Internet Appendix for "Electing Directors"*

Appendix A.
Additional Literature

The literature on corporate governance is voluminous. There are many papers we could not discuss in the text due to space constraints. The supplemental material below expands our discussion of some of the papers most immediately tied to our research.

The impact of director independence

A few other examples include Weisbach (1988), Bhagat and Black (1999), and Hermalin and Weisbach (2003).

The importance of shareholder votes in other contexts

The importance of shareholder votes is also noted in other contexts: Balachandran, Joos, and Weber (2003) analyze the importance of voting rights in relation to equity based compensation plans. Firm performance subsequent to the adoption of these plans is worse for firms that did not obtain shareholder approval. Recently, the SEC began requiring shareholder approval of such plans.

Shareholder access to the proxy

On November 28, 2007, the Securities and Exchange Commission (SEC) voted to allow firms the right to exclude any shareholder proposals related to the election of directors, including

* Citation format: Cai, Jie, Jacqueline L. Garner, and Ralph A. Walkling, 2009, Internet Appendix to "Electing Directors," *Journal of Finance* 64, 2389 - 2421, http://www.afajof.org/IA/2009.asp. Please note: Wiley-Blackwell is not responsible for the content or functionality of any supporting information supplied by the authors. Any queries (other than missing material) should be directed to the authors of the article.

the nomination of a director. The ruling effectively repealed a 2006 decision rendered by the U.S. State Court of Appeals for the 2nd Circuit. That 2006 decision, rendered in American Federation of State, County and Municipal Employees versus A.I.G., allowed shareholders the ability to submit proposals regarding director elections which could then be voted on by all shareholders (see Morgenson, New York Times, October 14, 2007, Morgenson, New York Times, December 2, 2007, and Dash, New York Times, November 29, 2007).

The role of broker votes

See Plitch (2006), for a discussion of the New York Stock Exchange proposal to end broker votes. Also see the SEC Staff Report, "Review of the Proxy Process: Regarding the Nomination and Election of Directors," July 15, 2003. Many scholars also have called for reforms in the way directors are elected. See, for example, Bebchuk (2003), Grundfest (2003), Joo (2003) and Pozen (2003).

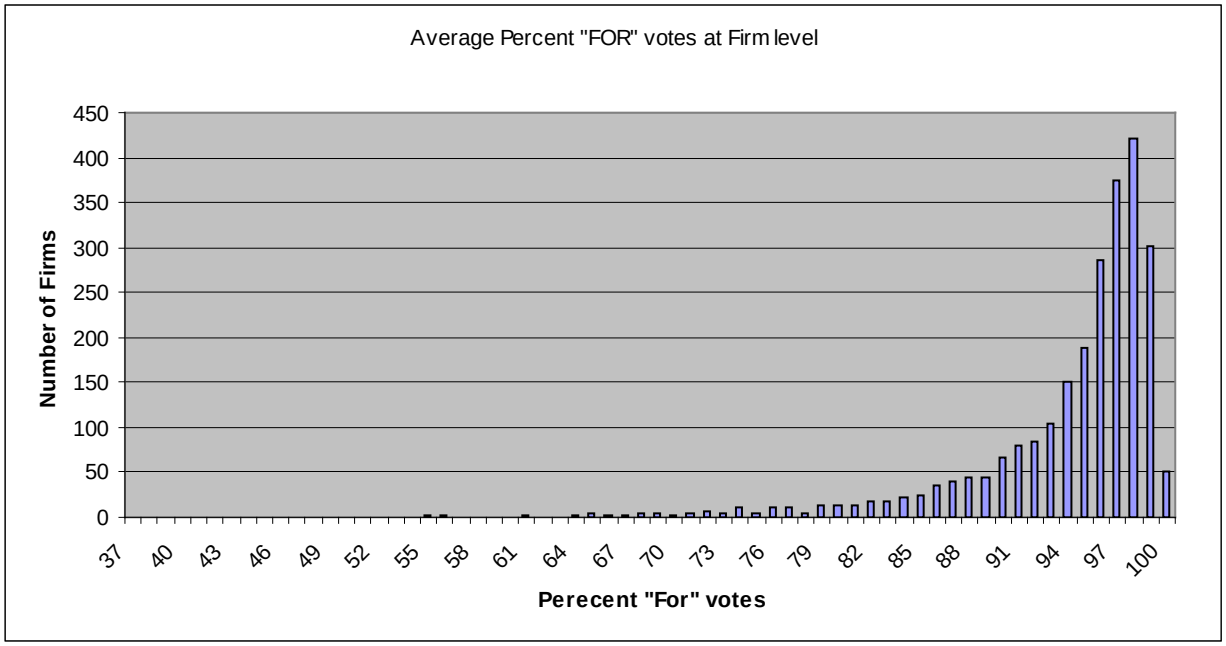
The influence of proxy advisors

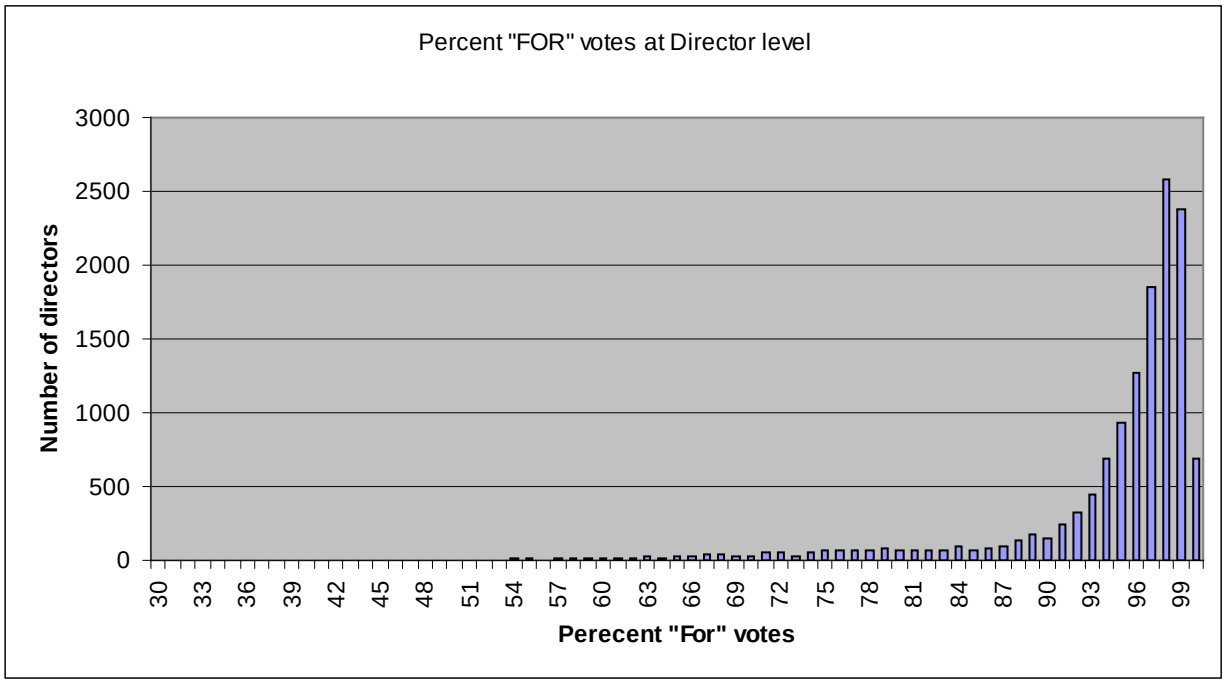
Several recent papers examine the influence of proxy advisors on shareholder votes. Alexander et al. (2008) find that ISS recommendations have a significant impact on the voting outcome and abnormal stock returns. They conclude that these recommendations convey new information to the market. Choi, Fisch, and Kahan (2008a) examine the differences across four proxy advisory firms and conclude that proxy advisory firms, and ISS in particular, affect the vote, but do not have as much influence as has been reported in the public press and by other academic studies. Choi, Fisch, and Kahan (2008b) find that the four top proxy advisory firms consider substantially different factors in their decision to issue withhold recommendations.

Verdam (2007) concludes that proxy advisory firms have a great deal of influence since institutional investors are pressured to play an active shareholder role, and they tend to rely on services of proxy advisory firms such as ISS. He is concerned about the potential conflict of interest as ISS renders governance advice to its corporate clients (for a fee), while giving voting guidelines to institutional investors on those same corporations.

Appendix B. Distribution of Percent "For" Votes at Firm Level and Director Level

The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes.





Appendix C.
Sensitivity Test of Using Alternative Stock Market Return Measures in Model (5) of Table II

The dependent variable in all OLS regressions is the average percent "For" votes of all directors being elected in a company. The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes. The two- and three-year excess return equals the stock return minus the market return (CRSP VWRETD) during the 24- or 36-month period prior to the shareholder meeting date. The Fama-French three- or four-factor regression intercepts are estimated for each stock during a 36-month period prior to the shareholder meeting date. The Governance index equals the sum of 24 anti-takeover provisions following Gompers, Ishii, and Metrick (2003). The Entrenchment index is the sum of six anti-takeover provisions following Bebchuk, Cohen, and Ferrell (2005). We estimate the abnormal CEO compensation as the residual from a compensation regression of all ExecuComp firms during our sample period. We include log assets, prior year stock return, industry and year dummies as the independent variables. The staggered board and poison pill dummy equals one if a company has both, and zero otherwise. Board size equals the number of directors on a board. Board holdings equal the aggregate percent of outstanding shares of a company held by the board of directors. Percent of outside directors equals the number of outside directors divided by the total number of directors. The average ISS recommendation is a function of firm performance as well as governance characteristics that are already included in the regressions. Therefore, we estimate a regression model of the average ISS recommendation based on our performance and governance characteristics (see footnote 14 for detail) and use the residuals from this model as our ISS variable. The litigation dummy equals one if a firm is involved in shareholder litigation in the year prior to the shareholder meeting, and zero otherwise. Following Fich and Shivdasani (2007), we exclude litigations related to insider trading. The confidential voting dummy equals one if firm policy prevents management from knowing how shareholders vote their proxy cards. The cumulative voting dummy equals one if the firm has a voting system whereby shareholders can cumulate votes for a single candidate. The unequal voting dummy equals one if the firm has two or more classes of shares with unequal voting power, and zero otherwise. The majority voting dummy equals one if the firm's directors are elected only if they receive more than 50% of the votes. The vote-no dummy equals one if at least one director at a firm receives a vote-no campaign in the year prior to the shareholder meeting, and zero otherwise. Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The Herfindahl index is the sum of squared individual institutional holdings divided by total institutional holdings. The institutional block holder dummy equals one if the firm has at least one institutional shareholder with more than 5% stock ownership, and zero otherwise. Holdings by Quasi-Indexer, Dedicated institutions, and Transient institutions follow the classification system by Bushee (2001). Industry dummies and year dummies are included in all regressions. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Independent variables and statistics	Dependent variable = Average Percent "For" votes			
Intercept	90.95	90.93	91.00	91.00
	(83.83)***	(83.86)***	(84.01)***	(84.02)***
Log assets	-0.01	-0.01	-0.02	-0.02
	(-0.14)	(-0.09)	(-0.21)	(-0.21)
Performance				
Prior-two-year excess returns	0.22			
	(1.49)			
Prior-three-year excess returns		0.21		
		(1.93)*		

Intercept from Fama-French three factor regression			0.07 (1.42)	
Intercept from Fama-French four factor regression				0.07 (1.43)
Governance				
Governance Index	-0.18 (-4.96)***	-0.18 (-4.99)***	-0.18 (-4.88)***	-0.18 (-4.88)***
Abnormal CEO compensation ($millions)	-0.04 (-2.42)**	-0.04 (-2.45)**	-0.04 (-2.42)**	-0.04 (-2.41)**
Board size	0.19 (3.77)***	0.19 (3.81)***	0.19 (3.81)***	0.19 (3.81)***
Board holdings	4.13 (5.01)***	4.08 (4.94)***	4.15 (5.04)***	4.14 (5.03)***
Percent of outside directors	8.55 (13.54)***	8.56 (13.56)***	8.55 (13.54)***	8.55 (13.54)***
Residual of average ISS recommendation	20.76 (57.15)***	20.76 (57.15)***	20.75 (57.12)***	20.75 (57.12)***
Litigation in prior year	-1.20 (-1.84)*	-1.22 (-1.88)*	-1.23 (-1.90)*	-1.23 (-1.90)*
Voting Mechanism				
Unequal voting dummy	2.31 (2.93)***	2.29 (2.91)***	2.31 (2.94)***	2.31 (2.94)***
Confidential voting dummy	-0.98 (-3.56)***	-0.99 (-3.59)***	-0.97 (-3.53)***	-0.97 (-3.54)***
Majority voting dummy	1.27 (3.42)***	1.28 (3.44)***	1.28 (3.45)***	1.28 (3.45)***
Vote-No dummy	-7.21 (-9.04)***	-7.21 (-9.03)***	-7.24 (-9.07)***	-7.24 (-9.07)***
Institutional Holdings	-2.98 (-4.24)***	-3.05 (-4.32)***	-2.99 (-4.24)***	-2.99 (-4.24)***
Herfindahl Index of inst'l holdings (%)	0.04 (1.11)	0.05 (1.20)	0.04 (1.14)	0.04 (1.14)
Block holder dummy	0.06 (0.20)	0.07 (0.22)	0.06 (0.19)	0.06 (0.18)
Calendar year dummy	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes
Adjusted R^2	0.613	0.613	0.613	0.613
N	2,488	2,488	2,488	2,488

Appendix D.
Sensitivity Tests to the Interaction of Governance Variables and Poor Firm Performance Indicator

The dependent variable in all OLS regressions is the average percent "For" votes of all directors being elected in a company. The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes. The poor performance dummy equals one if the industry adjusted EBITDA to assets is negative and zero otherwise. EBITDA to assets equals the earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997). The Governance index equals the sum of 24 anti-takeover provisions following Gompers, Ishii, and Metrick (2003). The Entrenchment index is the sum of six anti-takeover provisions following Bebchuk, Cohen, and Ferrell (2005). We estimate the abnormal CEO compensation as the residual from a compensation regression of all ExecuComp firms during our sample period. We include log assets, prior year stock return, industry and year dummies as the independent variables. The staggered board and poison pill dummy equals one if a company has both, and zero otherwise. Board size equals the number of directors on a board. Board holdings equal the aggregate percent of outstanding shares of a company held by the board of directors. Percent of outside directors equals the number of outside directors divided by the total number of directors. The average ISS recommendation is a function of firm performance as well as governance characteristics that are already included in the regressions. Therefore, we estimate a regression model of the average ISS recommendation based on our performance and governance characteristics (see footnote 14 for detail) and use the residuals from this model as our ISS variable. The litigation dummy equals one if a firm is involved in shareholder litigation in the year prior to the shareholder meeting, and zero otherwise. Following Fich and Shivdasani (2007), we exclude litigations related to insider trading. The confidential voting dummy equals one if firm policy prevents management from knowing how shareholders vote their proxy cards. The cumulative voting dummy equals one if the firm has a voting system whereby shareholders can cumulate votes for a single candidate. The unequal voting dummy equals one if the firm has two or more classes of shares with unequal voting power, and zero otherwise. The majority voting dummy equals one if the firm's directors are elected only if they receive more than 50% of the votes. The vote-no dummy equals one if at least one director at a firm receives a vote-no campaign in the year prior to the shareholder meeting, and zero otherwise. Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The Herfindahl index is the sum of squared individual institutional holdings divided by total institutional holdings. The institutional block holder dummy equals one if the firm has at least one institutional shareholder with more than 5% stock ownership, and zero otherwise. Holdings by Quasi-Indexer, Dedicated institutions, and Transient institutions follow the classification system by Bushee (2001). Industry dummies and year dummies are included in all regressions. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Independent variables and statistics	Dependent variable = Average Percent "For" votes					
Intercept	91.24	90.97	90.46	90.69	91.33	91.21
	(80.90)***	(84.26)***	(84.89)***	(79.08)***	(84.52)***	(84.40)***
Log assets	0.00	-0.06	-0.04	0.00	0.00	0.00
	(-0.03)	(-0.73)	(-0.53)	(-0.03)	(-0.06)	(-0.03)
Poor performance dummy	-0.63	-0.81	-0.60	0.47	-0.80	-0.59
	(-0.99)	(-2.61)***	(-2.70)***	(0.60)	(-4.00)***	(-3.49)***
Governance						
Governance index	-0.18			-0.18	-0.18	-0.18
	(-3.72)***			(-4.91)***	(-4.92)***	(-4.90)***
Entrenchment index		-0.45				
		(-3.99)***				
Staggered board and poison Pill			-0.65			
			(-2.71)***			
Percent of outside directors	8.46	8.28	8.38	9.23	8.52	8.46
	(13.41)***	(13.14)***	(13.24)***	(10.93)***	(13.49)***	(13.41)***
Board holdings	4.01	4.20	4.22	4.06	2.88	4.00
	(4.87)***	(5.14)***	(5.12)***	(4.93)***	(2.86)***	(4.87)***
Abnormal CEO compensation ($million)	-0.03	-0.03	-0.03	-0.03	-0.03	-0.04
	(-2.31)**	(-2.29)**	(-2.38)**	(-2.35)**	(-2.38)**	(-1.93)*
Board size	0.18	0.17	0.15	0.18	0.18	0.18
	(3.66)***	(3.40)***	(3.13)***	(3.66)***	(3.69)***	(3.67)***
Residual of average ISS recommendation	20.75	20.70	20.73	20.75	20.77	20.75
	(57.21)***	(57.05)***	(57.04)***	(57.25)***	(57.29)***	(57.17)***
Litigation in prior year	-1.28	-1.21	-1.24	-1.28	-1.27	-1.28
	(-1.98)**	(-1.88)*	(-1.91)*	(-1.97)**	(-1.97)**	(-1.97)**
Interaction between poor performance dummy and governance variables						
Poor performance dummy *G-index	0.00					
	(0.07)					
Poor performance dummy *E-index		0.13				
		(0.82)				
Poor performance dummy* Staggered board and P-pill			0.02			
			(0.06)			
Poor performance dummy* Percent of outside directors				-1.52		
				(-1.37)		
Percent of outside directors* Board holdings					2.64	
					(1.93)*	
Poor performance dummy* Abnormal CEO comp						0.01
						(0.23)
Voting Mechanism						
Unequal voting dummy	2.26	2.03	2.10	2.30	2.26	2.26

	(2.87)***	(2.58)**	(2.67)***	(2.92)***	(2.88)***	(2.88)***
Confidential voting dummy	-0.91	-0.78	-0.79	-0.89	-0.89	-0.91
	(-3.31)***	(-2.86)***	(-2.90)***	(-3.26)***	(-3.24)***	(-3.31)***
Majority voting dummy	1.23	1.24	1.31	1.22	1.19	1.23
	(3.30)***	(3.33)***	(3.54)***	(3.27)***	(3.21)***	(3.31)***
Vote-No dummy	-7.24	-7.23	-7.16	-7.26	-7.20	-7.23
	(-9.09)***	(-9.08)***	(-8.97)***	(-9.12)***	(-9.05)***	(-9.08)***
Institutional Holdings	-3.03	-2.94	-3.00	-2.96	-3.01	-3.02
	(-4.31)***	(-4.18)***	(-4.26)***	(-4.20)***	(-4.29)***	(-4.30)***
Herfindahl Index of inst'l holdings (%)	0.07	0.06	0.06	0.06	0.05	0.07
	(1.66)*	(1.45)	(1.48)	(1.61)	(1.38)	(1.66)*
Block holder dummy	0.10	0.09	0.06	0.10	0.13	0.10
	(0.32)	(0.27)	(0.19)	(0.32)	(0.40)	(0.32)
Calendar year dummy	Yes	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.614	0.614	0.613	0.615	0.615	0.615
N	2,488	2,488	2,488	2,488	2,488	2,488

Appendix E.
Characteristics of Newly Nominated Directors

A director nominee is an incumbent if she is on the board in the previous year and is a new nominee otherwise. The independence dummy equals one if a director is classified as "Independent" by IRRC, and zero if classified as "Employee" or "Linked." The ISS recommendation dummy equals one if ISS recommends voting "For" for a director and zero if ISS recommends "Withhold." Director stock ownership equals the number of shares held by the director divided by the number of shares outstanding. The percent "For" votes equals a director's "For" votes divided by the sum of "For" and "Withhold" votes. The excess percent "For" votes equals a director's percent "For" votes minus the company average percent "For" votes. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Director Characteristics	Newly nominated directors		Incumbent directors		t-stat of difference
	N	Mean	N	Mean	
Independence dummy	919	0.84	12463	0.70	9.11***
Director stock ownership (%)	919	0.17	12463	1.01	-13.97***
ISS Recommendation dummy	917	0.98	12461	0.89	15.63***
Number of outside board seats	919	0.65	12463	0.91	-6.52***
Age	919	54.87	12463	59.74	-16.82***
Gender (Female = 1)	919	0.15	12463	0.11	3.87***
Percent "for" votes	919	96.59	12463	94.10	14.90***
Excess percent "for" votes	919	2.11	12463	-0.16	13.67***

Appendix F.
Sensitivity Test of Using Firms with both Positive and Non-positive Abnormal CEO Compensation in Table V

In Table V, we include all firms whose current year abnormal CEO compensation is positive. In this sensitivity test, we also include firms with non-positive abnormal CEO compensation. In addition to the independent variables reported in Table V, we also include a dummy variable for overpaid CEOs and its interaction with the director vote measures. We then examine whether the director votes affect the change of abnormal CEO compensation prior to the next shareholder meeting. The abnormal CEO compensation is the residual from a compensation regression using all ExecuComp companies during our sample period as the benchmark. The dependent variable of the compensation regression is total CEO compensation including option grants, and the independent variables include three-year stock return, log market value of equity, Fama-French 48 industry classification, and year dummies. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. To control for compensation change due to CEO turnover, we include a CEO turnover dummy that equals one if the current and the next CEO compensation are paid to two different persons and zero if they are paid to the same person. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Independent variables and statistics	Dependent Variable = Change in Excess Total CEO Compensation ($ million)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	1.06 (5.72)***	0.97 (4.89)***	1.08 (5.56)***	0.98 (4.74)***	1.12 (4.97)***	1.05 (4.35)***	1.08 (5.59)***	0.99 (4.84)***
Dummy for overpaid CEO	-3.60 (-10.62)***	-3.55 (-10.43)***	-3.40 (-9.45)***	-3.35 (-9.27)***	-3.53 (-8.62)***	-3.46 (-8.34)***	-3.57 (-10.18)***	-3.52 (-9.99)***
Average residual votes of all directors	-0.006 (-0.22)	-0.004 (-0.14)						
Average residual votes of comp committee directors			-0.030 (-1.10)	-0.027 (-1.00)				
Compensation committee Chair residual vote					-0.016 (-0.56)	-0.015 (-0.53)		
Average residual votes of non-comp committee directors							0.003 (0.09)	0.004 (0.18)
Dummy for overpaid CEO* Average residual votes of all directors	0.099 (1.78)*	0.100 (1.80)*						
Dummy for overpaid CEO* Average residual votes of comp committee directors			0.173 (3.55)***	0.172 (3.54)***				
Dummy for overpaid CEO* Compensation committee Chair residual vote					0.238 (4.41)***	0.239 (4.42)***		
Dummy for overpaid CEO* Average residual votes of non-comp committee directors							-0.026 (-0.47)	-0.026 (-0.47)
Dummy of a shareholder proposal on CEO compensation		-0.55 (-0.88)		-0.40 (-0.63)		-0.37 (-0.54)		-0.59 (-0.94)
CEO turnover dummy		1.01 (2.07)**		1.03 (1.98)**		0.72 (1.20)		0.95 (1.87)*
Adjusted R^2	0.071	0.0073	0.080	0.0816	0.134	0.134	0.067	0.068
N	1,486	1,486	1,301	1,301	678	678	1,421	1,421

Appendix G.
Sensitivity Test of Using the Change of log CEO Excess Compensation in Table V as the Dependent Variable

The following table reports a sensitivity test of the results in Table V. The dependent variable here equals the Change in Excess Log Total CEO Compensation rather than the Change in Excess Total CEO compensation as in Table V. We include all firms whose current year abnormal CEO compensation is positive. We then examine whether the director votes affect the change of abnormal CEO Compensation prior to the next shareholder meeting. The abnormal CEO compensation is the residual from a compensation regression using all ExecuComp companies during our sample period as the benchmark. The dependent variable of the compensation regression is log total CEO compensation including option grants, and the independent variables include three-year stock return, log market value of equity, Fama-French 48 industry classification, and year dummies. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. To control for compensation change due to CEO turnover, we include a CEO turnover dummy that equals one if the current and the next CEO compensation are paid to two different persons and zero if they are paid to the same person. In a sensitivity test, we exclude the observations where the CEO turns over, and the results are unchanged. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Independent variables	Dependent Variable = Change in Excess Log Total CEO Compensation							
And statistics	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-0.40 (-9.18)***	-0.39 (-7.97)***	-0.37 (-7.74)***	-0.36 (-6.84)***	-0.34 (-7.05)***	-0.30 (-5.65)***	-0.41 (-9.00)***	-0.38 (-7.70)***
Average residual votes of all directors	0.0124 (1.69)*	0.0119 (1.62)						
Average residual votes of comp committee directors			0.0153 (2.38)**	0.0152 (2.36)**				
Compensation committee Chair residual vote					0.0146 (2.22)**	0.013 (2.05)**		
Average residual votes of non-comp committee directors							0.006 (0.86)	0.006 (0.77)
Dummy of a shareholder proposal on CEO compensation		-0.07 (-0.48)*		-0.07 (-0.47)		-0.15 (-1.09)		-0.07 (-0.47)
CEO turnover dummy		-0.11 (-0.72)		-0.04 (-0.22)		-0.24 (-1.32)		-0.18 (-1.11)
Adjusted R^2	0.004	0.001	0.012	0.008	0.019	0.023	-0.001	-0.002
N	447	447	389	389	209	209	430	430

Appendix H.
Sensitivity Test Using Residual CEO Votes as Main Independent Variable in Table VI

The following table reports the results for a sensitivity test of Table VI. The main independent variable in this table is the residual CEO votes rather than the residual votes for independent, insider, and all directors in Table VI. The dependent variable is the CEO turnover dummy. Since, in this table, we examine whether director votes have an impact on CEO turnover, we define the turnover dummy to be equal to one if the CEO departs between the current and the next shareholder meetings and zero otherwise. To control for firm performance, we estimate a regression of CEO votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the CEO votes as our main independent variable. CEO is Chairman dummy equals one if the CEO also serves as Chairman of the Board, and zero otherwise. CEO Ownership is the percent of outstanding shares owned by the CEO. CEO Tenure is the number of years that the CEO has served in the position. We compute abnormal CEO compensation as the residual from a compensation regression using all ExecuComp companies during our sample period as the benchmark. EBITDA to assets equals the earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997). The Governance index equals the sum of 24 anti-takeover provisions following Gompers, Ishii, and Metrick (2003). Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	Dependent variable = CEO turnover dummy
Independent variables and statistics	(1)
Intercept	-5.37
	(-5.04)***
Residual votes for CEO	**-0.02**
	(-0.94)
Percent of outside directors	2.76
	(2.66)***
CEO ownership	1.95
	(0.73)
CEO tenure	-0.01
	(-0.73)
CEO is the Chairman dummy	0.10
	(0.33)
CEO age > 65 dummy	1.52
	(3.79)***
CEO's prior-year excess compensation ($million)	-0.07
	(-1.96)**
Industry adjusted EBITDA/ Assets	-2.07
	(-1.47)
Prior year excess return	-1.04
	(-2.46)**
GIM-index	0.06
	(1.14)
Change in institutional holdings during the prior year	0.67
	(0.52)
Log assets	0.04
	(0.44)
N – No CEO turnover	729
N – CEO turnover	70
Pseudo- R^2	0.101

Appendix I.

Sensitivity Test of Using Non-governance Committee Director Votes as the Main Independent Variable in Table VII.

The following table shows the effect of the votes of non-governance committee directors on the probability of removing poison pill or classified board. The sample includes all firms with Poison Pill or Classified Board in the current year IRRC governance report. Using logistic regressions, we examine whether the subsequent director election votes affect a firm's decision to keep or remove the Poison Pill or Classified Board before the next IRRC report. The dependent variable in Panel A equals one if the poison pill is removed, and zero otherwise. The dependent variable in Panel B equals one if the classified board is removed and zero otherwise. If there is more than one director election between two IRRC reports, we take the average value of vote variables of the elections. Industry and calendar year dummies are included in the regressions but not reported. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. Board holdings equal the aggregate percent of outstanding shares of a company held by the board of directors. Percent of outside directors equals the number of outside directors divided by the total number of directors. *, **, and *** denote statistical significance at 10%, 5%, and 1% level, respectively.

Panel A: Dependent Variable = Removal of Poison Pill		
Intercept	-7.02	-6.35
	(-0.22)	(-0.40)
Average residual votes for non-governance committee members	-0.040	-0.029
	(-2.40)**	(-1.60)
Dummy of a shareholder proposal on the poison pill		2.17
		(4.86)***
Prior year stock return		-0.71
		(-1.26)
Percent of outside directors		1.06
		(0.72)
Board holdings		-13.80
		(-2.51)**
Pseudo-R^2	0.167	0.288
N (Dependent variable = 1)	58	58
N	1,010	1,010

Panel B: Dependent Variable = Removal of Classified Board				
Intercept	-7.52	-9.81	-7.47	-9.66
	(-0.33)	(-0.36)	(-0.32)	(-0.35)
Range of non-governance committee member residual votes	0.039	0.046		
	(2.09)**	(2.38)**		
Standard deviation of non- governance committee member residual votes			0.040	0.049
			(1.28)	(1.53)
Dummy of a shareholder proposal on the governance issue		1.24		1.27
		(2.33)**		(2.40)**
Prior year stock return		-0.81		-0.75
		(-1.27)		(-1.20)
Percent of outside directors		2.93		2.78
		(1.96)*		(1.88)*
Board holdings		-0.35		-0.32
		(-0.17)		(-0.15)
Pseudo-R^2	0.196	0.237	0.189	0.228
N (Dependent variable = 1)	45	45	45	45
N	965	965	965	965

Appendix J.
Do Director Votes Affect Post Election Stock and Accounting Performance?

EBITDA to assets equals the earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997). Change in EBITDA to assets equals the EBITDA to assets in the first fiscal year beginning after the shareholder meeting minus the return on assets in the last fiscal year ending before the shareholder meeting; both values are industry adjusted by subtracting the industry median. Change in market adjusted excess return equals the excess return in the twelve months beginning 6 months after the shareholder meeting minus the excess return in the twelve months ending 1 month before the shareholder meeting. The excess return equals the stock return minus CRSP valued weighted index (VWRETD) over the same period. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. Leverage equals the book value of all short-term long-term debt divided by the book value of total assets. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

	Dependent variable = Change in	
Independent variables and statistics	Industry adjusted EBITDA to assets	Market adjusted excess return
Intercept	-0.02	-0.00
	(-1.52)	(-0.02)
Residual director votes (X100)	**0.03**	**0.008**
	(1.02)	**(-0.94)**
Log assets	0.003	
	(2.27)**	
Leverage	-0.05	
	(-3.53)***	
N	2,136	2,485
Adjusted R^2	0.006	0.000

Appendix K.
Do Director Votes Affect Director Turnover?

The dependent variable in all regressions is the leave dummy, which equals one if the director is not on the board in the next year and zero otherwise. Since we need the next year's board data to define the leave dummy, only director elections held in 2003 to 2004 are included in this table. Since directors on a staggered board are not up for election in the next year, we exclude all directors on a staggered board in this table. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. EBITDA to assets equals the earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997). The Governance index equals the sum of 24 anti-takeover provisions following Gompers, Ishii, and Metrick (2003). The independence dummy equals one if a director is classified as "Independent" by IRRC, and zero if classified as "Employee" or "Linked." The incumbent director dummy equals one if a director is on the board in the previous year, and zero otherwise. Stock ownership equals the number of shares held by the director divided by the number of shares outstanding. Since the ISS recommendation dummy is also a function of other director and firm characteristics included in the regression, we estimate a logistic regression explaining the recommendation using the variables in Table IV (see footnote 19 for detail) and then use the residual in the regressions reported here. The CEO turnover dummy equals one if the CEO of a company changes in the previous year, and zero otherwise. Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The Herfindahl index is the sum of squared individual institutional holdings divided by total institutional holdings. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Independent variables and statistics	Dependent variable = Director turnover Dummy	
Intercept	-2.67	-4.81
	(-59.66)***	(-9.95)***
Residual director votes	**-0.01**	**0.01**
	(-1.26)	**(0.86)**
Industry adjusted EBITDA/ Assets		0.01
		(0.02)
Prior year excess return		-0.06
		(-0.51)
GIM Index		0.00
		(-0.02)
Independence dummy		-0.72
		(-7.00)***
Incumbent dummy		0.30
		(1.19)
Attend less than 75% of meetings		1.69
		(5.89)***
Stock ownership (%)		-0.08
		(-3.77)***
Residual of ISS recommendation		0.02
		(0.10)
Age		0.04
		(7.84)***
CEO turnover dummy		0.23
		(1.70)*
Gender (Female = 1)		0.29
		(1.87)*
Institutional Holdings		-0.63
		(-2.15)**
Herfindahl Index of institutional holdings		2.52
		(1.61)
N – Director turnover	533	533
N – No director turnover	7,728	7,728
Pseudo R^2	0.001	0.047

Appendix L.
Do Director Votes Affect Board Seats at Other Companies?

The dependent variable in all regressions is the change in outside board seats held by a director. Since we need the next year's board data to define the leave dummy, only director elections held in 2003 to 2004 are included in this table. To control for firm performance, we estimate a regression of director election votes on prior year industry-adjusted EBITDA and excess stock return with industry and calendar year fixed effects. We then take the residual of the director votes as our main independent variable in this table. EBITDA to assets equals the earnings before interest, taxes, depreciation, and amortization divided by total assets at the end of the previous fiscal year. We adjust EBITDA to assets by the industry median, where the industry classification is defined in Fama and French (1997). The Governance index equals the sum of 24 anti-takeover provisions following Gompers, Ishii, and Metrick (2003). The independence dummy equals one if a director is classified as "Independent" by IRRC, and zero if classified as "Employee" or "Linked." The incumbent director dummy equals one if a director is on the board in the previous year, and zero otherwise. Stock ownership equals the number of shares held by the director divided by the number of shares outstanding. Since the ISS recommendation dummy is also a function of other director and firm characteristics included in the regression, we estimate a logistic regression explaining the recommendation using the variables in Table IV (see footnote 19 for detail) and then use the residual in the regressions reported here. The CEO turnover dummy equals one if the CEO of a company changes in the previous year, and zero otherwise. Institutional holdings equal the aggregate percent of outstanding shares of a company held by all financial institutions. The Herfindahl index is the sum of squared individual institutional holdings divided by total institutional holdings. *, **, and *** denote statistical significance at 10%, 5%, and 1% level.

Independent variables and statistics	Dependent variable = Change in outside board seats	
Intercept	0.01	0.19
	(1.18)	(0.35)
Residual director votes (X100)	**0.07**	**0.08**
	(0.98)	**(0.66)**
Industry adjusted EBITDA/Assets		-0.12
		(-1.73)*
Prior year excess return		0.02
		(1.31)
GIM Index		-0.01
		(-3.11)***
Independence dummy		0.01
		(0.33)
Incumbent dummy		0.06
		(0.12)
Attend less than 75% of meetings		-0.09
		(-1.25)
Stock ownership (%)		0.00
		(-0.37)
Residual of ISS recommendation		-0.01
		(-0.37)
Age		0.00
		(-5.15)***
CEO turnover dummy		0.04
		(1.88)*
Gender (Female = 1)		-0.04
		(-1.89)*
Institutional holdings		0.07
		(1.62)
Herfindahl Index of institutional holdings		0.29
		(1.06)
N	7,344	7,344
Adjusted R^2	-0.000	0.006

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