual meeting. The mean for each proxy voting outcomes within each week is reported, and where specified we take the average across all the weeks in the month. We normalize the # of proposals per week to account for the fact that some months are longer than others, and to account for Weeks 4 & 5 in April, May and June which consist of 9, 10 and 9 days, respectively. The number in brackets in column 3 refer to the total number of proposals over Week 4 & 5.

Month	Week	# of Proposals Per Week	# of Proposals Per Day	Management Support	Proportion of ISS Conflicts	Management Support in ISS Conflicts
1	Avg. All Weeks	106	15	95.41%	11.07%	81.62%
2	Avg. All Weeks	149	21	95.26%	10.80%	82.10%
3	Avg. All Weeks	139	20	94.78%	10.38%	80.18%
4	1	108	15	95.56%	14.74%	83.80%
4	2	271	39	96.28%	10.42%	84.48%
4	3	931	133	96.04%	10.86%	83.19%
4	4 & 5	2261 (2907)	323	95.92%	10.00%	84.18%
5	1	2305	329	95.78%	8.78%	81.39%
5	2	2460	351	95.67%	10.43%	82.56%
5	3	3022	432	95.36%	10.74%	81.20%
5	4 & 5	1788 (2555)	255	95.25%	11.71%	81.83%
6	1	1179	168	94.81%	15.29%	82.59%
6	2	1070	153	94.82%	14.22%	83.15%
6	3	647	92	94.46%	15.94%	83.39%
6	4 & 5	349 (449)	50	94.67%	17.30%	83.44%
7	Avg. All Weeks	168	24	93.97%	13.38%	81.94%
8	Avg. All Weeks	145	21	94.57%	10.23%	80.59%
9	Avg. All Weeks	107	15	95.40%	12.03%	83.57%
10	Avg. All Weeks	110	16	94.84%	14.51%	83.43%
11	Avg. All Weeks	160	23	94.49%	11.38%	80.45%
12	Avg. All Weeks	106	15	94.03%	18.46%	83.23%

Table 2: Voting Schedules and Negative Recommendations

The proxy season is from the fourth week of April to the end of May. The sample consists of management proposals voted by firms that do not move annual meetings in the Risk Metrics Dataset over the 2004 to 2018. Vote Count is the number of proposals to be voted in the day of and the following six days. A proposal is classified as Conflicted if ISS recommends voting against management. Support is the aggregate support for the proposal. Concentration of Conflict across Proposal type is the sum of squared proportion of conflicts across proposal types within and outside the proxy season.

	Proxy Season	Outside Proxy Season	T Test/SD Test (P Value)
Vote Count	3663	1054	0.000***
Proportion of Conflicted Proposals	0.101	0.132	0.000***
Support in Conflicted Proposals	0.823	0.827	0.013**
Support in Non-Conflicted Proposals	0.969	0.965	0.000***
Fraction of Firms with at least one Conflict	0.353	0.396	0.008***
Concentration of Conflict across Proposal Type	0.613	0.597	0.050**

Table 3: Likelihood of a Negative ISS recommendation

This table reports OLS estimates (except Model 3) on a sample of management proposals from firms that have not moved annual meetings over the period 2004 to 2018. The dependent variable, *Negative ISS*, is a dummy variable that take the value of one if ISS recommends voting against management. *Vote Count* is the number of proposals (in thousands) in the day of and the next six days. *Proxy Season* that takes the value of one if the proposal is voted between the fourth week of April till the end of May. Firm-level control variables measured at the end of year t-1 are Total Assets (log of total assets), ROA (return on assets, MB (market to book ratio) and Institutional Ownership (average ownership by 13F institutions in the prior four quarters). Fixed effects are included and specified in the last row. Standard errors are clustered by firm and p values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Model 1 OLS	Model 2 OLS	Model 3 Logit	Model 4 OLS	Model 5 OLS
Vote Count	-0.002* (0.075)	-0.005*** (0.000)	-0.047*** (0.000)	-0.005*** (0.000)	
Proxy Season					-0.020*** (0.000)
Total Assets	-0.018*** (0.000)	-0.020*** (0.000)	-0.216*** (0.000)	-0.020*** (0.000)	-0.019*** (0.000)
ROA	-0.066*** (0.000)	-0.051*** (0.000)	-0.288*** (0.003)	-0.050*** (0.000)	-0.050*** (0.000)
MB	-0.005*** (0.000)	-0.006*** (0.000)	-0.059*** (0.000)	-0.006*** (0.000)	-0.006*** (0.000)
Institutional Ownership	-0.107*** (0.000)	-0.093*** (0.000)	-0.872*** (0.000)	-0.093*** (0.000)	-0.093*** (0.000)
N	273834	273798	268416	261560	261560
R-squared	0.039	0.126	0.145	0.209	0.209
<u>Fixed Effects</u>	None	Year, Industry, Proposal Type	Year, Industry, Proposal Type	Year*Industry* Proposal Type	Year*Industry* Proposal Type

Table 4: Firm Characteristics and ISS Recommendations

The dependent variable is *Negative ISS*, a dummy variable that takes the value of one if the ISS issues a negative recommendation. The data includes all management proposals over the period 2004 to 2018, by firms that do not move annual meetings. The estimation included control variables, Assets, ROA, MB and Institutional ownership which have not been tabulated for brevity. *Vote Count* is the number of proposals to be voted on the day of and next six days. *S&P 500* is a dummy if the firm belongs to S&P 500 index. *Past conflict* is a dummy that takes the value of one if the firm had a negative recommendation from ISS in the past year. *Past Firm Support* is the average support across all management proposals voted the prior year. *Shareholder Proposal* is a dummy that takes the value of one if the meeting had a shareholder proposal for vote. Fixed effects are included and specified in the last row. Standard errors are clustered by firm and p values are reported below in parentheses. ***, **, * refer to significance at 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4
Vote Count	-0.005*** (0.000)	-0.006*** (0.000)	0.059*** (0.006)	-0.004*** (0.001)
S&P 500	-0.034*** (0.000)			
Vote Count * S&P 500	-0.001 (0.614)			
Past Conflict		0.133*** (0.000)		
Vote Count*Past Conflict		0.005*** (0.003)		
Past Firm Support			-0.542*** (0.000)	
Vote Count * Past Firm Support			-0.067*** (0.003)	
Shareholder Proposal				0.029*** (0.004)
Vote Count * Shareholder Proposal				-0.005** (0.032)
N	261560	232863	228560	261560
R-squared	0.210	0.254	0.225	0.209
Fixed Effects	Year-Industry- Proposal Type			

Table 5: Proposal Characteristics and ISS Recommendations

The dependent variable is *Negative ISS*, a dummy variable that takes the value of one if the ISS issues a negative recommendation. The data includes all management proposals over the period 2004 to 2018, by firms that do not move annual meetings. The estimation included control variables, Assets, ROA, MB and Institutional ownership which have not been tabulated for brevity. *Vote Count* is the number of proposals to be voted the day of and the next 6 days. The proposal characteristic in column 1 is *Director Election* that takes the value of one if the proposal was a director election. In column 2, the proposal characteristic is *Rare Proposal*, which is defined as 1- minus the ratio of the number of proposals of a given type over the number of all proposals in the year. In Column 3, *Past Proposal Type Support* is the average management support for the proposal type in the past year. Fixed effects are included and specified in the last row. Standard errors are clustered by firm and p values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

Panel A: Year – Industry – Proposal Type Fixed Effects

	Director Election	Rare Proposal	Past Proposal Support
Vote Count	0.003*** (0.002)	-0.011*** (0.000)	-0.026 (0.230)
Vote Count* Proposal Characteristic	-0.011*** (0.000)	0.016*** (0.000)	0.022 (0.330)
N	261560	261560	250397
R-squared	0.209	0.209	0.208
Fixed Effects	Year - Industry – Proposal Type		

Panel B: Year-Industry Fixed Effects

	Director Election	Rare Proposal	Past Proposal Support
Vote Count	-0.001 (0.453)	-0.007*** (0.000)	0.066*** (0.000)
Proposal Characteristic	0.044*** (0.000)	-0.052*** (0.000)	-1.295*** (0.000)
Vote Count * Proposal Characteristic	-0.005*** (0.000)	0.006*** (0.004)	-0.074*** (0.000)
N	273830	273830	261449
R-squared	0.118	0.117	0.143
Fixed Effects	Year – Industry		

Table 6: Institutional characteristics and ISS Recommendations

The dependent variable is *Negative ISS*, a dummy variable that takes the value of one if the ISS issues a negative recommendation. The data includes all management proposals over the period 2004 to 2018, by firms that do not move annual meetings. The estimation included control variables, Assets, ROA, MB and Institutional ownership which have not been tabulated for brevity. *Vote Count* is the number of proposals to be voted over the day of and the next 6 days. *Institutional ownership* is the 13F ownership in the quarter prior to the annual meeting. Big Five (Non Big Five) family ownership is 13F ownership in the quarter prior by Vanguard, Fidelity, State Street, Blackrock and T. Rowe Price (other institutions). Fund Family (Fund) count in Column 2 (3) is the count of the number of fund families (funds) that voted in the firm's annual meeting in the prior year. ISS voter count is the number of ISS voters that voted in the prior year meeting. ISS voter takes the value of one if the institution voted with ISS more than 80% of the time in the past three years. Fixed effects are included and specified in the last row. Standard errors are clustered by firm and p values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5
Vote Count	0.003 (0.414)	0.003 (0.333)	-0.004 (0.133)	-0.001 (0.838)	-0.006** (0.038)
Institutional Ownership	-0.069*** (0.000)	-0.069*** (0.000)	-0.091*** (0.000)	-0.049*** (0.000)	
Fund Family Count	-0.018*** (0.000)				
Vote Count*Fund Family Count	-0.002** (0.013)				
Fund Count		-0.014*** (0.000)			
Vote Count * Fund Count		-0.002*** (0.006)			
Vote Count * Institutional Ownership			-0.001 (0.797)		
ISS voter Count				-0.020*** (0.007)	
Non ISS voter Count				-0.031*** (0.000)	
Vote Count x ISS voter count				-0.008*** (0.004)	
Vote Count x Non ISS voter count				0.005 (0.103)	
Big Five Ownership (A)					-0.231*** (0.000)
Non Big Five Ownership (B)					-0.068*** (0.000)
Vote Count*Big Five Ownership (C)					-0.023** (0.028)
Vote Count*Non Big Five Ownership (D)					0.010** (0.048)
N	240593	240593	261560	216398	261560
R-squared	0.216	0.216	0.209	0.219	0.21
T test for diff between A and B					0.0005***
T test for diff between C and D					0.0157**
Fixed Effects	Year – Industry - Proposal Type				

Table 7: Institutional Voting during busy season

The dependent variable, *With Management* is the fraction of funds in the family that vote for the proposal. The data consists of all institution voting on management proposals of firms that do not move their annual meetings over the period 2004 to 2018. *Conflict* takes the value of one if ISS recommends voting against the proposal. *ISS voter* takes the value of one if the fund voted more than 80% of the times with ISS in negative recommendations in the past three years. *Big Five* takes the value of one if the family is Vanguard, Fidelity, State Street, Black Rock or T.Rowe Price. Control variables included in the estimation but not tabulated are Assets, ROA, MB and institutional ownership. Fixed effects are included and specified in the last row. Standard errors are clustered by firm and p values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4
		With Management		
Vote Count * Conflict	-0.003** (0.013)	0.001 (0.322)	-0.004*** (0.001)	-0.003** (0.031)
Conflict	-0.494*** (0.000)	-0.379*** (0.000)	-0.499*** (0.000)	-0.509*** (0.000)
Vote Count	0.000 (0.763)	0.000 (0.254)	0.000 (0.667)	0.000 (0.515)
ISS Voter * Vote Count * Conflict		-0.003*** (0.010)		
ISS Voter * Vote Count		0.001* (0.095)		
ISS Voter * Conflict		-0.459*** (0.000)		
Big Five * Vote Count * Conflict			0.012*** (0.000)	
Big Five * Vote Count			0.000 (0.188)	
Big Five * Conflict			0.060*** (0.000)	
Fund Family Ownership * Vote Count * Conflict				0.232*** (0.000)
Fund Family Ownership * Vote Count				0.003 (0.607)
Fund Family Ownership * Conflict				1.700*** (0.000)
Fund Family Ownership				0.001 (0.967)
N	13272599	12980575	13272599	4722800
R-squared	0.447	0.485	0.448	0.426
Fixed Effects	Year – Institution – Proposal Type Year- Industry- Proposal type			

Table 8: Aggregate Shareholder Support and Proxy Season

The dependent variable is the *Aggregate support* for the proposal. The data consists of all management proposals of firms that do not move their annual meetings in the Risk Metrics Data over the period 2004 to 2018. Proxy Season (Non Proxy Season) is the sample of proposals voted during (outside) the proxy season. Proxy Season extends from the last week of April to the end of May. *Conflict* takes the value of one if ISS recommends voting against the proposal. *Vote Count* is the number of proposals voted on the day of and the next 6 days. Errors are clustered at the firm level. Fixed effects are included and specified in the last row. Standard errors are clustered by firm and p values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Full Sample	Proxy Season	Non Proxy Season	T Test
Vote Count * Conflict	-0.005*** (0.000)			
Vote Count	0.001*** (0.000)			
Conflict	-0.128** (0.000)	-0.147*** (0.000)	-0.134*** (0.000)	2.280**
Assets	0.001*** (0.003)	0.000 (0.444)	0.002*** (0.005)	
ROA	0.005 (0.163)	0.010** (0.021)	0.002 (0.631)	
MB	0.003*** (0.000)	0.002*** (0.000)	0.003*** (0.000)	
Institutional Ownership	-0.014*** (0.000)	-0.009*** (0.000)	-0.019*** (0.000)	
N	251238	141770	105256	
R-squared	0.488	0.534	0.507	
Fixed Effects	Year – Industry - Proposal Type			

Table 9: Abnormal Returns Around Close Votes

The sample consists of close elections of firms covered in the Risk Metrics data over the period 2004 to 2018 that do not move their annual meetings. Close elections are management proposals that pass or fail with a 5% margin. The dependent variable *Abnormal Return*, that is market adjusted cumulative abnormal returns over a three day window (CAR[0,+2]). *With ISS* is a dummy variable that takes the value of one if the vote outcome is in line with ISS recommendations (proposal passes when ISS recommends for and fails when ISS recommends against). *Vote Count* is the number of proposals voted on the day of and the next 6 days. Errors are clustered at the firm level. Proxy season is an indicator variable that takes the value of one if the meeting was held between the fourth week of April to the end of May. Fixed effects are included and specified in the last row. Standard errors are clustered at the firm level and the associate p values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Panel A: All Proposals		Panel B: Negative ISS Recommendations		Panel C: Positive ISS Recommendations	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Vote Count*With ISS	-0.00783** (0.011)		-0.005 (0.127)		-0.008 (0.288)	
Proxy Season*With ISS		-0.0190** (0.035)		-0.0276** (0.036)		-0.017 (0.348)
Vote Count	-0.002 (0.582)		-0.002 (0.591)		-0.006 (0.219)	
Proxy Season		0.005 (0.449)		0.011 (0.268)		-0.007 (0.676)
With ISS	0.0190** (0.018)	0.0121* (0.074)	0.009 (0.394)	0.012 (0.139)	0.026 (0.174)	0.012 (0.404)
Assets	0.000 (0.890)	0.000 (0.995)	0.001 (0.713)	0.000 (0.853)	-0.003 (0.322)	-0.004 (0.199)
ROA	0.044 (0.209)	0.049 (0.238)	0.051 (0.273)	0.049 (0.269)	0.070 (0.136)	0.093 (0.176)
MB	0.00541* (0.075)	0.00503* (0.092)	0.003 (0.320)	0.003 (0.372)	0.0214*** (0.003)	0.0220** (0.012)
Institutional Ownership	0.003 (0.699)	-0.002 (0.790)	-0.011 (0.365)	-0.013 (0.286)	0.015 (0.270)	0.006 (0.607)
N	754	754	377	377	271	271
R-squared	0.425	0.397	0.456	0.458	0.622	0.519
Fixed Effects	Year - 2-Digit Industry					

Table 10: Firms that Move Annual Meetings

Panel A (Panel B) consists of all firm years with meetings scheduled in (out of) the proxy season in the prior year. The dependent variable in Panel A (Panel B) takes the value of one if the firm moves out of (in) the proxy season that year. Proxy season is from the last week of April to the end of May. *Proportion of Conflicts* is the fraction of all proposals voted last year that had a negative recommendation from ISS. *Management Support* is the average support across all of the firm's management proposals voted in the prior year. Big five ownership is the ownership by the five big fund families. Growth variables are the change in the variable from the prior year. Fixed effects are included and specified in the last row. P values are reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Panel A: Moving Out of Proxy Season		Panel B: Moving into Proxy Season	
	Model 1	Model 2	Model 3	Model 4
Proportion of ISS Conflicts	0.030*** (0.002)		-0.001 (0.859)	
Management Support		-0.084*** (0.004)		-0.104*** (0.001)
Industry Concentration in Proxy Season	-0.017** (0.020)	-0.016** (0.028)	0.059*** (0.001)	0.068*** (0.000)
Asset Growth	0.003 (0.591)	0.003 (0.597)	0.010 (0.111)	0.011* (0.091)
IO Growth	0.016 (0.173)	0.018 (0.118)	0.007 (0.640)	0.011 (0.467)
Assets	-0.004*** (0.000)	-0.004*** (0.000)	0.003** (0.022)	0.003*** (0.010)
ROA	-0.073*** (0.000)	-0.062*** (0.000)	-0.042*** (0.000)	-0.038*** (0.001)
MB	-0.003*** (0.005)	-0.003** (0.011)	-0.001 (0.391)	-0.001 (0.596)
Institutional Ownership	-0.033*** (0.000)	-0.037*** (0.000)	-0.026*** (0.000)	-0.027*** (0.000)
N	13803	13584	10999	10605
R-squared	0.024	0.022	0.01	0.012
Fixed Effects	Year			