

Internet Appendix for:
“Quality of Proxy Advice: Evidence from Say-on-Pay
Recommendations”

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Table IA1. Sample Distribution by Year

This table reports the distribution of the sample. The unit of observation is firm x year x proxy advisor. The sample spans the meeting years of 2012 – 2019.

Meeting Year	Against Recommendations		
	N	Mean	STD
2012	702	15.5%	36.2%
2013	934	9.9%	29.8%
2014	1,170	10.5%	30.7%
2015	1,212	10.6%	32.1%
2016	1,274	11.7%	32.1%
2017	1,534	11.2%	31.6%
2018	1,494	10.6%	30.8%
2019	1,534	8.9%	28.2%

Table IA2. Proxy Advisors' Recommendations and Relative Performance Evaluation: Firm-specific and Industry-specific Peer Performance Sensitivities

This table presents the second-stage regression results that examine the relationship between the likelihood of proxy advisors' negative say-on-pay recommendations and industry peer performance in which the first stage allows for industry-specific or firm-specific peer performance sensitivities. The sample spans the meeting years of 2012 – 2019. The sample includes firms covered by both ISS and Glass Lewis and with December fiscal year-end. The unit of observation is firm \times year \times proxy advisor. The first-stage regressions use industry stock returns to predict contemporaneous company stock returns. The second-stage regressions predict a proxy advisor's likelihood to recommend against a CEO's pay package using the predicted values and the residuals from the first-stage regression as estimates of the peer group component and the idiosyncratic component of firm stock returns, respectively. Column (1) allows for industry-specific betas in the first stage. Column (2) allows for firm-specific betas in the first stage. The dependent variable is the indicator variable, *Against*, which takes the value of one if a proxy advisor (ISS or Glass Lewis) recommends investors to vote against the management. The industry peer definitions use four alternative groups. Estimation error are adjusted using clustered bootstrapping. Specifically, I re-sample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficients estimates. All variables are defined in Appendix A. All dollar values are in 2010 dollars. All financial measures are winsorized at the 1% level. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: Against	(1)	(2)
	Industry-specific beta	Firm-specific beta
Peer performance	-0.071*** (0.021)	-0.046*** (0.016)
Firm-specific performance	-0.058*** (0.012)	-0.072*** (0.013)
Observations	9,822	9,714
Adj. R-sq	0.238	0.234
Controls	Yes	Yes
Year FE, Firm FE	Yes	Yes
Proxy advisor FE	Yes	Yes

Table IA3. Proxy Advisors' Recommendations and Relative Performance Evaluation: Different Clustering

This table presents the second-stage regression results that examine the relationship between the likelihood of proxy advisors' negative say-on-pay recommendations and industry peer performance using different clustering in standard errors. The sample spans the meeting years of 2012 – 2019. The sample includes firms covered by both ISS and Glass Lewis and with December fiscal year-end. The unit of observation is firm \times year \times proxy advisor. The first-stage regressions use industry stock returns to predict contemporaneous company stock returns. The second-stage regressions predict a proxy advisor's likelihood to recommend against a CEO's pay package using the predicted values and the residuals from the first-stage regression as estimates of the peer group component and the idiosyncratic component of firm stock returns, respectively. The dependent variable is the indicator variable, *Against*, which takes the value of one if a proxy advisor (ISS or Glass Lewis) recommends investors to vote against the management. I cluster the standard errors by industry in Column (1) and by industry \times year in Column (2). The industry peer definitions use four alternative groups. Estimation error are adjusted using clustered bootstrapping. Specifically, I re-sample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficients estimates. All variables are defined in Appendix A. All dollar values are in 2010 dollars. All financial measures are winsorized at the 1% level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: Against	(1)	(2)
	Industry	Industry \times Year
Peer performance	-0.073*** (0.023)	-0.073*** (0.021)
Firm-specific performance	-0.059*** (0.012)	-0.059*** (0.011)
Observations	9,854	9,854
Adj. R-sq	0.239	0.239
Controls	Yes	Yes
Year FE, Firm FE	Yes	Yes
Proxy advisor FE	Yes	Yes

Table IA4. Proxy Advisors' Recommendations and Relative Performance Evaluation: Probit Model

This table presents the second-stage regression results that examine the relationship between the likelihood of proxy advisors' negative say-on-pay recommendations and industry peer performance using probit model. The sample spans the meeting years of 2012 – 2019. The sample includes firms covered by both ISS and Glass Lewis and with December fiscal year-end. The unit of observation is firm \times year \times proxy advisor. The first-stage regressions use industry stock returns to predict contemporaneous company stock returns. The second-stage regressions predict a proxy advisor's likelihood to recommend against a CEO's pay package using the predicted values and the residuals from the first-stage regression as estimates of the peer group component and the idiosyncratic component of firm stock returns, respectively. The dependent variable is the indicator variable, *Against*, which takes the value of one if a proxy advisor (ISS or Glass Lewis) recommends investors to vote against the management. The industry peer definitions use four alternative groups. Estimation error are adjusted using clustered bootstrapping. Specifically, I re-sample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficients estimates. All variables are defined in Appendix A. All dollar values are in 2010 dollars. All financial measures are winsorized at the 1% level. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: Against	(1)	(2)
Peer performance	-0.664*** (0.189)	-0.397** (0.159)
Firm-specific performance	-0.752*** (0.128)	-0.282*** (0.091)
Sample	ISS	GL
Observations	4,927	4,927
Controls	Yes	Yes
Year FE	Yes	Yes

Table IA5. Proxy Advisors' Recommendations and Relative Performance Evaluation: Abnormal CEO Pay

This table presents the second-stage regression results that examine the relationship between the likelihood of proxy advisors' negative say-on-pay recommendations and industry peer performance using abnormal CEO pay instead of actual CEO pay. The sample spans the meeting years of 2012 – 2019. The sample includes firms covered by both ISS and Glass Lewis and with December fiscal year-end. The unit of observation is firm \times year \times proxy advisor. The first-stage regressions use industry stock returns to predict contemporaneous company stock returns. The second-stage regressions predict a proxy advisor's likelihood to recommend against a CEO's pay package using the predicted values and the residuals from the first-stage regression as estimates of the peer group component and the idiosyncratic component of firm stock returns, respectively. The dependent variable is the indicator variable, *Against*, which takes the value of one if a proxy advisor (ISS or Glass Lewis) recommends investors to vote against the management. The industry peer definitions use four alternative groups. Estimation error are adjusted using clustered bootstrapping. Specifically, I re-sample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficients estimates. All variables are defined in Appendix A. All dollar values are in 2010 dollars. All financial measures are winsorized at the 1% level. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: Against	(1)	(2)
Peer performance	-0.060** (0.024)	-0.057** (0.024)
Firm-specific performance	-0.048*** (0.012)	-0.045*** (0.012)
Insider ownership	0.092 (0.617)	0.182 (0.637)
Institutional ownership	-0.055 (0.076)	-0.051 (0.077)
Assets	0.046*** (0.016)	0.054*** (0.016)
CEO tenure	0.016** (0.008)	0.016** (0.008)
CEO residual pay	0.010*** (0.002)	
Abnormal positive pay		0.060*** (0.012)
Observations	9,854	9,854
Adj. R-sq	0.237	0.230
Year FE, Firm FE	Yes	Yes
Proxy advisor FE	Yes	Yes

Table IA5. ISS Sample - Summary Statistics

This table presents the descriptive statistics of the main variables in the ISS sample. The sample spans the meeting years of 2011 – 2019. The sample includes firms covered by ISS and with December fiscal year end. The unit of observation is firm x year. All variables are defined in Appendix A. All dollar values are in 2010 dollars. All financial measures are winsorized at the 1% level.

Proposal-level	N	Mean	STD	P25	Median	P75
ISS Against rec.	7,970	10.9%	31.3%	0	0	0
Shareholder SOP dissent	7,970	9.1%	12.1%	2.3%	4.4%	9.2%
Shareholder dissent when ISS Against	867	36.1%	15.7%	25.3%	34.6%	45.2%
Firm-level						
12-month stock return	7,970	0.16	0.39	-0.07	0.12	0.33
Equal-weighted industry return	7,970	0.12	0.29	-0.07	0.10	0.29
Value-weighted industry return year-end	7,970	0.12	0.26	-0.03	0.12	0.28
Stock volatility	7,970	0.30	0.16	0.19	0.26	0.36
Log (Assets)	7,970	8.12	1.82	6.78	8.03	9.30
ROA	7,970	0.12	0.10	0.06	0.11	0.16
Institutional ownership	7,970	79.5%	19.3%	71.6%	84.2%	93.0%
Insider ownership	7,970	3.2%	6.3%	0.5%	1.3%	2.9%
CEO-level						
CEO annual pay (in mil)	7,970	5.67	4.86	2.18	4.22	7.63
CEO pay growth	7,970	25.4%	84.8%	-11.5%	7.2%	33.3%
Fraction of cash pay	7,970	48.4%	24.2%	30.9%	43.7%	62.0%
CEO tenure (in years)	7,970	8.8	7.2	3.7	6.8	11.6
CEO age (in years)	7,970	57	7	52	57	61

Table IA6. ISS Recommendations and Institutional Monitoring

This table presents how institutional monitoring affects the sensitivity of ISS say-on-pay recommendations to the industry peer performance. The sample spans the meeting years of 2011 – 2019. The sample includes firms covered by ISS and with December fiscal year-end. The unit of observation is firm \times year. The dependent variable is the indicator variable, *ISS Against*, which takes the value of one if ISS recommends voting against the management. *Greater # blockholders* is an indicator variable that takes the value of one if a firm’s number of blockholders is above the sample median. *Greater institutional ownership* is an indicator variable that takes the value of one if a firm’s institutional ownership is above the sample median. *Greater # mutual fund families* is an indicator variable that takes the value of one if the number of fund families following the firm is above the sample median. The industry peer definitions use four-digit SIC codes. Estimation error are adjusted using clustered bootstrapping. Specifically, I re-sample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficients estimates. All variables are defined in Appendix A. All dollar values are in 2010 dollars. All financial measures are winsorized at the 1% level. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: ISS Against	(1)	(2)	(3)
Peer performance \times Greater # blockholders	0.038 (0.038)		
Greater # blockholders	0.013 (0.011)		
Peer performance \times Greater institutional ownership		0.017 (0.037)	
Greater institutional ownership		-0.000 (0.014)	
Peer performance \times Greater # mutual fund families			0.007 (0.037)
Greater # mutual fund families			-0.081*** (0.013)
Peer performance	-0.096*** (0.029)	-0.090*** (0.031)	-0.076*** (0.033)
Firm-specific performance	-0.095*** (0.011)	-0.097*** (0.011)	-0.087*** (0.011)
Observations	7,970	7,970	7,970
Adj. R-sq	0.092	0.092	0.100
Controls	Yes	Yes	Yes
Year FE, Industry FE	Yes	Yes	Yes

Figure IA1. Proxy advisors' Recommendations and Board's Decisions

This figure presents the scatter plots of weights on industry peer performance from the board's decisions on relative performance evaluation in executive pay against the ones from proxy advisors' negative recommendations of say-on-pay proposals. I first estimate coefficients of industry peer performance from ISS recommendations by industry. I then estimate coefficients of industry peer performance from the board's decisions in setting CEO pay.

