Abstract

This study examines the relationship between proxy advisory firms’ recommendations and investors’ voting behaviour in Japan, where corporate governance has been under transition. Based on 1,025 shareholder meeting proposals and recommendations by proxy advisory firms in Japan between March 2010 and March 2022, multivariate regression analyses reveal that the dissenting recommendations of the two main proxy advisory firms are negatively correlated with the approval rate of proposals, as well as the percentage of affirmative votes cast by institutional investors. Institutional investors’ behaviour is more consistent with the recommendations of proxy advisory firms than that of other investors.

Methods

<table>
<thead>
<tr>
<th>Attributes of proposal</th>
<th>Company proposal</th>
<th>Shareholder proposal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Election of directors</td>
<td>834</td>
<td>70</td>
<td>904</td>
</tr>
<tr>
<td>Partial amendment to the articles of incorporation</td>
<td>18</td>
<td>33</td>
<td>51</td>
</tr>
<tr>
<td>Capital policy</td>
<td>8</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Shareholder returns</td>
<td>7</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>Director compensation</td>
<td>12</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Takeover defense</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>900</td>
<td>125</td>
<td>1,025</td>
</tr>
</tbody>
</table>

\[
\text{Approval Rate}_{ij} = a + b_1\text{ISS}_{ij} + b_2\text{PreISS}_{ij} + b_3\text{GL}_{ij} + b_4\text{PreGL}_{ij} + \sum_{k=1}^{n} b_k\text{Company Proposal Counter}_{ik} + b_{n+1}\text{Shareholder Proposal Counter}_{ij} + \sum_{k=1}^{n} b_k\text{Controls}_{ij} + \epsilon_{ij}
\]

- Dummy variables representing the proxy advisory firm’s dissenting recommendations
- Dummy variables representing a company’s rebuttal
- Dummy variables for the characteristics of the proposal, financial indicators, and governance indicators

Results

1. For all models, the dummy variables representing the proxy advisory firms’ dissenting recommendations (ISS, PreISS, GL, and PreGL) have significantly negative coefficients.
2. The coefficients on ISS are more negative than those on GL, and the coefficients on PreISS are more negative than those on PreGL.
   - ISS is more influential than Glass Lewis and that ISS’s market share is larger than that of Glass Lewis.
3. The coefficients are less than 20% for ISS, GL, and PreGL, but larger for PreISS.
   - On average, the recommendations of a proxy advisory firm can change the approval rate of a proposal by less than 20%.
   - The influence of a proxy advisory firm is not too large in Japan to require regulation.

Conclusions

- This study examined the relationship between 1,025 shareholder meeting proposals and recommendations by proxy advisory firms in Japan between March 2010 and March 2022.
- The multivariate regression analyses revealed that the dissenting recommendations of the two main proxy advisory firms, the ISS and Glass Lewis, were negatively correlated with the approval rate of proposals and that ISS was more influential than Glass Lewis.
- On average, the recommendations of a proxy advisory firm can change the approval rate of a proposal by less than 20%, indicating that the influence of a proxy advisory firm is not too large in Japan to require regulation.
- The results also indicate that the dissenting recommendations of proxy advisory firms are negatively correlated with the percentage of affirmative votes cast by institutional investors and that institutional investors’ voting behaviour is more consistent with the recommendations of proxy advisory firms than that of other investors.
- The Chow test showed that the influence of proxy advisory firms’ recommendations on voting results did not change after 2017.

References