

DIRECTOR ELECTIONS: AN ANALYSIS OF SHAREHOLDER RESPONSE TO DIRECTORS' REPUTATION AND EXPERTISE

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Abstract

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The purpose of this study is to determine whether shareholders take directors' independence, gender, expertise, and reputation into account when voting in directors' elections. To this end, we regressed several explanatory variables representing these characteristics on the percentage of "in favour" votes cast during annual elections in 2017 for each director, based on a sample of 60 Canadian firms. Among these explanatory variables, we used two measures of their reputation, one measure of their level of education, several measures of their area of expertise, and one measure of their independence. Their reputation was assessed based on their inclusion in the *Canadian Who's Who* directory and their membership on another board of directors of a Canadian public company. The other explanatory variables were collected from official company documents, especially the proxy circulars available on the Canadian Securities Administrators website. The accounting and financial variables were drawn from the Research Insights database. The results of the regression analysis indicate that although shareholders do not seem to consider directors' reputation and expertise when casting their vote, they do take their independence and gender into account.

Keywords: Shareholder Democracy, Board of Directors' Election, Independence, Gender, Expertise, Reputation

Authors' individual contribution: Conceptualization - S.B. and M.C.; Methodology - M.C.; Formal Analysis - S.B. and M.C.; Resources - S.B. and M.C.; Writing - S.B.; Supervision - S.B.

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1. INTRODUCTION

The board of directors is a key component of the corporate governance system. It is made up of a group of individuals elected by shareholders and mandated to determine an organisation's strategic objectives; hire, fire, and monitor senior management; determine executive compensation; and provide senior management with strategic advice (Veltrop, Molleman, Hooghiemstra, & van Ees, 2017). Given this mission, the impact of the board on a firm's strategies and financial performance can be

significant. Nonetheless, the business community, regulatory authorities, and academics from a range of disciplines have so far mainly focused their interest on boards' oversight functions.

This interest was sparked by the many financial scandals of the 2000s and escalating CEO compensation in recent decades. Most western countries have introduced stricter regulations that highlight director independence. For example, in Canada, the *National Policy 58-201 Corporate Governance Guideline* of the Canadian Securities Administrators encourages public companies to

have a majority of independent directors on their board. A board that is largely composed of independent directors is seen as a governance mechanism that can mitigate problems tied to the separation of ownership and control (Berle & Means, 1932), such as management earnings (Klein, 2002; Ahmed & Duellman, 2007), corporate misconduct (Neville, Byron, Post, & Ward, 2019) and excessive CEO compensation demands (Kuo & Yu, 2014).

According to the agency theory, firms that need funding to grow will issue shares. This means that many investors own a firm but cannot collectively make the day-to-day decisions required to operate it; hence the need for competent managers (Kim, Nofsinger, & Mohr, 2010). However, these managers have their own goals and work to attain them. Since the board is a governance mechanism enabling executive supervision, director independence is essential for its members to play this role because it ensures that directors are not tied to managers' intrinsic interests. This issue has been the focus of numerous studies in recent decades.

Although far less research has addressed directors' expertise, gender, and reputation, these characteristics also very likely play a major role in firms' strategic directions and financial performance. We examined these characteristics and directors' independence via a research methodology that differs from the event studies or value relevance studies used in previous research. We examined how shareholders take these characteristics into account when electing directors rather than deducing the importance granted to them based on share prices. Our study's objective is to examine whether shareholders take directors' independence, gender, expertise, and reputation into account when electing directors at general meetings. Our results show positive and significant links between "in favour" shareholder's votes and director independence and gender (female). However, shareholders do not appear to be concerned with directors' expertise and reputation.

These results contribute to understanding the relationship between shareholders and boards of directors. While the votes reflect strong agreement with the candidates nominated, their independence and the fact that they are female seem to be the characteristics shareholders concentrate on rather than directors' expertise and reputation. As previously mentioned, the business community and regulatory bodies have shown considerable interest in director independence and gender diversity in recent years. Shareholders' votes appear to reflect this interest. These results suggest that shareholders view a board's oversight functions as more important than its role to provide strategic advice. These findings tend to show that shareholders and regulators have similar concerns. As well as these contributions, our results add to the sum of knowledge on managerial power theory. Shareholders' interest in director independence and gender is one of the ways they can discipline firms' boards and management teams.

The rest of this article is organised into several sections. Section 2 reviews previous literature, while Section 3 describes the research methodology. Section 4 presents the study's main results and Section 5 discusses its key findings. Lastly, Section 6 sets out the study's main conclusions and limitations, along with potential avenues for future research.

2. LITERATURE REVIEW

According to Shleifer and Vishny (1997), one of the most important legal rights shareholders have, is the right to vote on the election of members of the board. The directors are the shareholders' representatives (Cai, Garner, & Walkling, 2009). If shareholder involvement in directors' elections is weak, the relationship between shareholders and managers will also be weak (Cai et al., 2009), with the result that agency costs could be significant for shareholders. However, few studies have examined this key component of public corporations' governance systems. Over the last decades, the results of some studies that have attempted to corroborate the managerial power theory (van Essen, Otten, & Carberry, 2015) tend to support a more extensive examination of how shareholders exercise this important legal right.

The managerial power theory derives from work by Bebchuk and Fried (2004), who found that directors responsible for establishing executive pay, seldom confront senior management about compensation arrangements because of the structural and social-psychological mechanisms that confer power to the executives (van Essen et al., 2015). Bourjade, Germain, and Lyon-Caen (2016) point out that the likelihood of directors' retaining their seats does not only depend on their actual competence, but also on how management perceives them.

As well, it may be in directors' interest to develop a "servile" relationship with executives in order to retain their seats. In addition to ensuring an often-attractive salary, a board seat offers prestige and valuable business/social contacts. Epstein and Roy (2004) found that many directors are selected by CEOs because of the personal relationships, affiliations, or friendships they have with management and accordingly align their votes with those of executives. According to Mangen and Magnan (2012), a powerful CEO who is also Chair of the board tends to appoint passive directors. This passivity can derive from their personality traits (response to authority, persuasion and ingratiation and reciprocal favours) or various ties (family, financial, social) between directors and CEOs. Furthermore, directors who trust their CEO can relax their supervision and be less vigilant (Mangen & Magnan, 2012). The structural and social-psychological mechanisms that seem to be at play in executive compensation practices (van Essen et al., 2015) are also likely to affect other directors' functions. They can thus interfere in strategic and operational decisions that impact firms' financial performance and sustainability.

Hirschman (1970) noted that shareholders have three options open to them when they are dissatisfied with corporate behaviour. They can exit (sell their shares), maintain the status quo (hold onto their shares) or communicate with management (Hillman, Shropshire, Certo, Dalton, & Dalton, 2011). There are a number of ways shareholders can communicate with firms or their representatives, one of which is director elections. Through their votes, shareholders can express their satisfaction or dissatisfaction with the directors' performance. When shareholders are satisfied with a director's performance, they can vote for him or her at election time. When they are not, they can withhold their vote to signal their dissatisfaction (Hillman et al., 2011).

One problem for shareholders with this type of communication is that they cannot observe the decisions being made and the actual involvement of individual directors at board meetings (Hillman et al., 2011). Instead, they have to be satisfied with assessing the results of the directors' decisions, particularly as concerns evaluating financial performance, executive compensation, accounting irregularities, transparency of the documents available, and so on. Or they may have to rely on an evaluation of directors' characteristics, such as independence, gender, skills, and reputation, which can to some extent indicate the quality of their decision making, their interests in the firms' performance, and their ability to monitor senior management.

Cai et al. (2009) and Berthelot and Coulmont (2018) have studied the relationships between the votes cast at directors' elections and financial performance (i.e., prior-year industry-adjusted EBITDA, prior-year ROA, and prior-year return and excess-return), as well as growth and abnormal CEO compensation. While their findings on financial performance are mixed, those on executive compensation are significant. They also found that shareholders appear to consider oversight functions to be more important than financial performance. These results can be explained by the fact that a firm's financial performance depends on many factors. While directors can have only a marginal impact on oversight and advisory functions, they are directly responsible for determining executive compensation.

Numerous studies have addressed directors' characteristics, particularly in relation to their effect on financial performance, management earnings, corporate misconduct (Neville et al., 2019), and firms' involvement in sustainability. Apart from work by Cai et al. (2009), there has been little research on whether shareholders take directors' characteristics into account when casting their votes. Cai et al. (2009) noted a positive relationship between shareholder votes "for" directors and director independence and some other variables at annual general meetings from 2003 to 2005. Their explanation for this relationship is that shareholders may perceive independent directors as being more "shareholder-friendly" than "management-friendly." When studying shareholder discontent with director oversight, Hillman et al. (2011) noted that director independence is not significantly associated with votes withheld (i.e., ballots cast against a director).

As mentioned above, in the wake of the financial scandals of recent years, the board's oversight function has become a key issue in financial market regulation and best practices codes, as well as in the academic community (Crespí-Cladera & Pascual-Fuster, 2014). Director independence is of primary importance to ensure that directors exercise independent judgment in fulfilling their responsibilities (Crespí-Cladera & Pascual-Fuster, 2014). Pucheta-Martínez and Gallego-Álvarez (2019) define independent directors as "professionals without any relation to the management of the company, so they are unlikely to interfere in corporate decisions with their personal opinions"¹.

Findings of previous research tend to show that when directors are independent there is less corporate misconduct (e.g., earnings management, financial statement or other accounting fraud; regulatory violations; actions that result in class action lawsuits; and anticompetitive actions) (Neville et al., 2019) and better financial performance (Pucheta-Martínez & Gallego-Álvarez, 2019). However, the results of earlier research are more mixed when it comes to control over CEO compensation (Canyon & Peck, 1998; Core, Holthausen, & Larcker, 1999; Benkraiem, Hamrouni, Lakhal, & Toumi, 2017), although Canyon and Peck (1998) observed that higher management pay and firm performance are more closely aligned when a board has a high proportion of outside directors. Given these different benefits, we assume that shareholders value director independence. We thus propose the following hypothesis:

H1: Votes "in favour" of a director's election are positively related to the director's independence.

Gender is another characteristic that has attracted considerable attention in prior research (Reddy & Jadhav, 2019). Two theories have been proposed to explain the impact of gender on the board's monitoring and decision-making functions. Studies conducted within the paradigm of the agency theory assume that gender diversity increases a board's independence, which in turn helps it make more effective decisions, especially as concerns CEO compensation (Benkraiem et al., 2017). Other studies, based on the human capital theory, suggest that female directors may improve board decision-making because they are more participative and process-oriented (Lucas-Pérez, Mínguez-Vera, Baixauli-Solar, Martín-Ugedo, & Sánchez-Marin, 2015; Benkraiem et al., 2017). Women also have different professional values and criteria from men (Gul, Srinidhi, & Ng, 2011; Pucheta-Martínez & Gallego-Álvarez, 2019). Empirical observations tend to show that the presence of a female director is positively associated with firm performance (Pucheta-Martínez & Gallego-Álvarez, 2019), an improvement in the effectiveness of the board in monitoring CEO compensation (Benkraiem et al., 2017), and less corporate misconduct, such as tax avoidance (Hoseini, Gerayli, & Valiyan, 2019). Given these observations, shareholders should favour female presence on boards. This leads to the following hypothesis:

H2: The "in favour" votes in directors' elections are positively related to female directors.

Little attention has been paid to the potentially important characteristic of directors' expertise. According to the status characteristics theory, interactions and influence within groups are driven by status ascription (Anderson, Srivastava, Beer, Spataro, & Chatman, 2006; Veltrop et al., 2017).

"The individuals that are ascribed higher status are deferred to by others. As a result, intra-group status differences strongly shape patterns of intra-group participation and deference, bestowing high-status members with the right to influence decisions while refusing this right to others [...] ascription of status within workgroups is based on the expectations of each member's ability to contribute to the group" (Veltrop et al., 2017, p. 1082).

¹ Canadian Securities Administrators define independence as "no direct or indirect material relationship with the issuer [...] a material relationship means a relationship which could [...] reasonably interfere with the exercise

of a member's independent judgement" (Multilateral Instrument 52-110 Audit Committees, 2004, point 1.4).

This expertise can be defined as the skills and knowledge an individual has within a particular field (Germain & Tejada, 2012; Veltrop et al., 2017) and can reflect the member's ability to contribute to the group. This expertise can thus give a strong cue for group members to grant status to their fellow members (Veltrop et al., 2017). However, expertise is a personal characteristic that cannot be directly observed by others (Bunderson, 2003). In our society, degrees and professional titles such as chartered professional accountant (CPA), chartered financial analyst (CFA), and Engineer (Eng.), for instance, signal that a person has acquired at least a minimum of the skills and knowledge needed to earn the degree or the professional designation.

Expertise can also be acquired through experience. However, communicating this expertise to others can be more difficult without validation from an external organisation like a university or a professional association. From the shareholders' perspective, directors' expertise is valuable because it can translate into improved decision making and greater efficiency for the board. Accordingly, the following hypothesis is proposed:

H3: The "in favour" votes at directors' elections are positively related to directors' expertise.

Although the directors' reputation can impact their involvement, it has attracted little previous research. Reputation can be described as an important signal of the quality work an individual can deliver over time (Graffin, Pfarrer, & Hill, 2012). It reflects the collective judgment of an executive's (or director's) ability to consistently deliver value over time (Graffin et al., 2012).

Fama and Jensen (1983) found that directors' primary motivation is to preserve and enhance their reputation in the directorship labour market (Masulis & Mobbs, 2014) since their reputation

affects the likelihood of their obtaining future directorships (Masulis & Mobbs, 2014). Bugeja, Fohn, and Matolcsy (2016) note that reputable and experienced directors are more inclined to perform their monitoring role and fiduciary duties (Hahn & Lasfer, 2011) to the best of their ability to ensure their reputation. From the shareholders' perspective, directors' reputation should also be interpreted as a signal of their involvement in monitoring and providing strategic advice. We thus propose the following hypothesis:

H4: The "in favour" votes at directors' elections are positively related to the directors' reputation.

3. RESEARCH METHODOLOGY

3.1. Sample

The sample was based on 250 firms listed on the S&P/TSX composite index of the Toronto Stock Exchange in 2016. The 30 Canadian firms reporting the highest return on assets (ROA) and the 30 Canadian firms reporting the lowest ROA were selected from this list to constitute a sample of firms with varied characteristics, particularly in terms of industry, size, and profitability. From these 60 firms, we drew up a list of 509 directors to conduct our analyses. We used the accounting data from 2016 and the board and directors' data from the proxy vote circular of 2017 (covering 2016).

3.2. Empirical model

To determine whether shareholders take independence, gender, expertise, and reputation into account when electing directors, we developed the following regression model:

$$\begin{aligned} VOTE_{ij} = & \beta_0 + \beta_1 GROW_{ij} + \beta_2 ROA_{ij} + \beta_3 RETURN_{ij} + \beta_4 \Delta TCOMP_{ij} + \beta_5 BLOCK_{ij} + \beta_6 BDSIZE_{ij} + \\ & + \beta_7 BDINDP_{ij} + \beta_8 DIRINDP_{ij} + \beta_9 GENDER_{ij} + \beta_{10} BAC_{ij} + \beta_{11} MASTER_{ij} + \beta_{12} DOC_{ij} + \beta_{13} CPA_{ij} + \\ & + \beta_{14} CFA_{ij} + \beta_{15} ENG_{ij} + \beta_{16} INDUS_{ij} + \beta_{17} BANK_{ij} + \beta_{18} LEGAL_{ij} + \beta_{19} WHO_{ij} + \beta_{20} DIRECTORSHIP_{ij} + \varepsilon_i \end{aligned} \quad (1)$$

where $VOTE_{ij}$ is the percentage of votes in favour of a director in elections at the annual general meeting of firm j ; $GROW_{ij}$ is the revenue growth of firm j ; ROA_{ij} is the return on assets of firm j ; $RETURN_{ij}$ is the stock return of firm j for the year; $\Delta TCOMP_{ij}$ is the CEO total compensation growth of firm j (including cash and non-cash compensation); $BLOCK_{ij}$ is a dummy variable equal to 1 if at least one shareholder owns more than 10% the shares of firm j and 0 otherwise; $BDSIZE_{ij}$ is the number of directors on the board of firm j ; $BDINDP_{ij}$ is the percentage of independent directors on the board of firm j .

These different variables are control variables relating to specific characteristics of the firm and its board that shareholders could possibly take into consideration when electing directors. $DIRINDP_{ij}$ is a dummy variable equal to 1 if the director is independent and 0 otherwise. This variable serves to verify $H1$. A positive and significant β_8 coefficient will confirm whether the shareholders valued the director's independence. $GENDER_{ij}$ is a dummy variable equal to 1 if the director is male, and 0 otherwise. $H2$ will be corroborated if β_9 is negative and significant.

To verify $H3$, we included in the model several variables relating to directors' expertise. BAC_{ij} , $MASTER_{ij}$, and DOC_{ij} are three dummy variables equal to 1 if the director has a university degree (bachelor's, master's, or doctorate respectively) and 0 otherwise. The variables CPA_{ij} , CFA_{ij} , and ENG_{ij} are three dummy variables equal to 1 if the director earned the professional designation of a chartered professional accountant, chartered financial analyst, or engineer respectively, and 0 otherwise. Lastly, the variables $INDUS_{ij}$, $BANK_{ij}$, and $LEGAL_{ij}$ are three dummy variables equal to 1 if the director has experience in the firm's industry, banking, or the legal sector respectively, and 0 otherwise. $H3$ will be corroborated if the coefficients β_{10} to β_{18} are positive and significant.

Finally, we used two variables to verify $H4$. The first, WHO_{ij} , is a dummy variable equal to 1 if the director is listed in the *Canadian Who's Who* and 0 otherwise. The *Canadian Who's Who* is a reference source of contemporary Canadian biographies selected on merit. The second variable, $DIRECTORSHIP_{ij}$, is a dummy variable equal to 1 if the director is a member of another board of directors and 0 otherwise. $H4$ will be corroborated

if the coefficients β_{19} and/or β_{20} are positive and significant.

Financial data were extracted from the S&P Capital IQ database, while data respecting the directors (last name, first name, independence, gender, experience, academic degree, professional designation, directorship) and the firm's governance practices (e.g., CEO compensation growth, presence of at least one major shareholder, number of directors on the board, percentage of independent directors) were collected manually from the firms' official documentation available on the Canadian Securities Administrators' site (SEDAR.com); this official website provides access to most public

securities documents and information filed by issuers on the Canadian markets. Other data were derived from the Bloomberg database. The WHO_{ij} variable was obtained from the 2018 *Canadian Who's Who*.

4. RESULTS

4.1. Descriptive statistics

Table 1 presents the firms in the sample according to the sector of activity.

Table 1. Firms according to the sector of activity

Sector of activity	Firms		Directors	
	Frequency	Percentage	Frequency	Percentage
Energy	19	31.67	148	29.08
Basic materials	12	20.00	94	18.47
Consumer cyclical	9	15.00	83	16.31
Technology	5	8.33	42	8.25
Consumer defensive	4	6.67	37	7.27
Industrials	4	6.67	46	9.04
Healthcare	3	5.00	28	5.50
Financial services	2	3.33	12	2.36
Utilities	1	1.67	10	1.96
Communication services	1	1.67	9	1.77
Total	60	100.00	509	100.00

The energy, basic materials and consumer cyclical sectors make up respectively 29%, 18%, and 16% of the observations included in the sample. A number of other sectors are represented to a lesser extent.

Table 2 presents the descriptive statistics of the continuous variables included in the analysis. The average vote in favour of candidates at annual general meetings is high at 97%. The average sales

growth ($GROW_{ij}$) and the return on assets (ROA_{ij}) of the sample firms are very low (-0.04 and 0.01). In contrast, the average stock return ($RETURN_{ij}$) is 29% and the average CEO total compensation growth ($\Delta TCOMP_{ij}$) is 8%. The boards of the sample firms have an average of 9.55 directors ($BDSIZE_{ij}$) and an average of 76% of the directors are independent.

Table 2. Descriptive statistics (N = 509)

Variables	Mean	SD	Median	Minimum	Maximum
$VOTE_{ij}$	97.13	4.46	98.96	75.39	100.00
$GROW_{ij}$	-0.04	0.23	0.00	-0.46	1.00
ROA_{ij}	0.01	0.14	0.08	-0.38	0.36
$RETURN_{ij}$	0.29	0.51	0.20	-0.94	1.71
$\Delta TCOMP_{ij}$	0.08	0.38	0.03	-0.58	2.04
$BDSIZE_{ij}$	9.55	2.44	10.00	5.00	15.00
$BDINDEP_{ij}$	0.76	0.14	0.78	0.43	0.92

Notes: $VOTE_{ij}$ is the vote in favour of the director of firm j at the annual general meeting; $GROW_{ij}$ is the revenue growth of firm j ; ROA_{ij} is the return on assets of firm j ; $RETURN_{ij}$ is the stock return of firm j ; $\Delta TCOMP_{ij}$ is the CEO total compensation growth of firm j ; $BDSIZE_{ij}$ is the number of directors on the board of firm j ; $BDINDEP_{ij}$ is the percentage of independent directors on the board of firm j .

As for the discrete variables, 60.1% of the firms have at least one shareholder who owns more than 10% of the firm's shares ($BLOCK_{ij}$), 77.4% of the directors are independent ($DIRINDP_{ij}$) and 80.2% are male ($GENDER_{ij}$). Some 41.8% hold a bachelor's degree (BAC_{ij}), 32.4% a master's ($MASTER_{ij}$) and 2.4% a doctorate (DOC_{ij}). Furthermore, 21.2% hold the professional designation of CPA (CPA_{ij}), 2.9% that of CFA (CFA_{ij}) and 13.8% are engineers (ENG_{ij}). More than 86% have experience in the firm's industry ($INDUS_{ij}$), 20.2% in banking ($BANK_{ij}$) and 14.1% in the legal sector ($LEGAL_{ij}$). Lastly, 17.1% are listed in the *Canadian Who's Who* (WHO_{ij}), while 90.6% are members of the board of at least one other public corporation ($DIRECTORSHIP_{ij}$).

4.2. Correlation analysis

Table 3 presents the Pearson correlations among the continuous test variables. As can be seen, the correlation coefficients for all the variables are relatively low, although some are nonetheless significant. The correlation coefficients between the $VOTE_{ij}$ variable representing the percentage of in favour votes are fairly low, but positive and significant with the variables representing the firm's return on assets (ROA_{ij}) (0.101), board size ($BDSIZE_{ij}$) (0.104) and the percentage of independent board members ($BDINDP_{ij}$) (0.163).

Table 3. Correlation coefficients (N = 509)

Variables	VOTE _{ij}	GROW _{ij}	ROA _{ij}	RETURN _{ij}	ΔTCOMP _{ij}	BDSIZE _{ij}	BDINDP _{ij}
VOTE _{ij}	-						
GROW _{ij}	-.080	-					
ROA _{ij}	.101*	.207**	-				
RETURN _{ij}	.061	-.350**	.112*	-			
ΔTCOMP _{ij}	.026	.145**	.041	.153**	-		
BDSIZE _{ij}	.104**	-.053	.059**	-.068	-.007	-	
BDINDP _{ij}	.163**	-.168**	-.056**	-.004**	.024	-.105*	-

Notes: ** p -value ≤ 0.01 ; * p -value ≤ 0.05 .

VOTE_{ij} is the vote in favour of the director of firm j at the annual general meeting; GROW_{ij} is the revenue growth of firm j ; ROA_{ij} is the return on assets of firm j ; RETURN_{ij} is the stock return of firm j ; ΔTCOMP_{ij} is the CEO total compensation growth of firm j ; BDSIZE_{ij} is the number of directors on the board of firm j ; BDINDEP_{ij} is the percentage of independent directors on the board of firm j .

4.3. Regression analyses

Table 4 sets out the results of the regression analyses testing the hypotheses. It should be noted that none of the model regressions present variance inflation factors higher than 2.5, indicating no potentially serious multicollinearity problems (Neter, Wasserman, & Kutner, 1985).

Column *M1* shows the results of the estimation of equation (1) without the variables linked to the verification of the study's hypotheses. The *adjusted R*² for Model 1 indicates that the independent control variables explain 8.2% of shareholders' votes in favour of directorship candidates at annual general meetings. The regression coefficient associated with return on assets (ROA_{ij}) is positive and marginally significant ($p < 0.10$), while the coefficients relating to the presence of at least one shareholder holding over 10% of the firm's share capital (BLOCK_{ij}), the board size (BDSIZE_{ij}) and the percentage of independent directors (BDINDP_{ij}) are positive and significant at an error threshold of 5%. These variables thus have an impact on shareholders' votes in director elections at annual general meetings.

Column *M2* presents the results of the estimation of equation (1) including the variables associated with the testing of the hypotheses. The *adjusted R*² for Model 2 increased to 11%. The coefficients of the variables representing director independence (DIRINDP_{ij}) are positive and significant, supporting *H1*. Shareholders appear to value directors' independence when casting their vote. Although the results of earlier studies on control over CEO compensation are mixed, several benefits, such as a decline in corporate misconduct and better financial performance, seem related to director independence. The results of the analyses appear to be consistent with these observations.

The coefficient of the variable relating to gender (GENDER_{ij}) is negative and significant, which also supports *H2*. Here also, these findings are consistent with previous studies, which tend to show that the presence of female directors on the board is positively related to financial performance,

the board's effectiveness in monitoring CEO compensation, and less corporate misconduct. In fact, the benefits associated with female directors on boards seem significant enough to be reflected in the votes they receive at election time.

No coefficient associated with expertise is significant apart from the variable tied to experience in the legal sector (LEGAL_{ij}), which is negative and marginally significant. Accordingly, the results provide very little support for *H3*. As Veltrop et al. (2017) pointed out, the value shareholders attribute to shareholder expertise can be more complex than a simple taking into account of their degree (BAC_{ij}, MASTER_{ij}, DOC_{ij}), professional designation (CPA_{ij}, CFA_{ij}, ENG_{ij}) or experience (INDUS_{ij}, BANK_{ij}, LEGAL_{ij}).

Since each firm has its own particular characteristics, which each board has to manage to the best of its ability, it may not be possible to identify the type of expertise that is significantly beneficial for all firms. The expertise shareholders value may be tied to the specific nature of each individual firm and potential interaction with the expertise of other directors on the board (Veltrop et al., 2017), which we are unable to measure using the methodology selected.

Finally, since the coefficients of the two variables linked to the directors' reputation (WHO_{ij} and DIRECTORSHIP_{ij}) are not significant, there is no support for *H4*. The analyses results set out in Table 4 tend to show that shareholders do not value directors' reputation when casting their vote. It should be remembered that their reputation reflects a collective judgment. Some recent studies (Gow, Wahid, & Yu, 2018) have shown that some directors manage their reputation by omitting, for example, board service with companies with accounting restatements, securities litigation, or bankruptcy from their biographies.

Shareholders are possibly aware of such management of directors' reputation and thus pay little attention to it when electing board members. Gow et al. (2018) did not find any significant difference in the "votes against" candidates who had omitted adverse directorships from their biographies. Our findings tally with those of Gow et al. (2018).

Table 4. Regression results

Variables	M1: Model 1	M2: Model 2
	VOTE _{ij}	VOTE _{ij}
GROW _{ij}	-1.573	-1.551
ROA _{ij}	2.564*	2.475*
RETURN _{ij}	.499	.568
ATCOMP _{ij}	.191	.336
BLOCK _{ij}	1.891***	1.875***
BDSIZE _{ij}	.159**	.139*
BDINDP _{ij}	7.480***	5.751***
DIRINDP _{ij}		1.593***
GENRE _{ij}		-1.007**
BAC _{ij}		.265
MASTER _{ij}		.525
DOC _{ij}		.840
CPA _{ij}		.176
CFA _{ij}		.161
ENG _{ij}		-.469
INDUS _{ij}		-.070
BANK _{ij}		.050
LEGAL _{ij}		-1.132*
WHO _{ij}		.222
DIRECTORSHIP _{ij}		-.743
Intercept	88.506	90.128
R	0.308	0.381
R ²	0.095	0.145
Adjusted R ²	0.082	0.110
F-value	7.490***	4.134***

Notes: *** $p < 0.001$; ** $p < 0.05$; * $p < 0.1$ (one-tailed test).

VOTE_{ij} is the percentage of the vote in favour of the director during director elections at the annual general meeting of firm j ; GROW_{ij} is the revenue growth of firm j ; ROA_{ij} is the return on asset of firm j ; RETURN_{ij} is the stock return of firm j for the year; ATCOMP_{ij} is the CEO total compensation growth of firm j ; BLOCK_{ij} is a dummy variable equal to 1 if at least one shareholder holds over 10% of the shares of firm j and 0 otherwise; BDSIZE_{ij} is the number of directors on the board of firm j ; BDINDP_{ij} is the percentage of independent directors on the board of firm j ; DIRINDP_{ij} is a dummy variable equal to 1 if the director is independent and 0 otherwise; GENDER_{ij} is a dummy variable equal to 1 if the director is male, and 0 otherwise; BAC_{ij}, MASTER_{ij} and DOC_{ij} are three dummy variables equal to 1 if the director holds a university degree (bachelor's, master's, and doctorate respectively) and 0 otherwise; CPA_{ij}, CFA_{ij} and ENG_{ij} are three dummy variables equal to 1 if the director earned the professional designation of chartered professional accountant, chartered financial analyst or engineer respectively and 0 otherwise; INDUS_{ij}, BANK_{ij} and LEGAL_{ij} are three dummy variables equal to 1 if the director has experience in the firm's industry, banking or the legal sector respectively and 0 otherwise; WHO_{ij} is a dummy variable equal to 1 if the director is listed in the Canadian Who's Who and 0 otherwise; DIRECTORSHIP_{ij} is a dummy variable equal to 1 if the director is a member of another board and 0 otherwise.

5. DISCUSSION

The study results are interesting in that they tend to show that shareholders take the recommendations of the Canadian Securities Administrators respecting director independence (National Policy 58-201 Corporate Governance Guideline) and female representation (National Instrument 58-101 Disclosure of Corporate Governance Practices adopted by several Canadian provinces) into account when electing directors. These characteristics are also the focus of attention among public opinion, the media, the proxy vote advisers and (shareholder and feminist) activists. Although the directors' expertise and reputation are important characteristics for fulfilling the different roles of boards and they are addressed in public opinion, the media, and even by activists, they are not taken into consideration in regulation. This observation may potentially explain the results observed. Furthermore, the non-significant results respecting expertise may also be explained by the complexity of this variable. Various expertise may be relevant, and this relevance may depend on the firm's specific nature. There may not be a single form of expertise that can be applied to all firms. However, we noted a negative and marginally significant coefficient associated with the LEGAL_{ij} variable, which seems to indicate that shareholders grant less value to directors with legal expertise.

Lastly, directors' reputation does not seem to be considered at election time. This variable may be

relevant when selecting new directors, but not when annually renewing their mandate. In this study, the large majority of votes were related to reappointments.

6. CONCLUSION

The study results tend to show that shareholders value director independence and female representation when electing directors at annual general meetings. Shareholders' consideration of directors' expertise and reputation is less evident. These results may partially explain the importance granted by market authorities, public opinion, the media, proxy vote advisers and (shareholder and feminist) activists. They all highlight the need for boards of directors to be primarily composed of independent directors and of increasing female representation. Our findings also show that the percentage of votes in favour of candidates for directorship at annual general meetings is very high, with an average of over 97%. There thus appears to be little dissidence in the Canadian context. It should be noted that Canadian firms are often characterised by concentrated ownership and have a significant portion of institutional investors (Rousseau, 1996). These characteristics could explain the homogeneous voting.

This study has certain limitations. For example, the size of the sample is limited to the boards of 60 Canadian firms because of the extensive manual work required to collect the data. The examination

of other boards, particularly boards of smaller firms, could have produced different results. Nor does the study take into account firms' specific characteristics (e.g., industry, strategies, type of products or services, financial, etc.) that could explain the need for specific expertise. Lastly, our study did not allow for consideration of the types of shareholders voting. Some investors, particularly small investors with few resources, may vote without evaluating directors' expertise and reputations. This could affect the results observed.

However, this study points up various avenues for future research. It could be interesting to examine whether poor strategic decisions, excessive executive compensation or even financial fraud

are reflected in this type of voting. In these circumstances, could some directors be more severely penalised than others who, for example, sit on compensation or audit committees? It could also be worthwhile to examine other elements shareholders take into account, such as the size and nature of directors' compensation. Given that, compensation directly impacts the benefits available to common shareholders, it could be asked whether shareholders directly contribute to monitoring agency costs through directors' elections. Since little research has been conducted in this area to date, knowledge is limited, leaving considerable scope for future research.

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