

Proxy Advisor Recommendations on Auditor Ratification:
Do Shareholders and Companies Listen?

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ABSTRACT

The auditor ratification vote allows shareholders to voice their opinions on audit-related issues. Motivated by regulatory concerns about third party proxy advisors that provide summarized voting recommendations to subscribing shareholders, this study investigates: i) the determinants of proxy advisors' recommendations on auditor ratification (*For* or *Against*), ii) whether these recommendations affect voting outcomes, and iii) whether an *Against* recommendation leads to subsequent changes in the auditor-client relationship. The results indicate that proxy advisors are more likely to recommend that shareholders vote *Against* auditor ratification when the engagement letter limits the auditor's liability, when the auditor provides excessive nonaudit services, and when audit quality appears to be low. While the association between proxy advisor recommendations and shareholder voting is *statistically* significant, it does not appear to be *economically* significant when compared with the results from prior studies examining the influence of proxy advisors in other settings. Finally, when using a matched sample design, neither proxy advisor recommendations nor shareholder voting outcomes are associated with subsequent changes in the auditor-client relationship, suggesting that companies do not respond to voiced concerns about the auditor. These findings should be of interest to researchers examining the impact of the auditor ratification vote and to regulators evaluating the involvement of proxy advisors in auditor ratification.

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1. INTRODUCTION

In this study, I investigate the influence of proxy advisor recommendations on auditor ratification.¹ Many companies voluntarily seek shareholder ratification of the auditor as a matter of “good corporate governance.”² However, because it can be costly and difficult for a shareholder to evaluate auditor performance for all companies in an investment portfolio, shareholders with large portfolios often employ third party proxy advisors to provide summarized voting recommendations. I examine the company and auditor characteristics that lead proxy advisors to recommend that shareholders vote *Against* the company’s choice of auditor. I then determine whether shareholders respond by casting more votes against auditor ratification and whether companies respond by making changes in the auditor-client relationship. This study is motivated by recommendations to strengthen auditor independence through shareholder involvement in auditor selection (Mayhew and Pike 2004; ACAP 2008), the need to provide shareholders with sufficient information when making voting decisions (ACAP 2008; CAQ 2013), and regulatory attention on the proxy advisor recommendation process (GAO 2007; Schapiro 2009; CCMC 2013).

In response to accounting scandals in the early 2000s, the Sarbanes-Oxley Act of 2002 (SOX) introduced several provisions designed to improve auditor independence (SEC 2003a). One key provision transfers oversight of the external auditor to the audit committee because

¹ Auditor ratification is a non-mandatory vote in which shareholders are asked to ratify the company’s choice of auditor. I refer to “shareholder ratification of the auditor” and “auditor ratification” synonymously.

² For example, as disclosed in Walmart’s DEF 14A filed on April 22, 2013 (p. 39): “Although shareholder ratification is not required, the appointment of E&Y as the company’s independent accountants for fiscal 2014 is being submitted for ratification at the 2013 Annual Shareholders’ Meeting because *the Board believes doing so is a good corporate governance practice*” (emphasis added).

“[t]he auditing process may be compromised when a company's outside auditors view their main responsibility as serving the company's management” (SEC 2003b, Section II.B.1). However, there is evidence that this change in oversight was merely symbolic because post-SOX surveys find that auditors believe that management continues to have the strongest influence over hiring and firing decisions of the auditor (KPMG 2004; Cohen et al. 2010).

An alternative method for increasing auditor independence is shareholder involvement in the auditor selection process. Specifically, the *Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* recommends that auditor ratification be mandatory for all companies (ACAP 2008, VIII:20). The mandatory vote should increase audit firm competition and may lead to increased independence and improved audit quality (ACAP 2008; Dao et al. 2012). One drawback to this solution is that shareholders may lack the information necessary to make effective voting decisions on auditor ratification. While the Center for Audit Quality and the Public Company Accounting Oversight Board have announced projects that will determine the feasibility of defining, and requiring disclosure of, audit quality measures in the future (PCAOB 2012; CAQ 2013), only 15 percent of Fortune 100 companies currently disclose the factors used in evaluating the auditor's performance (EY 2013). This leaves shareholders with the task of using other publicly available information to assess the quality of the audit and the reasonableness of fees paid. Proxy advisors offer shareholders a solution to this information gap by conducting independent research on all ballot items and providing summarized voting recommendations (*For* or *Against*) on a case-by-case basis. This service is particularly helpful

for institutional shareholders who would otherwise incur significant costs to conduct in-house analyses for all companies in their investment portfolio.³

Prior literature examining the influence of proxy advisors has focused on other areas of the ballot, such as director elections, executive compensation, and non-routine proposals, without consideration of the auditor ratification vote.⁴ In these settings, a proxy advisor *Against* recommendation can increase the percentage of shareholders voting against management's recommendation by 13 to 25 percent. Proxy advisor influence is even more pronounced when considering that some companies tailor the policies being voted on to conform to proxy advisor guidelines (Larcker et al. 2012; Ertimur et al. 2013; Larcker et al. 2013a).

Prior literature on auditor ratification has examined the determinants and consequences of the shareholder vote without examining the influence of proxy advisors. These studies generally find that shareholders are more likely to vote against auditor ratification when auditor tenure is higher, nonaudit service fees are higher, companies report material weaknesses or restatements, returns are lower, and insider or blockholder ownership is lower.⁵ With the exception of Sainty et al. (2002), these studies do not examine subsequent changes in the auditor-client relationship. Sainty et al. (2002) examines auditor turnover after the vote and finds that companies with a higher percentage of votes cast against auditor ratification are more likely to experience auditor

³ Proxy advisors are engaged by, and paid by, subscribing shareholders. Proxy advisors' primary customers are institutional investors such as asset managers, mutual funds and pension funds (GAO 2007).

⁴ Examples include Bethel and Gillan (2002), Cai et al. (2009), Ertimur et al. (2013), and Larcker et al. (2013a).

⁵ See Glezen and Millar (1985), Sainty et al. (2002), Raghunandan (2003), Raghunandan and Rama (2003), Mishra et al. (2005), Dao et al. (2008), Hermanson et al. (2009), and Liu et al. (2009).

turnover, suggesting that auditor ratification is an effective mechanism for shareholders to voice dissent with the company's choice of auditor.

I use proxy advisor recommendations from the top two proxy advisory firms, Glass, Lewis & Co., LLC (Glass Lewis) and Institutional Shareholder Services, Inc. (ISS), for Russell 3000 companies from 2009 to 2012.⁶ I find that these leading proxy advisors recommend *Against* auditor ratification for approximately 2.6 percent of sample observations. Using multivariate analysis and the disclosures provided by Glass Lewis and ISS, I find that the primary reasons that proxy advisors recommend *Against* auditor ratification are: i) the company publicly discloses that the audit engagement letter includes provisions for alternative dispute resolution, limitation of punitive damages, or limitation of auditor liability; ii) the total fees paid to the auditor include excessive nonaudit services; and iii) audit quality appears to be low.⁷

To determine whether shareholders respond to an *Against* recommendation, I examine the percentage of votes cast against or abstaining from auditor ratification.⁸ In univariate analyses, I find that the average percentage of votes cast against or abstaining from auditor ratification is 1.2 to 1.7 percent when the proxy advisor recommends *For* auditor ratification and 6.1 to 7.5 percent

⁶ In addition to Glass Lewis and ISS, there are three other proxy advisors available to subscribers: Egan-Jones Proxy Services, Marco Consulting Group, and C&W Investment Group (GAO 2007). I limit my analysis to ISS and Glass Lewis because Choi et al. (2010) find that ISS is the most powerful proxy advisor and among the others, only Glass Lewis has a significant influence on voting outcomes.

⁷ My discussions with representatives of Glass Lewis and ISS confirm that proxy advisor recommendations are based solely on publicly-available information. Proxy advisors obtain information about the engagement letter provisions from disclosures in the DEF 14A filing. These engagement letter provisions for alternative dispute resolution, limitation of punitive damages, and limitation of auditor liability are limited to litigation between the auditor and the company and do not affect the shareholder's rights or abilities to litigate against the auditor.

⁸ I tabulate results using three measures of the vote: i) the percentage of votes cast against or abstaining from auditor ratification (*PercAgAbst*), ii) the percentage of non-insider votes cast against or abstaining from auditor ratification (*PercAgAbst – Sainty*, following Sainty et al. (2002)), and iii) the percentage of against votes (*PercAgainst*).

when the proxy advisor recommends *Against* auditor ratification. In multivariate analyses, I control for factors influencing the proxy advisor recommendation and other factors previously found to be associated with auditor ratification votes. I find that the percentage of votes cast against or abstaining from auditor ratification is 4.8 to 5.8 percentage points higher for a company with an *Against* recommendation than for a company with a *For* recommendation, and there is no significant difference in the effect based on the reason for the recommendation.

In determining whether this effect is economically significant, I consider previous findings in prior literature. Dao et al. (2012, 154) summarize their conversations with Big 4 audit partners and the subcommittee chairman of ACAP (2008) as follows: “everyone expects the auditor to receive 98 or 99 percent approval from the shareholders, so even if you get 90 or 95 percent approval, there are bound to be questions from the audit committee.” Thus, the shift in ‘*For*’ votes from 98.5 percent to 93.3 percent (based on univariate statistics) may appear economically significant to audit committee members.⁹ However, prior literature examining the influence of proxy advisors in other settings finds that an *Against* recommendation can shift the percentage of votes cast against a ballot item by 13 to 25 percent, suggesting that the influence of proxy advisors on the auditor ratification (5.2 percent) is less significant than that for other ballot items.¹⁰ Thus, it appears that proxy advisors may not have an economically significant influence on the auditor ratification vote.

To determine whether companies respond to *Against* recommendations, I examine auditor dismissal rates, and because auditor switching costs are high, I also examine changes in

⁹ The shift of 98.5 percent to 93.3 percent in ‘approval rating’ is equal to (1 – 1.5 percent) and (1 – 6.7 percent) using the measure *PercAgAbst*. When using *PercAgAbst – Sainty*, the shift is 98.3 percent to 92.5 percent, and when using *PercAgainst*, the shift is 98.8 percent to 95.9 percent.

¹⁰ See, for example, Bethel and Gillan (2002), Cai et al. (2009), Ertimur et al. (2013), and Larcker et al. (2013a).

audit fees and changes in audit quality (proxied for by the change in discretionary accruals). When using a propensity score matched sample, I find no significant association between proxy advisor recommendations and the propensity to dismiss the auditor, the change in audit fees, or the change in audit quality, suggesting that companies do not respond to the *Against* recommendation by making changes in the auditor-client relationship. When examining responses to specific types of *Against* recommendations, I find that companies receiving an *Against* recommendation because of excessive nonaudit services lower the proportion of their nonaudit services in the following year. However, this decrease in nonaudit services is not significantly different from a matched sample of companies with a *For* recommendation and similarly high nonaudit services. Finally, using the sample of companies with an *Against* recommendation due to legal limitations in the engagement letter, I find that only 32 to 44 percent of companies remove the language by the end of $t+2$. Collectively, these results provide no evidence that companies respond to concerns expressed by proxy advisors.

This study contributes to the literature streams separately examining auditor selection, shareholder voting, and the influence of proxy advisors. This study also contributes to prior literature examining nonaudit services and perceptions of independence and audit quality (e.g., Schmidt 2012) by finding that both proxy advisors and shareholders respond negatively to high levels of nonaudit services. These findings contribute to regulatory discussions about the proxy advisory process, particularly because prior literature has found that proxy advisors have a significant influence on voting outcomes and changes in corporate policy in other settings (e.g., executive compensation), but they do not appear to have an economically significant influence in

the auditor ratification setting.¹¹ Finally, these findings contribute to regulatory discussions about auditor independence and shareholder ratification of the auditor, because my findings suggest that the vote may not be an effective monitoring mechanism (i.e., companies do not change the auditor-client relationship in response to the shareholder vote).

Section 2 discusses the shareholder voting process for auditor ratification and the role of proxy advisors. I discuss my research design in Section 3 and sample in Section 4. I discuss results in Section 5 and provide concluding remarks in Section 6.

2. BACKGROUND

2.1 Shareholder Ratification of the Auditor

Early drafts of the Investment Company Act of 1940 included a provision for mandatory shareholder ratification of the auditor. This provision was designed to reinforce the fact that auditors should be acting on behalf of shareholders and not management (Brown 2012).

Although the final 1940 ruling did not include this provision, SOX introduced a requirement designed to achieve similar goals. Specifically, SOX Section 301 transferred legal oversight of the auditor, including hiring and firing decisions, to the newly mandated, fully independent audit committee. However, post-SOX surveys of audit managers and partners suggest that Section 301 has not been effective in taking hiring and firing decisions away from management (KPMG 2004; Cohen et al. 2010). In response to the question “who *actually* has the most *influence* in the appointment and dismissal of auditors in a public company,” audit partners and managers in the

¹¹ Criticisms about the lack of transparency in the proxy advisor recommendation process and potential conflicts-of-interest have spurred recent regulatory attention from the SEC, the U.S. Chamber of Commerce, the Government and Accountability Office, and the U.S. Congress (described further in Section 2).

2006 survey assigned a mean percentage influence of 53 percent to management, 41 percent to the audit committee, 5 percent to the board of directors, and 1 percent to stockholders (Cohen et al. 2010, 763). One respondent replied,

I would say without a doubt, management. Clearly the law stipulates that it is the responsibility of the audit committee. We acknowledge that readily in our engagement letters so that it's clear from a contractual standpoint that we understand that and presumably the audit committee understands that but I would say point of fact that the group of individuals who hold the most influence over the appointment decision and retention would be management

(Cohen et al. 2010, 763).

In 2008, the *Advisory Committee on the Auditing Profession to the U.S. Department of the Treasury* recommended that shareholder ratification of the auditor be mandated (ACAP 2008). This recommendation assumed that shareholder involvement with auditor selection would increase competition amongst audit firms (ACAP 2008), potentially leading to increased independence and improved audit quality (Dao et al. 2012). In conjunction with its recommendation for mandatory auditor ratification, ACAP (2008) also recommended that key indicators of audit quality be identified and disclosed to assist shareholders with their voting decisions. To date, no changes to the shareholder voting requirements have been made. Approximately 95 percent of S&P 500 companies and 70 to 80 percent of smaller companies voluntarily include auditor ratification on the ballot (ACAP 2008).

2.2 The Demand for Proxy Advisors

Proxy advisors conduct independent research and provide summarized voting recommendations (*For* or *Against*) that assist shareholders in synthesizing information and making effective voting decisions. Proxy advisors are engaged by, and paid by, subscribing shareholders. Their primary customers are institutional investors, such as asset managers, mutual funds and pension funds, who would otherwise incur significant costs to conduct in-

house analyses for all companies in their investment portfolios (GAO 2007). For example, Glassman and Verret (2013, 10) estimate that “US issuers pose more than 250,000 proxy questions a year, and it is not unusual for large mutual funds and their advisers to be required to cast votes on more than 100,000 of them on the basis of actively developed voting policies.”

The demand for proxy advisors was heightened after a 2003 SEC ruling (SEC 2003c) that required investment advisors to establish and disclose voting policies when voting uninstructed shares (i.e., shares held on behalf of clients that do not provide voting instructions).¹² Because conflicts-of-interest may arise between investment advisors and the companies held by their clients, the SEC ruling suggested that the investment advisor vote uninstructed shares “based upon the *recommendations of an independent third party*” (SEC 2003c, II.A.2.b, emphasis added). Thus, an unintended consequence of the ruling was a surge in the demand for guidance from proxy advisors. In 2010, 19 percent of corporate directors surveyed believed that proxy advisors held the *most* influence over the board (PwC 2010) and a corporate governance consulting firm estimated that clients of proxy advisors controlled 25 to 40 percent of votes cast at an annual meeting, placing proxy advisors in a position to yield significant influence over voting outcomes, and potentially corporate actions.¹³

¹² Voting for these uninstructed shares is often referred to as ‘broker voting’. For a more detailed account of the influence of this regulation, and two 2004 SEC no-action letters, on the demand for proxy advisory services, see Glassman and Verret (2013).

¹³ In a presentation to the American Bar Association Corporate Governance Committee meeting on October 12, 2010, Scott Winter of Innisfree M&A Incorporated, a corporate governance consulting firm, estimated that “ISS clients typically control 20-30 percent of a midcap/largecap corporations’ outstanding shares. Glass Lewis clients typically control 5-10 percent of such shares. Other advisory services have negligible voting impact.” (retrieved on April 3, 2013 from <http://apps.americanbar.org/buslaw/committees/CL260000pub/materials/20101012/TrendsShareholderVoting.pdf>). Mr. Winter confirmed to me on August 9, 2013, that the figures used in his presentation were estimated solely from the consulting firm’s industry experience and not from an empirical study. To my knowledge, there are no studies that empirically estimate the percentage of votes controlled by clients of proxy advisors.

One primary criticism of proxy advisor recommendations is that the recommendation process lacks transparency, making it difficult to evaluate whether their recommendations increase shareholder value (Larcker et al. 2013c). The few studies that attempt to measure the “accuracy” of their recommendations generally find that governance changes aligned with proxy advisor recommendations lead to *lower* shareholder value (e.g., Larcker et al. 2013a; Larcker et al. 2013b).¹⁴ Concerns about growing power and lack of transparency in the recommendation process prompted a Government Accountability Office study in 2007 (GAO 2007), SEC attention in 2009 (Schapiro 2009), recommended policies and guidelines from the U.S. Chamber of Commerce in 2013 (CCMC 2013), an SEC roundtable in 2013, and a U.S. Congressional subcommittee hearing in 2013. In the opening remarks of this hearing, Subcommittee Chairman Scott Garrett stated, “while there may be concerns regarding the manner in which proxy advisory firms operate, proxy advisory firms still serve a valuable role, helping to promote good corporate governance. These firms should not, however, be enshrined as the sole corporate governance standard setters.”¹⁵

Motivated by recommendations to strengthen auditor independence through shareholder ratification of the auditor and regulatory concerns about the influence of proxy advisors, I examine the influence of proxy advisor recommendations on the auditor ratification process. I first examine the factors used by proxy advisors when making recommendations on auditor

¹⁴ Larcker et al. (2013a) find a statistically negative market reaction to the announcement of executive compensation policy changes made to conform to proxy advisor guidelines, suggesting that the changes decrease shareholder value. In addition, using a sample of stock option repricing announcements, Larcker et al. (2013b) find that repricings that follow proxy advisor guidelines generate statistically lower market reactions than repricings that do not follow proxy advisor guidelines, suggesting that these proxy advisor recommendations are not value-increasing for shareholders.

¹⁵ An archived webcast of the hearing is available at <http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=335917>.

ratification. I then determine whether these recommendations affect shareholder voting. Finally, I determine whether companies respond to proxy advisor *Against* recommendations, as evidenced by higher auditor dismissal rates or through other changes in the auditor-client relationship

3. RESEARCH DESIGN

3.1 Proxy Advisor Recommendations on Auditor Ratification

Glass Lewis and ISS issue guidelines to subscribing customers that should serve as the basis for their recommendations. I use univariate and multivariate analyses to determine whether their actual recommendations are consistent with the criteria in their published guidelines.

3.1.1 Glass Lewis Guidelines

Below, I provide criteria from Glass Lewis (2011, 26) in italics, and I discuss my measurement following each criterion.¹⁶

Reasons why we may not recommend ratification of an auditor include:

1. *When audit fees plus audit-related fees total less than the tax fees and/or other nonaudit fees.*

Glass Lewis recommends that shareholders vote against auditors who collect excessive nonaudit service fees because these fees may impair auditor independence. I create an indicator variable for excessive nonaudit services (*ExcessNAS*) using the formula indicated above.

2. *Recent material restatements of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.*

¹⁶ These guidelines are consistent across all sample periods.

For restatements (*Restate*), I use the AuditAnalytics Non-Reliance database and require that the auditor being voted on was the auditor during the misstatement period. I capture material weaknesses using SOX Section 302, 404(a), and 404(b) disclosures from AuditAnalytics (*MWeak*). Following Bartov et al. (2011) and Impink et al. (2012), I use the AuditAnalytics Non-Timely (NT) Filer Information and Analysis database to identify late filings. Using the classifications provided by AuditAnalytics, I identify only three instances in my sample where the auditor bears some responsibility for a late filing so I do not include this variable in the model.¹⁷ Because I am interested in the most recent data available to shareholders prior to the vote, I measure *Restate* using restatement announcements in the year preceding the vote and *MWeak* using the most recently filed internal control opinion.

3. *When the auditor performs prohibited services such as tax-shelter work, tax services for the [Chief Executive Officer (CEO)] or [Chief Financial Officer (CFO)], or contingent-fee work, such as a fee based on a percentage of economic benefit to the company.*

I do not construct variables based on this guideline because I am not aware of any such events in my sample and my discussions with Glass Lewis personnel indicate that they use publicly available filings to identify such events.

4. *When audit fees are excessively low, especially when compared with other companies in the same industry.*

¹⁷ I classify late filings as having auditor responsibility if the category is either ‘6’ (auditor unable to finish review or audit not complete), ‘14’ (auditor in process of PCAOB registration), ‘48’ (inability to pay auditors or dispute), or ‘55’ (change in scope of audit), and not equal to ‘3’ (change in auditor).

I proxy for excessively low audit fees using an indicator variable, *LowAuditFees*, set equal to one if the company's ratio of audit fees to total assets is in the lowest five percent of industry peers, and zero otherwise.¹⁸

5. *When the company has aggressive accounting policies.*

I proxy for “aggressive accounting policies” using the absolute value of performance-adjusted modified Jones model discretionary accruals (*AbsDA*), estimated by year and 2-digit SIC code industry for all firms on Compustat (Jones 1991; Dechow et al. 1995; Kothari et al. 2005).

6. *When the company has poor disclosure or lack of transparency in its financial statements.*

I proxy for “poor disclosure or lack of transparency” using the receipt of an SEC comment letter (*SEC_CmtLtr*) in the year preceding the vote date. SEC comment letters provide “independent and timely feedback on the clarity of disclosures and on the extent to which filings comply with Generally Accepted Accounting Principles and SEC reporting regulations” (Cassell et al. 2013, 1875). I measure the receipt of a comment letter using the SEC Edgar release date (i.e., the public dissemination date), as reported by AuditAnalytics.

7. *Where the auditor limited its liability through its contract with the company or the audit contract requires the corporation to use alternative dispute resolution procedures.*

¹⁸ My discussions with a former executive of Glass Lewis suggest that the company focuses on the ratio of audit fees to total assets as compared to industry peers. Based on the disclosures provided by Glass Lewis, no companies in my sample received an *Against* recommendation because of excessively low audit fees. Because the exact benchmark is unknown, I use 5 percent to represent the “excessively” low values. I measure industry peers using two-digit SIC code. I calculate *LowAuditFees* by industry. Inferences remain the same if I calculate *LowAuditFees* by industry-year and calculate *LowAuditFees* using one-digit SIC when there are less than 20 observations by two-digit industry-year. Inferences also remain the same if I use 10 percent instead of 5 percent.

This criterion focuses on clauses in the audit engagement letter such as the requirement to settle disputes using arbitration or alternative dispute resolution, or limitation of liability for punitive damages. It is specific to disputes between the company and the auditor, and does not affect shareholder litigation against the auditor. Glass Lewis obtains this information based on publicly-available disclosures in the proxy statements (DEF 14A filings). Because this is not a mandatory disclosure, only some companies choose to disclose these arrangements.

I use a keyword search to extract all DEF 14A filings where the words “alternative dispute resolution,” “arbitration,” or “punitive” are present. For those in my sample, I read all auditor-related disclosures in the DEF 14A filing and determine whether legal limitations in the engagement letter are disclosed. I set *LegalLanguage* equal to one when legal limitations are disclosed, and zero otherwise. To verify the completeness of this procedure, I compare my observations where *LegalLanguage* = 1 to my database of proxy advisor *Against* recommendations, matching those where the proxy advisor mentions legal limitations in the engagement letter as a reason for the *Against* recommendation. I find that this procedure identifies 181 of the 186 observations (97.3 percent) with an *Against* recommendation because of legal limitations, suggesting that my procedures should be effective at identifying approximately 97 percent of all company-years with legal limitations disclosed in the DEF 14A filing.

8. *We also look for other relationships or concerns with the auditor that might suggest a conflict between the auditor’s interests and shareholder interests.*

I do not construct variables based on this guideline because I am not aware of any such events in my sample and my discussions with Glass Lewis personnel indicate that they use publicly available filings to identify such events.

3.1.2 ISS Guidelines

Below, I provide criteria from ISS (2010, 2) in italics, and I discuss my measurement following each criterion.¹⁹

Vote FOR proposals to ratify auditors, unless any of the following apply:

1. *An auditor has a financial interest in or association with the company, and is therefore not independent.*

I do not construct variables based on this guideline because I am not aware of any such events in my sample and my discussions with ISS personnel indicate that they use publicly available filings to identify such events.

2. *There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position.*

I use proxies that capture the company's financial reporting quality (*Restate*, *AbsDA*, and *SEC_CmtLtr*) in my models.

3. *Poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of [Generally Accepted Accounting Principles (GAAP)]; and material weaknesses identified in Section 404 disclosures.*

Because my sample includes only five instances of fraud, based on restatement classifications from the AuditAnalytics' Non-Reliance database, I do not include a variable for fraud. I use *Restate* to capture a "misapplication of GAAP" and *MWeak* to capture material weaknesses identified in SOX Section 302 and Section 404 disclosures.

4. *Fees for nonaudit services ("Other" fees) are excessive. Non-audit fees are excessive if: nonaudit ("other") fees > audit fees + audit-related fees + tax compliance/preparation fees.*

¹⁹ These guidelines are consistent across all sample periods.

I identify only two observations in my sample that meet the ISS criteria for excessive audit fees. Thus, I use the Glass Lewis definition of excessive nonaudit services (*ExcessNAS*) because it captures all observations that meet the ISS definition.²⁰

3.1.3 Auditor Characteristics

It is possible that proxy advisors also consider the auditor's reputation as a signal of perceived audit quality. Therefore, I also include auditor tenure (*lnAudTenure*), auditor size (*Big4*), and auditor industry specialization (*Specialist*). Because prior research finds that longer auditor tenure is associated with higher financial reporting quality, as evidenced by lower discretionary accruals, higher propensity to issue going-concern opinions, etc. (Geiger and Raghunandan 2002; Johnson et al. 2002; Myers et al. 2003), I would expect that proxy advisors are less likely to recommend *Against* auditor ratification when tenure is higher. However, a popular press article interviewing a Glass Lewis associate suggests that proxy advisors are more likely to recommend *Against* auditor ratification when tenure is higher: "...we believe that excessively long audit relationships may breed an attitude of complacency or provide for a

²⁰ My inferences are qualitatively similar when I make the following alternative design choices: i) I replace *ExcessNAS* with a continuous variable equal to the proportion of nonaudit service fees in total fees; ii) I replace *MWeak* with a variable that combines *MWeak* and late filings; iii) I measure *Restate*, *MWeak*, and *SEC_CmtLtr* using the two years preceding the vote date; iv) I replace *LowAuditFees* with a continuous measure of audit fees to total assets; and v) I replace *LowAuditFees* with an estimate of abnormal audit fees using the following model for all company-years between 2008 and 2012 with available Compustat and AuditAnalytics data, using ordinary least squares regression and robust standard errors that are clustered by company identifier (all variables defined in Appendix A):

$$\begin{aligned} \ln \text{AuditFees}_{it} = & \alpha_0 + \alpha_1 \ln \text{Assets}_{it} + \alpha_2 \text{Sales}_{it} + \alpha_3 \text{Current}_{it} + \alpha_4 \text{Leverage}_{it} + \alpha_5 \text{ROA}_{it} \\ & + \alpha_6 \text{Loss}_{it} + \alpha_7 \text{GoingConcern}_{it} + \alpha_8 \text{MB}_{it} + \alpha_9 \text{Receivables}_{it} \\ & + \alpha_{10} \text{Inventory}_{it} + \alpha_{11} \text{Segments}_{it} + \alpha_{12} \text{Foreign}_{it} + \alpha_{13} \text{Restatement}_{it} \\ & + \alpha_{14} \text{Restructure}_{it} + \alpha_{15} \text{MWeak}_{it} + \alpha_{16} \text{Effort404b}_{it} + \alpha_{17} \text{Big4}_{it} \\ & + \alpha_{18} \text{Specialist}_{it} + \alpha_{19} \text{AuditLag}_{it} + \alpha_{20} \text{Initial}_{it} + \alpha_{21} \text{FinUtility}_{it} \\ & + \alpha_{22} \text{Litigation}_{it} + \alpha_j \text{Year FE}_{it} + \varepsilon_{it}. \end{aligned}$$

potential conflict of interest” (Weil 2012, 1).²¹ Therefore, I do not have a directional prediction for *lnAudTenure*. Because prior literature suggests that smaller audit firms provide, or are perceived to provide, lower quality audits than Big N audit firms (e.g., DeAngelo 1981; DeFond and Jiambalvo 1991; Teoh and Wong 1993; Becker et al. 1998), I expect proxy advisors are less likely to recommend *Against* the auditor when a Big 4 auditor is present. Similarly, I expect that proxy advisors are less likely to recommend *Against* the auditor when the company engages an industry specialist auditor, because the industry-specific knowledge that an industry specialist provides should yield a higher quality audit than a non-industry specialist (see Knechel et al. 2013 for a summary of the industry specialist literature).

After controlling for company size (*lnAssets*) and age (*lnCompanyAge*), for which I do not have directional predictions, and including year fixed effects (*Year FE*), the model is as follows:

$$\begin{aligned}
 RecAgainst_{it} = & \beta_0 + \beta_1 ExcessNAS_{it} + \beta_2 Restate_{it} + \beta_3 MWeak_{it} + \beta_4 LowAuditFees_{it} \\
 & + \beta_5 AbsDA_{it} + \beta_6 SEC_CmtLtr_{it} + \beta_7 LegalLanguage_{it} + \beta_8 lnAudTenure_{it} \\
 & + \beta_9 Big4_{it} + \beta_{10} Specialist_{it} + \beta_{11} lnAssets_{it} + \beta_{12} lnCompanyAge_{it} \\
 & + \beta_j Year FE + \varepsilon_{it}.
 \end{aligned} \tag{1}$$

RecAgainst is set equal to one when either Glass Lewis or ISS recommends *Against* auditor ratification, and zero otherwise. All other variables are as defined in Appendix A. I estimate Equation (1) using logistic regression and estimate robust standard errors that are clustered by company identifier.

²¹ Further, ISS recently issued a call for comment about other criteria that should be used in their recommendation for auditor ratification. One provision specifically queried is auditor tenure: “[i]f you believe that auditor tenure is a critical factor to consider when evaluating the proposal to ratify auditors, at what tenure (in number of years) would you consider service to be excessive, i.e., whereby the auditor is no longer independent? (5, 10, 15, 25, other-please specify).” Retrieved on January 21, 2014 from <http://www.issgovernance.com/files/Auditorratification-US.pdf>.

3.2 Proxy Advisor Recommendations and Shareholder Voting

Using areas of the ballot other than the auditor ratification vote, prior literature has consistently found that a proxy advisor *Against* recommendation shifts the percentage of shareholders voting against management's recommendation by 13 to 25 percent. Using a large sample of company- and shareholder-proposals, Bethel and Gillan (2002) find that an ISS *Against* recommendation is associated with a 13.6 to 20.6 percent decrease in favorable votes cast, depending on the proposal type. Using a sample of uncontested director elections, Cai et al. (2009) find that an ISS *Against* recommendation is associated with 19 percent fewer votes cast in favor of the director's election. Using executive compensation say-on-pay ballot items, Ertimur et al. (2013) and Larcker et al. (2013a) find that an *Against* recommendation is associated with a 13 to 25 percent reduction in favorable votes.

Prior literature examining the auditor ratification vote, without consideration of the proxy advisor recommendation, generally finds that the percentage of votes cast against or abstaining from auditor ratification (*Vote*) is higher for larger companies (*lnAssets*) and companies with lower returns (*Returns*), lower profitability (*ROA*, *Loss*), material weaknesses (*MWeak*) or restatements (*Restate*), lower insider ownership (*Insiders*) or blockholder ownership (*Blockholders*), lower quality corporate governance, as proxied for by the combination of the CEO and Chairman positions (*CEO_Chair*), longer auditor tenure (*lnAudTenure*), a higher percentage of votes cast against director elections (*DirVote*), which proxies for company-specific shareholder dissent, and higher nonaudit services.²² Findings are mixed for the presence of Big

²² See Sainy et al. (2002), Raghunandan (2003), Mishra et al. (2005), Dao et al. (2008), Hermanson et al. (2009), and Liu et al. (2009). In an earlier setting, Glezen and Millar (1985) find no association between the nonaudit fee ratio and auditor ratification voting outcomes. Raghunandan and Rama (2003) find that this association is strongest when the audit committee is not comprised of solely independent board members or lacks a financial expert.

N auditors (*Big4*) and the percentage of institutional ownership. Because prior literature has found mixed results when using all types of institutional investors, I measure the influence of institutional ownership using the percentage of shares held by non-transient institutional owners (*InstPerc_NonTran*). The longer-term investment strategy of non-transient institutional owners should yield greater influence on corporate governance matters than transient institutional owners (Bushee 1998).

To determine whether proxy advisor recommendations affect shareholder ratification of the auditor, I follow the proxy advisor literature in other vote settings and regress the percentage of votes cast against auditor ratification on my variable of interest, *RecAgainst*. Because proxy advisors use publicly available information, I control for the determinants in Equation (1) (*ExcessNAS*, *Restate*, *MWeak*, *LowAuditFees*, *AbsDA*, *SEC_CmtLtr*, *LegalLanguage*, *InAudTenure*, *Big4*, *Specialist*, *InAssets*, *InCompanyAge*). I also control for factors identified in prior literature that affect the percentage of votes cast against auditor ratification (*Returns*, *ROA*, *Loss*, *Insiders*, *Blockholders*, *CEO_Chair*, *InstPerc_NonTran*, *DirVote*).

Following prior literature, I use three measures for the percentage of shareholders voting against auditor ratification (*Vote*). First, I use the votes cast against or abstaining from auditor ratification, divided by the total number of votes cast (*PercAgAbst*). Second, I use the votes cast against or abstaining from auditor ratification, divided by the total number of votes cast by non-insiders (*PercAgAbst - Sainty*).²³ Finally, I use the votes cast against auditor ratification, without consideration of votes cast in abstention, divided by the total number of votes cast (*PercAgainst*).

The model is as follows:

²³ When using *PercAgAbst - Sainty*, I remove *Insiders* from the model.

$$\begin{aligned}
Vote_{it} = & \gamma_0 + \gamma_1 RecAgainst_{it} + \gamma_2 ExcessNAS_{it} + \gamma_3 Restate_{it} + \gamma_4 MWeak_{it} \\
& + \gamma_5 LowAuditFees_{it} + \gamma_6 AbsDA_{it} + \gamma_7 SEC_CmtLtr_{it} + \gamma_8 LegalLanguage_{it} \\
& + \gamma_9 lnAudTenure_{it} + \gamma_{10} Big4_{it} + \gamma_{11} Specialist_{it} + \gamma_{12} lnAssets_{it} \\
& + \gamma_{13} lnCompanyAge_{it} + \gamma_{14} Returns_{it} + \gamma_{15} ROA_{it} + \gamma_{16} Loss_{it} + \gamma_{17} Insiders_{it} \\
& + \gamma_{18} Blockholders_{it} + \gamma_{19} CEO_Chair_{it} + \gamma_{20} InstPerc_NonTran_{it} \\
& + \gamma_{21} DirVote_{it} + \gamma_j Year FE + \varepsilon_{it}
\end{aligned} \tag{2a}$$

While each of the factors described in Equation (1) are considered individually and in the aggregate when assessing a company's choice of auditor, Glass Lewis and ISS provide their clients with one primary reason for the *Against* recommendation. To further understand the influence of proxy advisors, I examine whether shareholders apply varying weights of importance to the *Against* recommendations based on the reasons disclosed by the proxy advisors. I read each of the disclosures provided by the proxy advisor to classify the reasons for the *Against* recommendation. I find that 186 of the 231 *Against* recommendations (80.5%) are described as having alternative dispute resolutions, limitation of punitive damages, or limitation of auditor liability in the audit engagement letter (*RecAgainst_Legal*); 30 *Against* recommendations (13.0%) are described as having excessive nonaudit services (*RecAgainst_NAS*); and 15 (6.5%) are described as having low audit quality, auditor responsibility in a restatement, or the need for fresh eyes in the auditing process (*RecAgainst_Quality*). I then redefine *RecAgainst* using these three classifications. The model is as follows:

$$\begin{aligned}
Vote_{it} = & \lambda_0 + \lambda_1 RecAgainst_Legal_{it} + \lambda_2 RecAgainst_NAS_{it} + \lambda_3 RecAgainst_Quality_{it} \\
& + \lambda_4 ExcessNAS_{it} + \lambda_5 Restate_{it} + \lambda_6 MWeak_{it} + \lambda_7 LowAuditFees_{it} + \lambda_8 AbsDA_{it} \\
& + \lambda_9 SEC_CmtLtr_{it} + \lambda_{10} LegalLanguage_{it} + \lambda_{11} lnAudTenure_{it} + \lambda_{12} Big4_{it} \\
& + \lambda_{13} Specialist_{it} + \lambda_{14} lnAssets_{it} + \lambda_{15} lnCompanyAge_{it} + \lambda_{16} Returns_{it} + \lambda_{17} ROA_{it} \\
& + \lambda_{18} Loss_{it} + \lambda_{19} Insiders_{it} + \lambda_{20} Blockholders_{it} + \lambda_{21} CEO_Chair_{it} \\
& + \lambda_{22} InstPerc_NonTran_{it} + \lambda_{23} DirVote_{it} + \lambda_j Year FE + \varepsilon_{it}
\end{aligned} \tag{2b}$$

All variables are as defined in Appendix A. I estimate Equations (2a) and (2b) using ordinary least squares regression and estimate robust standard errors that are clustered by company identifier.

3.3 Proxy Advisor Recommendations and Subsequent Changes in the Auditor-Client Relationship

Prior literature has found mixed results on the influence of shareholder voting on governance reform. Saintry et al. (2002) find that companies respond to higher levels of shareholder dissatisfaction in the auditor vote with a higher propensity for auditor turnover. Similarly, Del Guercio et al. (2008) find that companies respond to the dissatisfaction communicated in shareholder “vote no” campaigns with unexpected CEO turnover. Alternatively, using voting for equity compensation plans, Armstrong et al. (2013) find no association between high levels of shareholder dissatisfaction and subsequent changes in the level or structure of CEO compensation. Based on these findings, it is not clear whether shareholder voting has a significant influence on corporate policy.

Because proxy advisors do not have ownership in the companies that they provide recommendations for, it is not clear why companies should respond directly to proxy advisor recommendations. It is more intuitive to expect that companies should respond directly to the actual shareholder voting. However, prior literature has consistently found that proxy advisors have a significant influence on company actions and governance reform. Larcker et al. (2012) find that 70.4 percent of companies surveyed were influenced by proxy advisor guidelines and recommendations when designing their executive compensation policies. Additionally, Ertimur et al. (2013) and Larcker et al. (2013a) find that some companies change executive compensation policies between the original proxy advisor recommendation report release date and the shareholder voting date, in order to align to proxy advisor recommendations. These findings suggest that proxy advisors have a significant influence on corporate policy.

Because prior literature finds that companies respond to proxy advisor recommendations in other settings, I expect that companies will also be responsive to negative attention on the

auditor, caused by the proxy advisor *Against* recommendation, in the form of auditor dismissal.²⁴ However, because there are substantial costs associated with auditor turnover, particularly in the form of “management and audit committee time that would be required to bring a new audit firm up to speed” (EY 2012, 3), companies may choose to address proxy advisor and shareholder concerns without dismissing the auditor.²⁵ Therefore, I examine three generic responses that would address any type of *Against* recommendation: i) auditor dismissal, ii) change in audit fees, and iii) change in audit quality. I then examine two targeted responses that address specific concerns in the proxy advisor report: i) change in nonaudit services for companies with excessive nonaudit services, and ii) change in DEF 14A disclosures for companies that disclose legal limitations in the engagement letter.

Similar to prior literature examining responses to going concern opinion modifications (e.g., Carcello and Neal (2003)), I focus on ‘new’ *Against* recommendations (i.e., the company received an *Against* recommendation in year t and a *For* recommendation in year $t-1$) and all companies with a recurring *For* recommendation in year t (i.e., the company received a *For* recommendation in years t and $t-1$).

²⁴ While detailed proxy advisor recommendations are generally only available to subscribers of proxy advisory services, *Against* recommendations may also be disclosed in the popular press (e.g., Fowler (2004), Freed (2011), and Weil (2012)).

²⁵ The Public Company Accounting Oversight Board (PCAOB) issued a concept release on mandatory audit firm rotation in 2011 (PCAOB 2011). EY (2012) summarizes the 600 response letters received from academics, audit committee members, audit firms, and others, and finds that the primary reason for opposing mandatory audit firm rotation is excessive costs borne by the company. “Company executives and audit committee members most frequently pointed to an increase in costs as the reason for their opposition. They expressed concerns about both the cost of the audit and the cost in management and audit committee time that would be required to bring a new audit firm up to speed so it could perform a high-quality audit” (EY 2012, 3).

3.3.1 Auditor Dismissal

I examine the association between *RecAgainst* in year t and auditor dismissals in year $t+1$ and $t+2$. I use all companies with a ‘new’ *Against* recommendations and all companies with recurring *For* recommendations. I then use a propensity score matched sample of ‘new’ *Against* recommendations and recurring *For* recommendations (described further in Section 5). Because of the low frequency rates of both *Against* recommendations and auditor dismissals, I limit this analysis to univariate tests.

3.3.2 Change in Audit Fees

As an alternative to auditor dismissal, companies and auditors may choose to renegotiate audit fees as a result of the proxy advisor recommendation. Companies and auditors may choose to increase the level of assurance provided by the auditor to alleviate concerns about audit quality. The increased level of assurance will result in additional audit procedures, and thus an increase in audit fees.²⁶ To determine whether proxy advisor recommendations are associated with future increases in audit fees, and whether the association varies with the percentage of shareholders voting against or abstaining from auditor ratification, I use the following model:²⁷

$$\begin{aligned} \Delta \ln \text{AuditFees}_{it+1} = & \phi_0 + \phi_1 \text{RecAgainst}_{it} + \phi_2 \text{Vote}_{it} + \phi_3 \text{RecAgainst}_{it} * \text{Vote}_{it} + \phi_4 \Delta \ln \text{Assets}_{it+1} \\ & + \phi_5 \Delta \text{Sales}_{it+1} + \phi_6 \Delta \text{Current}_{it+1} + \phi_7 \Delta \text{Leverage}_{it+1} + \phi_8 \Delta \text{ROA}_{it+1} \\ & + \phi_9 \Delta \text{Loss}_{it+1} + \phi_{10} \Delta \text{GoingConcern}_{it+1} + \phi_{11} \Delta \text{MB}_{it+1} + \phi_{12} \Delta \text{Receivables}_{it+1} \\ & + \phi_{13} \Delta \text{Inventory}_{it+1} + \phi_{14} \Delta \text{Segments}_{it+1} + \phi_{15} \Delta \text{Foreign}_{it+1} \\ & + \phi_{16} \Delta \text{Restatement}_{it+1} + \phi_{17} \Delta \text{Restructure}_{it+1} + \phi_{18} \Delta \text{MWeak}_{it+1} \\ & + \phi_{19} \Delta \text{Effort404b}_{it+1} + \phi_{20} \Delta \text{AuditLag}_{it+1} + \phi_{21} \Delta \text{Initial}_{it+1} + \phi_{22} \text{FinUtility}_{it+1} \\ & + \phi_{23} \text{Litigation}_{it+1} + \phi_{24} \ln \text{AuditFees}_{it} + \phi_{25} \ln \text{Assets}_{it} + \varepsilon_{it+1}. \end{aligned} \quad (3)$$

²⁶ This argument is similar to that used in Carcello et al. (2002) and Abbott et al. (2003), which use audit fees to proxy for the demand for audit services because “[a]uditors cannot unilaterally charge higher fees for additional effort unless there is a corresponding increase in client demand for the additional effort” (DeFond and Zhang 2013, 28).

²⁷ I exclude year fixed effects from the model because variance inflation factors (VIFs) for the year fixed effects in Equation (3) are greater than 20. Inferences are the same when I include year fixed effects in the model.

Δ indicates that the variable has been set equal to the value in $t+1$ minus the value in t .

lnAuditFees is set equal to the natural log of audit fees. All other variables are as defined in Appendix A. I estimate Equation (3) using OLS regression with robust standard errors that are clustered at the company level for i) the full sample of companies with ‘new’ *Against* recommendations and recurring *For* recommendations, and ii) a propensity score matched sample of companies with ‘new’ *Against* recommendations and recurring *For* recommendations (described further in Section 5). I remove any observations with auditor turnover in year $t+1$.

I control for changes in company and auditor characteristics commonly used in prior literature (e.g., Simunic 1980; Hay et al. 2006; Ettredge et al. 2007; Dao et al. 2012). Specifically, I control for changes in company size (*lnAssets*, *Sales*), financial health (*Current*, *Leverage*, *ROA*, *Loss*, *GoingConcern*), market-to-book ratio (*MB*), inherent risk (*Receivables*, *Inventory*, *Segments*, *Foreign*), non-recurring items which require additional audit effort (*Restatement*, *Restructure*), control risk (*MWeak*) and the incremental effort associated with an audit of internal controls (*Effort404b*), the amount of time between the fiscal year end and the audit report date (*AuditLag*), and initial audits (*Initial*). I include an indicator variable for companies in the financial and utilities sectors (*FinUtility*) because these companies have a substantially different audit risk profile (Carcello et al. 2002; Hay et al. 2006), and an indicator for highly litigious industries (*Litigation*) because auditors typically assign a risk premium to the engagement. Finally, I control for the level of audit fees (*lnAuditFees*) and company size (*lnAssets*) in year t , following Ettredge et al. (2007).

3.3.3 Change in Audit Quality

Companies and auditors may use improved audit quality as a signal that auditor turnover is not necessary. Thus, I expect audit quality to increase following an *Against* recommendation.

To determine whether proxy advisor recommendations are associated with future changes in audit quality, and whether the association varies with the percentage of shareholders voting against auditor ratification, I use the following model:²⁸

$$\begin{aligned} \Delta AbsDA(SignDA)_{it+1} = & \delta_0 + \delta_1 RecAgainst_{it} + \delta_2 Vote_{it} + \delta_3 RecAgainst_{it} * Vote_{it} \\ & + \delta_4 \Delta InAssets_{it+1} + \delta_5 \Delta SalesGrowth_{it+1} + \delta_6 \Delta Loss_{it+1} \\ & + \delta_7 \Delta Leverage_{it+1} + \delta_8 \Delta CFO_{it+1} + \delta_9 \Delta MB_{it+1} \\ & + \delta_{10} \Delta TACCR_Lag_{it+1} + \delta_{11} \Delta M\&A_{it+1} + \delta_{12} AbsDA(SignDA)_{it} \\ & + \varepsilon_{it+1} \end{aligned} \quad (4)$$

Δ indicates that the variable has been set equal to the value in $t+1$ minus the value in t . *AbsDA* (*SignDA*) is the absolute (signed) value of performance-adjusted discretionary accruals (described further in Appendix A). All other variables are as defined in Appendix A. I estimate Equation (4) using OLS regression with robust standard errors that are clustered at the company level for i) the full sample of companies with ‘new’ *Against* recommendations and recurring *For* recommendations, and ii) a propensity score matched sample of companies with ‘new’ *Against* recommendations and recurring *For* recommendations (described further in Section 5). I remove observations with auditor turnover in year $t+1$.

I control for changes in company characteristics commonly used in prior literature examining discretionary accruals (e.g., DeFond and Jiambalvo 1994; Dechow et al. 1995; Becker et al. 1998; Klein 2002; Francis and Yu 2009; Reichelt and Wang 2010). Specifically, I control for changes in company size (*InAssets*), sales growth (*SalesGrowth*), financial condition (*Loss*, *Leverage*, *CFO*), market-to-book ratio (*MB*), lagged total accruals (*TACCR_Lag*), and merger and acquisition activity (*M&A*). Finally, I control for the level of discretionary accruals (*AbsDA*, *SignDA*) in year t , following Geiger and North (2006).

²⁸ I exclude year fixed effects from the model because variance inflation factors (VIFs) for the year fixed effects in Equation (4) are greater than 20. Inferences are qualitatively similar when I include year fixed effects in the model.

3.3.4 Change in the Proportion of Nonaudit Fees

For the sample of observations that receive an *Against* recommendation because of excessively high nonaudit services, an alternative to auditor dismissal is a reduction in nonaudit services. To examine this, I match companies that receive an *Against* recommendation because of high nonaudit services in year t with companies that receive a *For* recommendation and have similarly high levels of nonaudit services in year t . To determine whether proxy advisor recommendations are associated with future changes in nonaudit service fees, and whether the association varies with the percentage of shareholders voting against or abstaining from auditor ratification, I use the following model, which controls for the level of nonaudit services in year t , changes in company size, and year fixed effects:

$$\Delta NAS_{it+1} = \Gamma_0 + \Gamma_1 RecAgainst_{it} + \Gamma_2 Vote_{it} + \Gamma_3 RecAgainst_{it} * Vote_{it} + \Gamma_4 \Delta \ln Assets_{it+1} + \Gamma_5 NAS_{it} + \Gamma_j Year FE_{it+1} + \varepsilon_{it+1} \quad (5)$$

Δ indicates that the variable has been set equal to the value in $t+1$ minus the value in t . NAS is the proportion of nonaudit service fees to total fees paid by the company to the audit firm. All other variables are as defined in Appendix A. I estimate Equation (5) using OLS regression with robust standard errors that are clustered at the company level.

3.3.5 Change in Disclosure of Legal Limitations in the Engagement Letter

For the sample of companies that receive an *Against* recommendation because of legal limitations disclosed in the DEF 14A filing, an alternative to auditor dismissal is removal of the legal limitation from the DEF 14A filing. I identify the companies that receive an *Against* recommendation because of legal limitations and I read future DEF 14A filings to determine in what year (if any) these disclosures are no longer present. Because I do not develop a specific expectation for the percentage of companies that should remove the disclosure, this test is only intended to provide additional descriptive evidence about company responses to *Against*

recommendations. Further, because this is a voluntary disclosure, this procedure only identifies companies that stop *disclosing* the legal clauses, and does not imply that the company actually removes these clauses from the engagement letter.

4. SAMPLE

Using the ISS Voting Analytics database and data provided by Glass Lewis, I collect proxy advisor recommendations and shareholder voting outcomes for all companies in the Russell 3000 index with an auditor ratification vote for annual meeting dates between January 1, 2009 and June 30, 2012. In addition to Glass Lewis and ISS, there are three other proxy advisors available to subscribers (GAO 2007): Egan-Jones Proxy Services, Marco Consulting Group, and C&W Investment Group. GAO (2007) estimates that ISS' clients' equity dollars is approximately 25.5 trillion, Glass Lewis' is approximately 15 trillion, and the remaining advisors are 1 trillion or less. I limit my analysis to ISS and Glass Lewis because Choi et al. (2010) find that ISS is the most powerful proxy advisor and among the others, only Glass Lewis has a significant influence on voting outcomes.

Each observation in my sample is one company-meeting date. The meeting date typically occurs three to six months following the fiscal year end. Unless otherwise noted, auditor and company characteristics are measured using the disclosures from the fiscal year end. Financial and opinion information is measured using the 10-K immediately preceding the meeting date, as collected by Compustat and AuditAnalytics, and audit fee and governance information is measured using the DEF 14A immediately preceding the meeting date, as collected by AuditAnalytics and Corporate Library. I use Thomson Reuters 13F database to obtain institutional holdings and I use CRSP to obtain market return information.

Table 1 provides the sample selection process. I begin with 10,603 company-meeting observations with both Glass Lewis and ISS recommendations. I remove 213 observations without final vote data, and 67 observations without matching identifiers from AuditAnalytics, Compustat, or CRSP databases. To ensure that measurements for auditor characteristics align with the auditor subject to ratification, I remove 222 observations where auditor turnover is announced between the fiscal year-end and the meeting date, or where the auditor designated on the ballot is not the same as the auditor of record as of year-end (which I identify using the Corporate Library database). I remove 1,328 observations with insufficient data to calculate the independent variables in Equations (1), (2a), and (2b). The resulting sample includes 8,773 observations. Samples used for evaluating changes in the auditor-client characteristics each start with the 8,773 observations described above and remove additional observations with insufficient data for the respective tests. Those samples are described further in Section 5.

[Insert Table 1 Here]

5. RESULTS

In Table 2, Panel A, I provide descriptive statistics for all variables used in Equations (1), (2a), and (2b). I find that the mean percent of votes cast against or abstaining from auditor ratification (*PercAgAbst*) is 1.6 percent. The mean percent of non-insider votes cast against or abstaining from auditor ratification (*PercAgAbst - Sainity*) is 1.8 percent. The mean percent of votes cast against auditor ratification (*PercAgainst*) is 1.3 percent. 2.6 percent of observations receive an *Against* recommendation. The most common reason for an *Against* recommendation is legal limitations in the engagement letter, such as alternative dispute resolution or limitation of punitive damages, between the company and the auditor (*RecAgainst_Legal*). The second most

common reason for an *Against* recommendation is excessive nonaudit services (*RecAgainst_NAS*). The least common reason for an *Against* recommendation is poor audit quality (*RecAgainst_Quality*).

Approximately 0.5 percent of observations meet the Glass Lewis definition of excessive nonaudit services (*ExcessNAS*). Approximately 3.5 percent of observations restated their financial statements (*Restate*) and 2.1 percent reported a material weakness (*MWeak*) in the year preceding the vote. Approximately 7.8 percent of sample observations have an audit fees to total assets ratio in the bottom five percent of industry peers, when using all available companies in AuditAnalytics (*LowAuditFees*). On average, discretionary accruals, measured in absolute value (*AbsDA*), are approximately 6.4 percent of the prior year's total assets. Approximately 44 percent of observations close an SEC comment letter conversation in the year preceding the vote (*SEC_CmtLtr*).²⁹ Approximately 2.4 percent of observations disclose engagement letter legal limitations in the DEF14A filing. On average, the natural log of auditor tenure (in years) based on available data in AuditAnalytics and Compustat is 2.213, which is approximately 9 years (*InAudTenure*). Approximately 87 percent of observations engage a Big 4 auditor (*Big4*). Approximately 24 percent of observations engage an industry specialist auditor (*Specialist*).

Because my sample is comprised of Russell 3000 companies, the companies in my sample are large, with a mean natural log of assets (*InAssets*) (in millions) of 7.367, which is approximately \$1.6 billion, old, with a mean natural log of years available in Compustat (*InCompanyAge*) of 2.924, which is approximately 19 years, experience positive returns, with a

²⁹ Comment letter conversations only become publicly available after the close of the conversation. Because I use factors that are publicly available to shareholders and proxy advisors as of the meeting date, I measure receipt of a comment letter using the public dissemination date, which is no more than 45 days after the close of the conversation (Cassell et al. 2013).

mean annual stock return (*Returns*) of 2.1 percent, and are profitable, with a mean net income of approximately 0.4 percent of total assets (*ROA*). Approximately 26 percent of observations record a loss. Approximately 12 percent of shares are owned by insiders (*Insiders*) and 47 percent are owned by non-transient institutional owners (*InstPerc_NonTran*). Approximately 25 percent of all shares, including insider- and institutionally-owned shares, are held by a shareholder with more than five percent ownership (*Blockholders*). Approximately 47 percent of observations' CEOs also hold the role of the chairman of the board of directors (*CEO_Chair*). On average, 3.4 percent of shareholders' votes are cast against the board of director nominees (*DirVote*).

In Table 2, Panel B, I provide Pearson and Spearman correlation coefficients for all variables used in Equations (1), (2a), and (2b). As expected, I find that the three measures for *Vote* ((1) – (3)) are highly correlated with each other, and with my variable of interest, *RecAgainst* (4). I find that the Pearson and Spearman correlation coefficients with my variable of interest, *RecAgainst* (4), and other variables are all less than 0.1, except for the correlation with *ExcessNAS* (5), which is 0.27, and with *LegalLanguage* (11), which is 0.81.

[Insert Table 2 Here]

5.1 Proxy Advisor Recommendations on Auditor Ratification

As reported in Table 3, I find that 231 out of 8,773 (2.6 percent) observations receive an *Against* recommendation from either Glass Lewis or ISS. Glass Lewis recommends *Against* auditor ratification in 228 of the observations (2.6 percent), and ISS recommends *Against* auditor ratification in 10 of the observations (0.4 percent). 7 of the 10 ISS *Against* recommendations overlap with Glass Lewis. Using a sample of director elections, Choi et al. (2009) find that ISS recommendations focus on governance-related factors and Glass Lewis recommendations focus

on audit and disclosure-related factors. It is not surprising, then, that Glass Lewis has a higher percentage of *Against* recommendations for auditor ratification. Using a sample of say-on-pay votes for 2011, Ertimur et al. (2013) report that Glass Lewis recommends *Against* management's proposal in 21.7 percent of sample observations, and ISS reports *Against* management's proposal in 11.3 percent of sample observations.

The univariate tests in Table 3 suggest that proxy advisors are more likely to issue an *Against* recommendation for companies that have high nonaudit services (*ExcessNAS*, p-value < 0.01), restatements (*Restate*, p-value < 0.01), more extreme discretionary accruals (*AbsDA*, p-value < 0.01), disclosure of legal limitations in the engagement letter (*LegalLanguage*, p-value < 0.01), longer auditor tenure (*lnAudTenure*, p-value < 0.10), and Big 4 auditors (*Big4*, p-value < 0.01).

[Insert Table 3 Here]

Results for Equation (1) are reported in Table 4. The multivariate results suggest that proxy advisors are more likely to issue an *Against* recommendation for companies with high nonaudit services (*ExcessNAS*, p-value < 0.01), companies disclosing a restatement (*Restate*, p-value < 0.01), material weakness (*MWeak*, p-value < 0.01), or legal limitation in the audit engagement letter (*LegalLanguage*, p-value < 0.01), companies with more aggressive accounting policies (*AbsDA*, p-value < 0.01), and larger companies (*lnAssets*, p-value < 0.05). As discussed in Section 3, the proxy advisors' primary reason for issuing an *Against* recommendation falls into one of three broad categories: i) legal limitations, ii) excessive nonaudit services, and iii) poor audit quality. Because *LegalLanguage* captures legal limitations, *ExcessNAS* captures excessive nonaudit services, and *Restate*, *MWeak*, and *AbsDA* are all indicators of poor financial reporting or audit quality, I conclude that my multivariate findings are consistent with the factors

disclosed by proxy advisors. The model has a very strong fit, as indicated by the area under ROC curve of 97.97%.

[Insert Table 4 Here]

5.2 Proxy Advisor Recommendations and Shareholder Voting

As reported in Table 5, I find that *RecAgainst* is associated with a shift in the mean (median) percentage of votes cast against or abstaining from auditor ratification from 1.5 to 6.7 (1.0 to 6.4) percent (*PercAgAbst*), 1.7 to 7.5 (1.1 to 6.9) percent (*PercAgAbst - Sainty*), and 1.2 to 6.1 (0.8 to 6.2) percent (*PercAgainst*). All shifts are statistically significant (p-value < 0.01).

[Insert Table 5 Here]

I present the multivariate results of Equations (2a) and (2b) in Table 6. I measure *Vote* using the percentage of shares cast against or abstaining from auditor ratification (*PercAgAbst*) in Panel A, the percentage of non-insider shares cast against or abstaining from auditor ratification (*PercAgAbst - Sainty*) in Panel B, and the percentage of shares cast against auditor ratification (*PercAgainst*) in Panel C. In Column (1), I include only the control variables used in Equations (2a) and (2b). I then present the results of Equation (2a) in Column (2) and Equation (2b) in Column (3).

[Insert Table 6 Here]

In Column (2) of all panels of Table 6, I find a positive and significant coefficient on *RecAgainst* (p-values < 0.01), suggesting that the percentage of shares cast against or abstaining from auditor ratification, are significantly higher for companies that receive an *Against* recommendation than for companies that receive a *For* recommendation.

When measuring *Vote* using *PercAgAbst* or *PercAgAbst - Sainty*, I find that the percentage of shareholders voting against or abstaining from auditor ratification is higher for

companies with higher nonaudit services (*ExcessNAS*, p-value < 0.01), material weaknesses (*MWeak*, p-value < 0.01), longer auditor tenure (*lnAudTenure*, p-value < 0.01), poor financial performance (*Loss*, p-value < 0.05), lower percentages of insider (*Insiders*, p-value < 0.01)³⁰ or blockholder (*Blockholders*, p-value < 0.01) ownership, weaker corporate governance (*CEO_Chair*, p-value < 0.05), and higher company-specific dissent (*DirVote*, p-value < 0.01). I also find that smaller companies (*lnAssets*, p-value < 0.01) and older companies (*lnCompanyAge*, p-value < 0.01) receive higher percentages of votes cast against auditor ratification.

When measuring *Vote* using *PercAgainst*, I find similar inferences, except that financial condition (*Loss*) is not significantly associated with *PercAgainst* (p-value > 0.10), and *InstPerc_NonTran* is positively associated with *PercAgainst* (p-value < 0.05), suggesting that there is a higher percentage of votes cast against auditor ratification when non-transient institutional ownership is higher.

In Column (3) of all panels, I find that the coefficients are positive and significant for each type of *RecAgainst* (p-values < 0.01); however, F-tests suggest that they are not statistically different from one another (i.e., the p-values > 0.10 fail to reject the null that the coefficients are equal). While *NAS = Quality* is statistically significant (p-value < 0.10) when I measure *Vote* using *PercAgAbst - Sainty* (Table 6, Panel B, Column (3)), suggesting that two are statistically different from one another, the remaining F-tests in Table 6, Panel B, Column (3) are statistically insignificant (p-values > 0.10), suggesting that collectively the three are not different. Thus, I conclude that shareholders place similar weights on these three classifications of proxy advisor *Against* recommendations.

³⁰ Following Sainty et al. (2002), I remove *Insiders* from the model when *Vote* is measured using the non-insider votes *PercAgAbst - Sainty*.

Consistent with these findings, the increase in the Adjusted R^2 between Column (1) and Column (2) of each panel suggests that proxy advisor recommendations (*RecAgainst*) increase the explanatory power of the model, and the lack of a substantial increase between Column (2) and Column (3) suggests that separating the types of against recommendation does not increase explanatory power. The mean variance inflation factors (mean VIF) in all columns and panels are less than 10, suggesting that multicollinearity is not a problem.

5.3 Proxy Advisor Recommendations and Subsequent Changes in the Auditor-Client Relationship

5.3.1 Auditor Dismissals

I begin with the 8,773 observations used in Equations (1), (2a), and (2b) and keep only those observations that are ‘new’ *Against* recommendations or recurring *For* recommendations. This procedure also drops observations from the first year of my study, 2009, since I do not have proxy advisor recommendation data for 2008. The resulting sample is 6,080 (3,975) observations for measuring dismissals in $t+1$ ($t+2$) (‘Full Sample’). I then match each ‘new’ *Against* observations with the closest propensity score matched recurring *For* observation using all of the factors in Equation (1) (‘Matched Sample’).³¹

I present the univariate statistics for auditor dismissals in $t+1$ and $t+2$ for both the full sample and the matched sample in Table 7. I find that when using the full sample, companies are more likely to dismiss the auditor in $t+1$ following an *Against* recommendation (p-value < 0.01).

³¹ Following Stuart (2010) and Minutti-Meza (2013), I examine the balance of the matched sample covariates using univariate tests of differences between observations where *RecAgainst* = 1 and observations where *RecAgainst* = 0. While I would expect no differences in the matched sample, I do find statistically significant differences in the mean and median *Restate*, *MWeak*, *LegalLanguage* and *Big4*. To address concerns about unbalanced matching, I use multivariate analyses in the matched sample to control for these four factors. Similar to the results of the univariate tests in Table 7, I find that the association between *Dismiss* and *RecAgainst* is insignificant (p-value > 0.10).

However, the difference in dismissal rates is insignificant in the matched sample (p-value > 0.10), suggesting that after directly matching companies based on the factors that influence the propensity to receive an *Against* recommendation, companies are *not* more likely to dismiss the auditor following an *Against* recommendation. I find no significant association between *RecAgainst* and *Dismiss* when extending the measurement window to $t+2$ (p-values > 0.10).

Because of the low number of dismissals and the small sample size of the *Against* recommendation group, I limit this analysis to univariate tests.

[Insert Table 7 Here]

5.3.2 Change in Audit Fees

I begin with the 8,773 observations used in Equations (1), (2a), and (2b), remove all observations with auditor turnover in $t+1$, and keep only those observations that are ‘new’ *Against* recommendations or recurring *For* recommendations. After removing those observations with insufficient data for Equation (3), the sample consists of 5,903 observations (‘Full Sample’). I then match each ‘new’ *Against* observation with the closest propensity score matched recurring *For* observation using all of the factors in Equation (1) (‘Matched Sample’).

In Table 8, Panel A, I present descriptive statistics for the full sample used in Equation (3). The percentage of companies receiving an *Against* recommendation (0.7 percent) appears substantially lower than that reported in Table 2, Panel A (2.6 percent), suggesting that a large proportion of *Against* recommendations in my main sample are recurring *Against* recommendations. The data indicate that this is because companies that receive an *Against* recommendation because of legal limitations often receive recurring *Against* recommendations in future years (see Section 5.3.5 for analysis of remediation of *RecAgainst_Legal*). The percentage

of votes cast against or abstaining from auditor ratification (*PercAgAbst*, *PercAgAbst - Sainty*, and *PercAgainst*) appears similar to those reported in Table 2, Panel A.

In Table 8, Panel B, I present the Pearson and Spearman correlation coefficients for the full sample used in Equation (3). The correlations between the three measures of *Vote* (1) – (3) and my variable of interest, *RecAgainst* (4), remain high. I find that the correlations between my variable of interest, *RecAgainst* (4), and the control variables (5) – (24) are all less than 0.1.

[Insert Table 8 Here]

Following Stuart (2010) and Minutti-Meza (2013), I examine the balance of the matched sample covariates using univariate tests of differences in means and medians between observations where *RecAgainst* = 1 and observations where *RecAgainst* = 0. Because propensity score matching identifies the observation with the closest fit based on the determinants of an *Against* recommendation (Equation 1), I expect to find no significance in the test of differences between the two groups. However, I do find, as reported in Table 9, that the mean and median nonaudit services (*ExcessNAS*, p-values < 0.05), restatements (*Restate*, p-values < 0.01 and 0.05, respectively), material weaknesses (*MWeak*, p-values < 0.05), discretionary accruals (*AbsDA*, p-values < 0.05 and 0.10, respectively), legal limitations in the engagement letter (*LegalLanguage*, p-values < 0.10 and 0.05, respectively), and auditor size (*Big4*, p-values < 0.10) are still statistically different between the two groups. To address concerns about matched sample balance, in multivariate tests I (untabulated) add these variables to the control variables used in the matched sample for Equation (3) and continue to find no significant association between *RecAgainst* and the change in audit fees in $t+1$. I discuss the findings from the main model of Equation (3) in Table 11 below.

[Insert Table 9 Here]

In Table 10, I present the univariate results for both the full sample and the matched sample. Here, I find that the change in audit fees in $t+1$ is not statistically different between companies receiving an *Against* recommendation and companies receiving a *For* recommendation (p-values > 0.10), suggesting that companies do not increase audit effort in response to receiving an *Against* recommendation.

[Insert Table 10 Here]

In Table 11, I present the multivariate results for both the full sample (Columns (1) and (3)) and the matched sample (Columns (2) and (4)). In the matched sample, *Going_Concern* is dropped because there are no observations where *Going_Concern* = 1. I measure *Vote* using *PercAgAbst* in Panel A, *PercAgAbst - Sainty* in Panel B, and *PercAgainst* in Panel C. Here, I find that the coefficient on *RecAgainst* is statistically insignificant in all columns and panels (p-values > 0.10), suggesting that companies do not increase audit effort in response to proxy advisor *Against* recommendations. I find that the coefficients on *PercAgAbst*, *PercAgAbst - Sainty*, and *PercAgainst* are positive and significant in the full sample (Columns (1) and (3), p-values < 0.01), suggesting that companies increase audit effort as shareholder dissatisfaction increases. However, because the coefficients are insignificant in the matched sample (Columns (2) and (4), p-values > 0.10), I conclude that companies do not respond to shareholder dissatisfaction with changes in audit effort. Finally, the coefficient on the interaction term is insignificant in all columns (p-values > 0.10), suggesting the association between $\Delta \ln \text{AuditFees}$ and *RecAgainst* does not vary with the level of shareholder dissent.

As discussed in Section 3, I do not include year fixed effects in Equation (3) because VIFs of the year fixed effects are greater than 20, and as shown in Table 11, all are less than 10

without year fixed effects in the model. I find (untabulated) that my inferences are the same if I include year fixed effects in the model.

[Insert Table 11 Here]

5.3.3 Change in Audit Quality

I begin with the 8,773 observations used in Equations (1), (2a), and (2b), remove all observations with auditor turnover in $t+1$, and keep only those observations that are ‘new’ *Against* recommendations or recurring *For* recommendations. After removing those observations with insufficient data for Equation (4), the sample consists of 5,817 observations (‘Full Sample’). I then match each ‘new’ *Against* observation with the closest propensity score matched recurring *For* observation using all of the factors in Equation (1) (‘Matched Sample’).

In Table 12, Panel A, I present descriptive statistics for the full sample used in Equation (4). Similar to Table 8, Panel A, I find that that percentage of companies receiving an *Against* recommendation (0.7 percent) is substantially lower than that reported in Table 2, Panel A (2.6 percent) because I drop recurring *Against* recommendations. I find that the percentage of votes cast against or abstaining from auditor ratification (*PercAgAbst*, *PercAgAbst - Sainty*, and *PercAgainst*) are similar to those reported in Table 2, Panel A.

In Table 12, Panel B, I present the Pearson and Spearman correlation coefficients for the full sample used in Equation (4). The correlations between the three measures of *Vote* (1) – (3) and my variable of interest, *RecAgainst* (4), remain high. I find that the correlations between my variable of interest, *RecAgainst* (4), and the control variables (5) – (16) are all less than 0.1.

[Insert Table 12 Here]

In Table 13, I present the univariate tests of differences in means and medians for the matched sample. Similar to Table 9, I continue to find significant differences between the two

groups after propensity score matching. Specifically, I find that the mean and median restatements (*Restate*, p-values < 0.05), material weaknesses (*MWeak*, p-values < 0.05), discretionary accruals (*AbsDA*, p-values < 0.10), and legal limitations in the engagement letter (*LegalLanguage*, p-value < 0.05) are still statistically different between the two groups. To address concerns about matched sample balance, in multivariate tests I (untabulated) add these variables to the control variables used in the matched sample for Equation (4) and continue to find no significant association between *RecAgainst* and the change in audit quality in $t+1$. I discuss the findings from the main model of Equation (4) in Table 15 below.

[Insert Table 13 Here]

In Table 14, I present the univariate results for both the full sample and the matched sample using the dependent variables $\Delta AbsDA$ and $\Delta SignDA$. Here, I find that changes in discretionary accruals are not statistically different between companies receiving an *Against* recommendation and companies receiving a *For* recommendation (p-values > 0.10), suggesting that companies do not improve audit quality in response to the proxy advisor *Against* recommendation.

[Insert Table 14 Here]

In Table 15, I present the multivariate results for both the full sample (Columns (1), (3), (5), and (7)) and the matched sample (Columns (2), (4), (6), and (8)). Results for $\Delta AbsDA$ are presented in Columns (1) – (4) and results for $\Delta SignDA$ are presented in Columns (5) – (8). I measure *Vote* using *PercAgAbst* in Panel A, *PercAgAbst - Sainty* in Panel B, and *PercAgainst* in Panel C. I find that the coefficient on *RecAgainst* is statistically insignificant in all columns and panels (p-values > 0.10), except for Panel B, Column (7), which is negative and significant (p-value < 0.05). Because the coefficient is statistically insignificant after matching on company

and auditor characteristics that influence the decision to give an *Against* recommendation (Panel B, Column (8), p-value > 0.10), the results collectively suggest that companies do not improve audit quality in response to the proxy advisor *Against* recommendations.

I find that the coefficients on *PercAgAbst*, *PercAgAbst - Sainty*, and *PercAgainst* are negative and significant in the full sample using $\Delta SignDA$ (Panel A, Columns (5) and (7), p-value < 0.05; Panel B, Column (7), p-value < 0.05; and Panel C, Columns (5) and (7), p-values < 0.05 and 0.01, respectively), suggesting that companies lower discretionary accruals as shareholder dissatisfaction increases. However, because the result is insignificant in the matched sample in all panels (Columns (6) and (8), p-values > 0.10) and for all columns and panels using $\Delta AbsDA$ (Columns (1) – (4), p-values > 0.10), I conclude that companies do not respond to shareholder dissatisfaction with changes in audit quality. Finally, the coefficient on the interaction term is insignificant in all panels and columns (p-values > 0.10), suggesting the association between $\Delta AbsDA(SignDA)$ and *RecAgainst* does not vary with the level of shareholder dissent.

As discussed in Section 3, I do not include year fixed effects in Equation (4) because VIFs of the year fixed effects are greater than 20, and as shown in Table 15, are all less than 10 without year fixed effects. I find (untabulated) that my inferences are the same if I include year fixed effects in the model.

[Insert Table 15 Here]

5.3.4 Change in the Proportion of Nonaudit Fees

I begin with the 8,773 observations used in Equations (1), (2a), and (2b), and remove all observations with auditor turnover in $t+1$. This leaves 30 observations where *RecAgainst_NAS* = 1. I then match each observation where *RecAgainst_NAS* = 1 with the closest propensity score

matched *For* observation using the proportion of nonaudit fees to total fees in year t , total assets in year t , and fiscal year. I present the results of this model in Table 16. I find that proxy advisors are more likely to give an *Against* recommendation to companies with a higher proportion nonaudit services (NAS , p-value < 0.01) and to larger companies ($\ln Assets$, p-value < 0.01). The model has a very strong fit, with an area under ROC curve of 96.43%.

[Insert Table 16 Here]

I present descriptive statistics for the matched sample used in Equation (5) in Table 17, Panel A. Here I find that the mean percentage of votes cast against or abstaining from auditor ratification (5.1 to 6.8 percent) is substantially higher than that reported in Table 2, Panel A (1.3 to 1.8 percent). This is consistent with the positive coefficient on $ExcessNAS$ in all panels and columns of Table 6, suggesting that a higher percentage of shareholders vote against or abstain from auditor ratification when nonaudit fees are excessive. Because I employ a matched sample design for Equation (5), 50 percent of companies in this sample receive an *Against* recommendation.

In Table 17, Panel B, I present Pearson and Spearman correlation coefficients. I find that the correlation between the measures for $Vote$ (1) – (3) remain high, and the correlation between $Vote$ (1) – (3) and my variable of interest, $RecAgainst$ (4) is higher than in previous samples. I find that the correlations between my variable of interest, $RecAgainst$ (4), and the control variables (5) – (7), are all less than 0.1, except for $\Delta \ln Assets$ (6), which is -0.24 and statistically significant (p-value < 0.10) in the Pearson correlation coefficient, but statistically insignificant (p-value > 0.10) in the Spearman correlation coefficient.

[Insert Table 17 Here]

I present univariate results in Table 18. Here I find that the average level of nonaudit service fees in year t are not statistically different between the two groups (p-value > 0.10), suggesting a strong fit in the matched sample. While the group where $RecAgainst_NAS = 1$ does experience a mean decrease in the proportion of nonaudit service fees of approximately 15 percent, the decrease is not statistically from the group where $RecAgainst_NAS = 0$ (p-value > 0.10), suggesting that companies do not lower nonaudit services in response to proxy advisor *Against* recommendations.

[Insert Table 18 Here]

I present the multivariate results in Table 19. I measure *Vote* using *PercAgAbst* in Columns (1) – (2), *PercAgAbst - Sainty* in Columns (3) – (4), and *PercAgainst* in Columns (5) – (6). I find that the coefficient on $RecAgainst_NAS$ is insignificant in all columns (p-values > 0.10), suggesting that companies do not lower nonaudit services in response to proxy advisor *Against* recommendations. I also find that the coefficients on *PercAgAbst*, *PercAgAbst - Sainty*, and *PercAgainst* are insignificant in all columns (p-values > 0.10), suggesting that companies respond to neither proxy advisor recommendations nor shareholder dissent. Finally, the coefficient on the interaction term is insignificant in Column (4) (p-value > 0.10) and negative and significant in Columns (2) and (6) (p-values < 0.10), suggesting that for two of the measures of *Vote*, companies lower the percentage of nonaudit services when they receive an *Against* recommendation and have higher percentages of shareholders voting against auditor ratification. However, the joint test of the interaction with the main effect on $RecAgainst$ suggests that the total effect of proxy advisor recommendations on the change in nonaudit services is not statistically significant (p-value > 0.10).

I find that the mean VIFs are all less than 10. While the mean VIFs are higher in Columns (2), (4), and (6) because of the interaction of *RecAgainst* and *Vote*, I suggest that multicollinearity is not a problem in this model since they are still less than 10.

[Insert Table 19 Here]

5.3.5 Change in Disclosure of Legal Limitations in the Engagement Letter

I limit this analysis to those companies receiving an *Against* recommendation because of legal limitations disclosed in the DEF 14A filing (e.g., alternative dispute resolutions, limitation of punitive damages, etc.). I begin with the 8,773 observations used to estimate Equations (1), (2a), and (2b). I then keep the 186 observations where *RecAgainst_Legal* = 1. There are 80 unique companies in the 186 observations. I remove 7 companies that experience auditor turnover in the sample period, and read all future DEF 14A filings through December 31, 2013, for the remaining 73 companies. 7 companies lack DEF 14A filings for years $t+1$ and $t+2$, leaving 66 unique companies in Table 20. I classify the companies based on the year that they ‘first’ received an *Against* recommendation. Because my sample begins in 2009, I do not know whether 2009 was truly the ‘first’ year these companies received an *Against* recommendation. Therefore I tabulate the cumulative results for removal of legal language in $t+1$ and $t+2$ both including and excluding 2009.

[Insert Table 20 Here]

I do not develop a specific prediction for the percentage of companies that are expected to remove the language for two primary reasons. First, discussions with partners from each of the Big 4 and two other major accounting firms indicate that for five of the six firms questioned, alternative dispute resolution (ADR) clauses are fairly standard in their engagement letters. There are exceptions where the ADR language is not part of the engagement letter, but that

would require special approval. Second, my discussions with a CFO and Assistant General Counsel of a Fortune 100 company suggest that they advocate for these legal clauses to keep litigation costs low between the company and the auditor, should litigation arise. Their company received an *Against* recommendation in each year of my study, but they plan to continue disclosing the engagement letter legal clauses in the DEF 14A filing to maintain transparency for their shareholders. These discussions would suggest that companies *do not* want to remove the legal language from the engagement letter, but pressure from the proxy advisor may cause them to remove the disclosure from the DEF 14A filing.

As shown in Table 20, I find that 68 (56) percent of companies still have the legal limitations disclosed in the DEF 14A filing by the end of $t+2$ when including (excluding) 2009, and only 32 (44) percent of companies remove the legal language from the DEF 14A filing. 18 (19) percent remove the language in $t+1$ and 14 (25) percent remove the language in $t+2$.

5.4 Additional Analyses

5.4.1 Interacting *RecAgainst* with Institutional Ownership and Auditor Characteristics

Because institutional owners are the primary subscriber for proxy advisory services, I expect that the association between proxy advisor recommendations and shareholder voting is dependent on the level of institutional ownership. To examine this, I modify Equation (2a) to add an interaction variable for *RecAgainst*InstPerc_NonTran*. As reported in Table 21, I find that the coefficients on *RecAgainst* and *RecAgainst*InstPerc_NonTran* are each positive and significant (p-value < 0.01) in all columns, suggesting that shareholders' negative reaction to proxy advisor *Against* recommendations is greater for companies with higher institutional ownership. I measure the dependent variable, *Vote*, using *PercAgAbst* in Column (1),

PercAgAbst - Sainty in Column (2), and *PercAgainst* in Column (3). The mean VIFs all remain less than 10, suggesting that multicollinearity is not a problem in the modified equation.

[Insert Table 21 Here]

It is also possible that shareholder reactions to proxy advisor recommendations depend on auditor characteristics. To examine this, I modify Equation (2a) to include interactions with auditor tenure (*lnAudTenure*), auditor size (*Big4*), and auditor industry specialization (*Specialist*) (estimated separately for each interaction).

I present the results for the interaction with *lnAudTenure* in Table 22, *Big4* in Table 23, and *Specialist* in Table 24. For each table, I measure the dependent variable, *Vote*, using *PercAgAbst* in Column (1), *PercAgAbst - Sainty* in Column (2), and *PercAgainst* in Column (3). I find that the coefficient on *RecAgainst* remains positive and significant (p-value < 0.01, < 0.05, and < 0.01, respectively) in all columns of Tables 22, 23, and 24. In Table 22, I find that the coefficient on *RecAgainst*lnAudTenure* is positive and significant (p-value < 0.10) in Column (1), suggesting that shareholders' negative reaction to proxy advisor *Against* recommendations is greater for companies with longer auditor tenure. However, the coefficient is insignificant in the remaining columns, suggesting that the result is sensitive to the measurement of *Vote*. I find that the coefficients on *RecAgainst*Big4* and *RecAgainst*Specialist* are insignificant in Tables 23 and 24, respectively (p-values > 0.10), suggesting that auditor size and industry specialization do not affect the extent to which shareholders respond to proxy advisor *Against* recommendations. The mean VIFs all remain less than 10, suggesting that multicollinearity is not a problem in the modified equations.

[Insert Table 22 Here]

[Insert Table 23 Here]

[Insert Table 24 Here]

5.4.2 Sample Attrition

I drop 1,328 observations because of data necessary for Equations (1) and (2). The variables causing the largest sample attrition are corporate governance data missing from Corporate Library. To determine whether my final sample introduces bias because of sample attrition, I perform the following procedures. First, I determine whether there is a significant difference between the dropped group and the final sample for my main variable of interest, *RecAgainst*. As reported in Table 25, Panel A, there is no statistical difference between the dropped group and the final sample in the rate of *RecAgainst*, *RecAgainst_Legal*, *RecAgainst_NAS*, or *RecAgainst_Quality* (p-values > 0.10). I then perform univariate tests of differences on the remaining variables of interest that do not have sample attrition caused by missing Corporate Library data. As reported in Table 25, Panel B, the dropped sample companies are smaller (*lnAssets*), younger (*lnCompanyAge*), and less profitable (*ROA*, *Loss*), have a lower percentage of auditor against votes (*PercAgAbst*, *PercAgainst*),³² a higher percentage of director against votes (*DirVote*), weaker internal control environments (*MWeak*), lower auditor tenure (*lnAudTenure*), lower institutional ownership (*InstPerc_NonTran*), and are less likely to engage a Big 4 auditor (*Big4*), than the final sample. Therefore, my results may not be generalizable to all companies in the Russell 3000.

[Insert Table 25 Here]

³² I do not compare *PercAgAbst* – *Sainty* because it requires *Insiders* from Corporate Library.

6. CONCLUSION

Understanding the influence of proxy advisors on the auditor ratification vote is important because of recommendations to increase auditor independence through shareholder voting (Mayhew and Pike 2004; ACAP 2008; Dao et al. 2012), the use of proxy advisors to provide summarized information necessary to make cost-effective, informed decisions, and increasing concerns about the quality of information provided by proxy advisors (e.g., Schapiro 2009; Larcker et al. 2013a; Larcker et al. 2013b). Using recommendations from the top two proxy advisory firms, I find that proxy advisors are more likely to recommend that shareholders vote *Against* auditor ratification when i) contractual language in the engagement letter limits the auditor's liability, ii) when the auditor is engaged in excessive nonaudit services, and iii) when audit quality appears low. An *Against* recommendation is associated with a 5.2 percent shift in the percentage of votes cast against or abstaining from auditor ratification, which appears economically insignificant when compared to prior studies that find a shift of 13 to 25 percent, and when compared to estimates that proxy advisors control 25 to 40 percent of outstanding votes.

When using a matched-sample design, I find no significant association between proxy advisor recommendations and subsequent changes in the auditor client relationship (e.g., auditor dismissal, change in audit fees, change in audit quality, or change in nonaudit fees). One possible explanation for this contradiction to prior literature, which finds that proxy advisors have a significant influence on shareholder voting and corporate policy in other settings (e.g., director elections, executive compensation), is that shareholders are able to form their own decision about auditor ratification without the assistance of proxy advisors. In other settings, proxy advisors offer their recommendations based on proprietary valuation techniques (e.g.,

executive compensation) that may not be replicable, or would be very costly to replicate. In this setting, the information used by proxy advisors is less costly to obtain and replicate (e.g., disclosure of restatements, nonaudit service fees, etc.), and in only 0.2 percent of sample observations do proxy advisors issue an *Against* recommendation because of poor audit quality. Thus, shareholders may be less reliant on proxy advisors in this specific setting. My findings contribute to concerns about institutional shareholders ‘blindly’ following proxy advisor recommendations by suggesting that proxy advisors do not have an economically significant influence on voting outcomes or corporate policy specific to auditor ratification.

When using a matched sample design, I also find no significant association between shareholder voting and subsequent changes in the auditor-client relationship, suggesting that companies are responsive to neither shareholder or proxy advisor concerns about auditor selection. One possible explanation for this contradiction to Sainty et al. (2002), which finds that companies respond to shareholder votes on auditor ratification in 1997, is that the Sarbanes-Oxley Act of 2002 placed auditor oversight in the hands of the independent audit committee. Thus, companies may be less reliant on input from shareholders and more reliant on in-depth research provided by the audit committee.³³ My findings should be of interest to regulators considering mandating the auditor ratification vote (ACAP 2008) in the current regulatory regime because my findings suggest that the vote may not be an effective monitoring mechanism.

³³ Gal-Or et al. (2013) and Kachelmeier et al. (2013) concurrently examine the determinants of the audit committee director elections, and the influence of those votes and proxy advisor recommendations on audit committee turnover. It is possible that the association between shareholder voting on auditor ratification and subsequent changes in the auditor-client relationship may depend on the extent to which shareholders also voice dissent against specific audit committee members. However, because my data is limited to the auditor ratification vote, I leave it to future research to examine the intersection of these two research streams.

Finally, like other studies examining the influence of proxy advisor recommendations, it is not clear whether shareholders and companies are responding to the actual recommendations (i.e., causality) or using similar information when making decisions (i.e., association).

Following prior studies, I attempt to isolate the effect of the recommendation by also controlling for the factors that influence the recommendation and the shareholder vote, and I acknowledge that my study is limited to providing information about the association between proxy advisor recommendations, shareholder voting, and subsequent changes in the auditor-client relationship.

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APPENDIX A
Variable Definitions

Variable	Variable Definition
<i>AbsDA</i> =	the absolute value of discretionary accruals (u), estimated by year and 2-digit SIC for all of Compustat, following Kothari et al.'s (2005) performance-adjusted modified Jones model (Jones 1991; Dechow et al. 1995) using lagged ROA (while retaining only those industry-years with a minimum of 10 observations per industry-year). The model is as follows: $TA_{it} = \delta_1(I/A_{it-1}) + \delta_2((\Delta S_{it} - \Delta AR_{it})/A_{it-1}) + \delta_3(PPE_{it}/A_{it-1}) + \delta_4(ROA_{it-1}) + u_{it}$. TA is equal to total accruals under the indirect cash flow method (Hribar and Collins 2002) (income before extraordinary items minus operating cash flows from continuing operations); A is equal to total assets; ΔS is equal to the change in total sales revenue from the prior year; ΔAR is equal to the change in accounts receivable from prior year; PPE is equal to property, plant, and equipment; ROA is equal to net income divided by total assets.
<i>AuditLag</i> =	the number of days between the audit opinion date and the fiscal year end date (AuditAnalytics).
<i>Big4</i> =	an indicator variable set equal to one when the company's annual financial statement opinion is signed by a Big 4 auditor, and zero otherwise (AuditAnalytics).
<i>Blockholders</i> =	the percentage of shares held by owners of 5% or more of the stock (in decimal form) (Corporate Library).
<i>CEO_Chair</i> =	an indicator variable set equal to one if the CEO is also the Chairman, and zero otherwise (Corporate Library).
<i>CFO</i> =	operating cash flows divided by total assets (Compustat).
<i>Current</i> =	current assets divided by current liabilities (Compustat).
<i>DirVote</i> =	the mean of the percentage of votes cast against or withheld from the management recommended directors (in decimal form) (ISS Voting Analytics).
<i>Dismiss</i> =	an indicator variable set equal to one if the company dismisses the auditor within 12 (24) months of the shareholder meeting date, and zero otherwise (AuditAnalytics).
<i>Effort404b</i> =	an indicator variable set equal to one if the auditor provided an opinion on internal controls (AuditAnalytics), and zero otherwise.
<i>ExcessNAS</i> =	an indicator variable set equal to one if tax fees and other nonaudit fees are greater than audit fees plus audit-related fees, and zero otherwise (AuditAnalytics).
<i>FinUtility</i> =	an indicator variable set equal to one if the company is in a financial (SIC codes 6000-6900) or utility industry (SIC codes 4900 through 4949), and zero otherwise.

<i>Foreign</i> =	an indicator variable set equal to one if the company reports foreign currency adjustments, and zero otherwise (Compustat).
<i>GoingConcern</i> =	an indicator variable set equal to one if the audit opinion includes a going concern modification, and zero otherwise (AuditAnalytics).
<i>i</i> =	company indicator.
<i>Initial</i> =	an indicator variable set equal to 1 if the company changed auditors during the fiscal year (AuditAnalytics), and 0 otherwise.
<i>Insiders</i> =	the percentage of shares held by insiders (in decimal form) (Corporate Library).
<i>InstPerc_NonTran</i> =	total institutional holdings minus institutional holdings held by institutions categorized as ‘transient’ in the quarter immediately preceding fiscal year-end divided by the total shares outstanding as of fiscal year-end, winsorized to 1.00 (following D’Souza et al. (2010)). I identify transient institutions using data from http://acct3.wharton.upenn.edu/faculty/bushee/IIclass.html .
<i>Inventory</i> =	inventory divided by total assets (Compustat).
<i>LegalLanguage</i> =	an indicator variable set equal to one if the company discloses clauses in the audit engagement letter that allow for alternative dispute resolutions or limitation of auditor liability, and zero otherwise (DEF 14A).
<i>Leverage</i> =	total liabilities divided by total assets (Compustat).
<i>Litigation</i> =	an indicator variable set equal to one if the company is in a highly litigious industry, following Francis et al. (1994) (SIC codes 2833-2836, 3570-3577, 3600-3674, 5200-5961, or 7370-7374), and zero otherwise.
<i>lnAssets</i> =	the natural log of total assets (Compustat).
<i>lnAuditFees</i> =	the natural log of the company’s audit fees (AuditAnalytics).
<i>lnAudTenure</i> =	the natural log of the number of consecutive years (through year <i>t</i>) during which the auditor has audited the company (AuditAnalytics).
<i>lnCompanyAge</i> =	the natural log of the total number of years (through year <i>t</i>) for which total assets is reported (Compustat).
<i>Loss</i> =	an indicator variable set equal to one if net income is less than zero, and zero otherwise (Compustat).
<i>LowAuditFees</i> =	an indicator variable set equal to one if the ratio of audit fees to total assets is in the lowest five percent of two-digit SIC industry peers, and zero otherwise, using all companies in AuditAnalytics.
<i>M&A</i> =	an indicator variable set equal to one if net cash flow from mergers and acquisitions is not equal to zero and not missing, and zero otherwise (Compustat).
<i>MB</i> =	the market value of equity divided by the book equity (Compustat).

<i>MWeak</i> =	an indicator variable set equal to one if the company reported a material weakness in its 302, 404(a), or 404(b) disclosures, and zero otherwise (AuditAnalytics).
<i>NAS</i> =	nonaudit fees divided by total fees (Audit Analytics).
<i>PercAgAbst</i> =	the number of votes cast against or abstaining from auditor ratification divided by the total number of votes cast (ISS Voting Analytics).
<i>PercAgAbst - Sainty</i> =	the number of votes cast against or abstaining from auditor ratification divided by (the total number of votes cast * (1- <i>Insiders</i>)), following Sainty et al. (2002) (ISS Voting Analytics).
<i>PercAgainst</i> =	the number of votes cast against auditor ratification divided by the total number of votes cast (ISS Voting Analytics).
<i>RecAgainst</i> =	an indicator variable set equal to one if either Glass Lewis or ISS recommends that shareholders vote against the auditor, and zero otherwise (Glass Lewis; ISS Voting Analytics).
<i>RecAgainst_Legal</i> =	an indicator variable set equal to one if either Glass Lewis or ISS recommends that shareholders vote against the auditor because of limitations in the auditor's liability or alternative dispute resolutions, and zero otherwise (Glass Lewis; ISS Voting Analytics).
<i>RecAgainst_NAS</i> =	an indicator variable set equal to one if either Glass Lewis or ISS recommends that shareholders vote against the auditor because of excessive nonaudit services, and zero otherwise (Glass Lewis; ISS Voting Analytics).
<i>RecAgainst_Quality</i> =	an indicator variable set equal to one if either Glass Lewis or ISS recommends that shareholders vote against the auditor because of poor audit quality, and zero otherwise (Glass Lewis; ISS Voting Analytics).
<i>Receivables</i> =	trade receivables divided by total assets (Compustat).
<i>Restate</i> =	an indicator variable set equal to one if the company filed a 10-K restatement during the year preceding the meeting date and the auditor of record for the misstated period is the same auditor subject to the annual vote, and zero otherwise (AuditAnalytics).
<i>Restatement</i> =	an indicator variable set equal to one if the company issued a restatement in the current year (AuditAnalytics), and zero otherwise.
<i>Restructure</i> =	an indicator variable set equal to one if the company reported restructuring charges during the year, and zero otherwise (Compustat).
<i>Returns</i> =	buy and hold returns for the twelve months preceding the meeting date, less buy and hold annual returns for the value weighted portfolio (CRSP).
<i>ROA</i> =	net income before interest and taxes divided by total assets (Compustat).
<i>Sales</i> =	total sales divided by total assets (Compustat).

<i>SalesGrowth</i> =	the percentage growth (in decimal form) in total sales from $t-1$ to t .
<i>SEC_CmtLtr</i> =	an indicator variable set equal to one if the company received a comment letter on a 10-K or 10-Q filing during the year preceding the meeting date (measured using the EDGAR dissemination date) and the auditor of record for the period subject to comment is the same as the auditor subject to the annual vote, and zero otherwise (AuditAnalytics).
<i>Segments</i> =	the natural log of the number of operating segments reported in Compustat (set equal to zero if there are no reported segments).
<i>SignDA</i> =	the signed value of discretionary accruals (see <i>AbsDA</i>).
<i>Specialist</i> =	an indicator variable set equal to one when the auditor has the highest percentage of client sales for the company's two-digit industry, when excluding company i , and zero otherwise (AuditAnalytics; Compustat).
t =	fiscal-year indicator (Compustat).
<i>TACCR_Lag</i> =	the absolute value of total accruals from continuing operations in year $t-1$ divided by total assets in year $t-1$
<i>YearFE</i> =	indicator variables for each fiscal-year represented in the sample (Compustat).

TABLE 1
Sample Selection

Observations with Glass Lewis and ISS recommendations for auditor ratification	10,603
Less: observations without final vote data	(213)
Less: observations missing AuditAnalytics, Compustat, or CRSP identifiers	(67)
Less: observations where auditor turnover is announced between the fiscal year end and the meeting date, or where the auditor being elected is not the same as the auditor for the fiscal year end	(222)
Less: observations with insufficient data to calculate independent variables for all models	(1,328)
Final Sample, Equations (1), (2a), and (2b)	8,773

TABLE 2
Descriptive Statistics:
Full Sample, Equations (1), (2a), and (2b)

Panel A: Descriptive Statistics

		N = 8,773				
		Mean	StdDev	25%	Median	75%
1	<i>PercAgAbst</i>	0.016	0.019	0.004	0.010	0.020
2	<i>PercAgAbst - Sainty</i>	0.018	0.021	0.006	0.012	0.022
3	<i>PercAgainst</i>	0.013	0.016	0.003	0.008	0.016
4	<i>RecAgainst</i>	0.026	0.160	0.000	0.000	0.000
	<i>RecAgainst_Legal</i>	0.021	0.144	0.000	0.000	0.000
	<i>RecAgainst_NAS</i>	0.003	0.058	0.000	0.000	0.000
	<i>RecAgainst_Quality</i>	0.002	0.041	0.000	0.000	0.000
5	<i>ExcessNAS</i>	0.005	0.067	0.000	0.000	0.000
6	<i>Restate</i>	0.035	0.185	0.000	0.000	0.000
7	<i>MWeak</i>	0.021	0.144	0.000	0.000	0.000
8	<i>LowAuditFees</i>	0.078	0.268	0.000	0.000	0.000
9	<i>AbsDA</i>	0.064	0.081	0.016	0.039	0.079
10	<i>SEC_CmtLtr</i>	0.442	0.497	0.000	0.000	1.000
11	<i>LegalLanguage</i>	0.024	0.154	0.000	0.000	0.000
12	<i>lnAudTenure</i>	2.213	0.795	1.792	2.197	2.773
13	<i>Big4</i>	0.874	0.332	1.000	1.000	1.000
14	<i>Specialist</i>	0.240	0.427	0.000	0.000	0.000
15	<i>lnAssets</i>	7.367	1.751	6.090	7.291	8.493
16	<i>lnCompanyAge</i>	2.924	0.706	2.398	2.890	3.434
17	<i>Returns</i>	0.021	0.146	-0.049	0.006	0.065
18	<i>ROA</i>	0.004	0.155	-0.002	0.028	0.069
19	<i>Loss</i>	0.261	0.439	0.000	0.000	1.000
20	<i>Insiders</i>	0.123	0.172	0.023	0.053	0.138
21	<i>Blockholders</i>	0.254	0.166	0.130	0.231	0.354
22	<i>CEO_Chair</i>	0.471	0.499	0.000	0.000	1.000
23	<i>InstPerc_NonTran</i>	0.472	0.190	0.350	0.496	0.609
24	<i>DirVote</i>	0.034	0.066	0.006	0.014	0.029

Panel B: Pearson and Spearman Correlation Coefficients

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1		0.97	0.93	0.23	0.09	0.01	0.00	0.07	-0.05	0.05	0.19	0.32	0.10	0.04	0.15	0.26	-0.02	0.04	-0.05	-0.29	-0.12	0.04	0.10	0.32
2	0.97		0.90	0.24	0.09	0.02	0.01	0.05	-0.04	0.04	0.20	0.30	0.09	0.03	0.11	0.24	-0.02	0.03	-0.04	-0.15	-0.19	0.04	0.03	0.29
3	0.90	0.87		0.23	0.09	0.01	-0.01	0.08	-0.05	0.06	0.19	0.37	0.16	0.06	0.18	0.28	-0.01	0.08	-0.07	-0.31	-0.09	0.05	0.17	0.25
4	0.44	0.44	0.48		0.27	0.03	0.01	0.01	0.04	0.00	0.81	0.02	0.05	0.00	0.00	-0.01	-0.02	-0.03	0.04	-0.03	0.03	-0.03	0.03	0.01
5	0.22	0.23	0.23	0.27		0.01	0.00	0.04	0.02	0.00	-0.01	0.00	0.01	0.01	-0.01	0.00	0.00	0.01	-0.01	0.01	0.00	-0.02	0.01	0.03
6	0.02	0.02	0.02	0.03	0.01		0.14	-0.01	0.01	0.01	0.00	0.00	0.03	-0.01	-0.01	-0.01	0.00	-0.04	0.03	0.01	0.03	-0.02	-0.01	0.00
7	0.03	0.03	0.01	0.01	0.00	0.14		-0.04	0.05	-0.01	-0.02	-0.10	-0.07	0.00	-0.07	-0.06	-0.02	-0.08	0.08	0.04	0.01	-0.02	-0.07	0.03
8	0.01	0.00	0.02	0.01	0.04	-0.01	-0.04		-0.08	0.11	0.01	0.12	0.08	0.01	0.35	0.13	-0.02	0.09	-0.10	-0.19	-0.15	0.06	0.05	-0.04
9	-0.01	-0.01	-0.03	0.03	0.02	0.01	0.05	-0.07		-0.03	0.03	-0.08	0.04	-0.01	-0.34	-0.19	0.02	-0.07	0.27	0.12	0.11	-0.06	-0.03	0.01
10	0.02	0.01	0.02	0.00	0.00	0.01	-0.01	0.11	-0.05		0.00	0.11	0.07	0.02	0.18	0.12	0.00	0.05	-0.05	-0.11	-0.04	0.05	0.09	-0.02
11	0.32	0.32	0.36	0.81	-0.01	0.00	-0.02	0.01	0.02	0.00		0.02	0.05	0.00	0.00	-0.01	-0.01	-0.03	0.04	-0.04	0.02	-0.03	0.04	0.01
12	0.15	0.13	0.19	0.02	0.00	0.00	-0.12	0.11	-0.13	0.12	0.02		0.31	0.12	0.26	0.50	0.00	0.16	-0.13	-0.21	-0.02	0.05	0.23	0.00
13	0.05	0.04	0.09	0.05	0.01	0.03	-0.07	0.08	-0.02	0.07	0.05	0.28		0.21	0.22	0.11	0.01	0.07	-0.04	-0.17	0.04	0.03	0.21	-0.07
14	0.02	0.02	0.03	0.00	0.01	-0.01	0.00	0.01	-0.03	0.02	0.00	0.11	0.21		0.07	0.05	0.01	0.05	-0.05	-0.07	0.00	0.00	0.08	-0.03
15	0.03	-0.01	0.05	0.00	-0.01	-0.01	-0.07	0.39	-0.31	0.19	0.00	0.25	0.23	0.06		0.38	0.01	0.07	-0.24	-0.47	-0.21	0.14	0.23	-0.06
16	0.13	0.10	0.14	-0.01	0.00	-0.02	-0.06	0.13	-0.20	0.12	-0.01	0.48	0.11	0.06	0.39		0.00	0.15	-0.18	-0.29	-0.12	0.10	0.21	0.05
17	-0.02	-0.02	-0.01	-0.01	0.01	-0.01	-0.01	-0.02	0.06	0.00	0.00	-0.02	0.00	-0.01	-0.01	-0.02		-0.05	0.05	0.01	0.03	-0.01	0.02	0.01
18	-0.02	-0.03	0.00	-0.04	-0.02	-0.01	-0.06	0.09	-0.34	0.05	-0.04	0.14	0.03	0.05	0.26	0.17	-0.08		-0.75	-0.10	-0.12	0.09	0.21	-0.12
19	0.02	0.03	-0.01	0.04	-0.01	0.03	0.08	-0.10	0.29	-0.05	0.04	-0.13	-0.04	-0.05	-0.25	-0.18	0.11	-0.63		0.14	0.14	-0.10	-0.18	0.10
20	-0.19	-0.05	-0.20	-0.01	0.00	0.01	0.04	-0.09	0.07	-0.07	-0.02	-0.16	-0.08	-0.04	-0.24	-0.20	0.01	-0.07	0.08		-0.12	-0.05	-0.33	-0.08
21	-0.07	-0.10	-0.05	0.03	0.01	0.03	0.01	-0.13	0.06	-0.04	0.02	-0.03	0.04	-0.01	-0.19	-0.14	0.03	-0.07	0.14	-0.29		-0.11	0.28	-0.06
22	0.02	0.02	0.03	-0.03	-0.02	-0.02	-0.02	0.06	-0.06	0.05	-0.03	0.04	0.03	0.00	0.15	0.11	-0.01	0.10	-0.10	-0.01	-0.11		0.04	0.03
23	0.05	0.00	0.11	0.02	0.01	-0.01	-0.07	0.05	-0.13	0.09	0.04	0.22	0.21	0.08	0.23	0.22	0.00	0.22	-0.19	-0.35	0.21	0.05		-0.05
24	0.16	0.16	0.11	0.00	0.02	0.01	0.04	-0.05	0.04	-0.02	-0.01	-0.01	-0.04	-0.02	-0.10	-0.01	0.03	-0.07	0.08	-0.06	0.01	0.01	-0.01	

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All variables are as defined in Appendix A. Continuous variables are winsorized by year at the 1% and 99% level. In Panel B, Pearson (Spearman) correlation coefficients are reported in the bottom (top) half; numbers correspond with the variable names in Panel A; bolded values indicate coefficient is statistically significant at p-value < 0.10.

TABLE 3
Factors Affecting Proxy Advisor Recommendations on Auditor Ratification:
Univariate Statistics, Equation (1)

	<i>RecAgainst</i> = 0 (N=8,542)		<i>RecAgainst</i> = 1 (N=231)		Tests of Differences	
	Mean	Median	Mean	Median	Mean	Median
<i>ExcessNAS</i>	0.002	0.000	0.117	0.000	***	***
<i>Restate</i>	0.035	0.000	0.069	0.000	***	***
<i>MWeak</i>	0.021	0.000	0.026	0.000		
<i>LowAuditFees</i>	0.077	0.000	0.100	0.000		
<i>AbsDA</i>	0.064	0.039	0.080	0.052	***	***
<i>SEC_CmtLtr</i>	0.442	0.000	0.446	0.000		
<i>LegalLanguage</i>	0.004	0.000	0.784	1.000	***	***
<i>lnAudTenure</i>	2.211	2.197	2.308	2.303	*	*
<i>Big4</i>	0.871	1.000	0.970	1.000	***	***
<i>Specialist</i>	0.240	0.000	0.251	0.000		
<i>lnAssets</i>	7.367	7.284	7.368	7.380		
<i>lnCompanyAge</i>	2.925	2.890	2.892	2.833		

All variables are as defined in Appendix A. Continuous variables are winsorized by year at the 1% and 99% level. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively, based on two sample t-tests.

TABLE 4
Factors Affecting Proxy Advisor Recommendations on Auditor Ratification:
Multivariate Results, Equation (1)

	Prediction	coefficient	p-value
<i>Intercept</i>	?	-9.333	0.000 ***
<i>ExcessNAS</i>	+	7.289	0.000 ***
<i>Restate</i>	+	1.942	0.002 ***
<i>Mweak</i>	+	1.991	0.002 ***
<i>LowAuditFees</i>	+	-0.706	0.804
<i>AbsDA</i>	+	4.860	0.001 ***
<i>SEC_CmtLtr</i>	+	-0.251	0.829
<i>LegalLanguage</i>	+	8.455	0.000 ***
<i>lnAudTenure</i>	?	0.124	0.582
<i>Big4</i>	?	0.109	0.751
<i>Specialist</i>	-	-0.056	0.393
<i>lnAssets</i>	?	0.233	0.049 **
<i>lnCompanyAge</i>	?	-0.019	0.759
<i>Year Fixed Effects</i>		Included	
<i>N</i>		8,773	
<i>Pseudo R²</i>		0.770	
<i>Area Under ROC Curve</i>		97.97%	

The dependent variable is *RecAgainst*. The model is estimated using logistic regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 5
Proxy Advisor Recommendations on Auditor Ratification and Shareholder Voting:
Univariate Statistics, Equations (2a) and (2b)

	<i>RecAgainst</i> = 0 (N=8,542)		<i>RecAgainst</i> = 1 (N=231)		Tests of Differences	
	Mean	Median	Mean	Median	Mean	Median
<i>PercAgAbst</i>	0.015	0.010	0.067	0.064	***	***
<i>PercAgAbst - Sainty</i>	0.017	0.011	0.075	0.069	***	***
<i>PercAgainst</i>	0.012	0.008	0.061	0.062	***	***

All variables are as defined in Appendix A. Continuous variables are winsorized by year at the 1% and 99% level. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively, based on two sample t-tests.

TABLE 6
Proxy Advisor Recommendations on Auditor Ratification and Shareholder Voting:
Multivariate Results, Equations (2a) and (2b)

Panel A: Measuring *Vote* using *PercAgAbst*

Prediction		<i>PercAgAbst</i>					
		Column (1)		Column (2)		Column (3)	
		coef	p-value	coef	p-value	coef	p-value
<i>Intercept</i>	?	0.015	0.000***	0.016	0.000***	0.016	0.000***
<i>RecAgainst</i>	+			0.052	0.000***		
<i>RecAgainst_Legal</i>	+					0.047	0.000***
<i>RecAgainst_NAS</i>	+					0.060	0.000***
<i>RecAgainst_Quality</i>	+					0.059	0.000***
<i>Legal = NAS</i>	?						0.293
<i>Legal = Quality</i>	?						0.111
<i>NAS = Quality</i>	?						0.937
<i>ExcessNAS</i>	+	0.063	0.000***	0.028	0.000***	0.023	0.016**
<i>Restate</i>	+	0.001	0.098*	0.000	0.367	0.000	0.426
<i>Mweak</i>	+	0.006	0.001***	0.005	0.005***	0.004	0.006***
<i>LowAuditFees</i>	+	-0.001	0.969	-0.001	0.949	-0.001	0.948
<i>AbsDA</i>	+	-0.004	0.928	-0.006	0.990	-0.006	0.991
<i>SEC_CmtLtr</i>	+	0.000	0.585	0.000	0.501	0.000	0.495
<i>LegalLanguage</i>	+	0.040	0.000***	-0.005	0.922	0.000	0.492
<i>lnAudTenure</i>	?	0.003	0.000***	0.003	0.000***	0.003	0.000***
<i>Big4</i>	-	0.001	0.863	0.001	0.875	0.001	0.884
<i>Specialist</i>	-	0.000	0.604	0.000	0.613	0.000	0.614
<i>lnAssets</i>	?	-0.001	0.000***	-0.001	0.000***	-0.001	0.000***
<i>lnCompanyAge</i>	?	0.002	0.000***	0.001	0.000***	0.001	0.000***
<i>Returns</i>	-	-0.002	0.086*	-0.001	0.221	-0.001	0.216
<i>ROA</i>	-	-0.001	0.309	-0.001	0.335	-0.001	0.326
<i>Loss</i>	+	0.001	0.014**	0.001	0.012**	0.001	0.013**
<i>Insiders</i>	-	-0.024	0.000***	-0.025	0.000***	-0.025	0.000***
<i>Blockholders</i>	-	-0.016	0.000***	-0.017	0.000***	-0.017	0.000***
<i>CEO_Chair</i>	+	0.001	0.035**	0.001	0.025**	0.001	0.021**
<i>InstPerc_NonTran</i>	?	-0.002	0.050**	-0.002	0.116	-0.002	0.119
<i>DirVote</i>	+	0.041	0.000***	0.041	0.000***	0.041	0.000***
<i>Year Fixed Effects</i>		Included		Included		Included	
<i>N</i>		8,773		8,773		8,773	
<i>Adjusted R²</i>		0.249		0.300		0.300	
<i>Mean VIF</i>		1.31		1.54		1.76	

Panel B: Measuring *Vote* using *PercAgAbst - Sainty*

		<i>PercAgAbst - Sainty</i>					
		Column (1)		Column (2)		Column (3)	
Prediction		coef	p-value	coef	p-value	coef	p-value
<i>Intercept</i>	?	0.010	0.000***	0.011	0.000***	0.011	0.000***
<i>RecAgainst</i>	+			0.058	0.000***		
<i>RecAgainst_Legal</i>	+					0.051	0.000***
<i>RecAgainst_NAS</i>	+					0.064	0.000***
<i>RecAgainst_Quality</i>	+					0.067	0.000***
<i>Legal = NAS</i>	?						0.197
<i>Legal = Quality</i>	?						0.898
<i>NAS = Quality</i>	?						0.088*
<i>ExcessNAS</i>	+	0.078	0.000***	0.036	0.000***	0.032	0.014**
<i>Restate</i>	+	0.002	0.113	0.000	0.368	0.000	0.448
<i>Mweak</i>	+	0.006	0.002***	0.005	0.009***	0.005	0.010**
<i>LowAuditFees</i>	+	-0.001	0.962	-0.001	0.949	-0.001	0.950
<i>Abs(DA)</i>	+	-0.005	0.937	-0.007	0.990	-0.007	0.992
<i>SEC_CmtLtr</i>	+	0.000	0.692	0.000	0.613	0.000	0.605
<i>LegalLanguage</i>	+	0.045	0.000***	-0.004	0.863	0.001	0.356
<i>InAudTenure</i>	?	0.003	0.000***	0.003	0.000***	0.003	0.000***
<i>Big4</i>	-	0.001	0.769	0.001	0.800	0.001	0.818
<i>Specialist</i>	-	0.000	0.537	0.000	0.559	0.000	0.562
<i>InAssets</i>	?	-0.001	0.000***	-0.001	0.000***	-0.001	0.000***
<i>InCompanyAge</i>	?	0.002	0.000***	0.002	0.000***	0.002	0.000***
<i>Returns</i>	-	-0.003	0.045**	-0.002	0.129	-0.002	0.127
<i>ROA</i>	-	-0.002	0.245	-0.002	0.258	-0.002	0.249
<i>Loss</i>	+	0.002	0.016**	0.002	0.014**	0.002	0.016**
<i>Blockholders</i>	-	-0.015	0.000***	-0.016	0.000***	-0.016	0.000***
<i>CEO_Chair</i>	+	0.001	0.032**	0.001	0.026**	0.001	0.022**
<i>InstPerc_NonTran</i>	?	-0.001	0.501	0.000	0.871	0.000	0.879
<i>DirVote</i>	+	0.049	0.000***	0.049	0.000***	0.049	0.000***
<i>Year Fixed Effects</i>		Included		Included		Included	
<i>N</i>		8,773		8,773		8,773	
<i>Adjusted R²</i>		0.215		0.266		0.267	
<i>Mean VIF</i>		1.30		1.53		1.76	

Panel C: Measuring *Vote* using *PercAgainst*

Prediction	<i>PercAgainst</i>						
	Column (1)		Column (2)		Column (3)		
	coef	p-value	coef	p-value	coef	p-value	
<i>Intercept</i>	?	0.009	0.000***	0.010	0.000***	0.010	0.000***
<i>RecAgainst</i>	+			0.048	0.000***		
<i>RecAgainst_Legal</i>	+					0.045	0.000***
<i>RecAgainst_NAS</i>	+					0.048	0.000***
<i>RecAgainst_Quality</i>	+					0.055	0.000***
<i>Legal = NAS</i>	?					0.468	
<i>Legal = Quality</i>	?					0.797	
<i>NAS = Quality</i>	?					0.177	
<i>ExcessNAS</i>	+	0.060	0.000***	0.025	0.000***	0.025	0.009***
<i>Restate</i>	+	0.001	0.100	0.000	0.375	0.000	0.471
<i>Mweak</i>	+	0.004	0.000***	0.003	0.002***	0.003	0.003***
<i>LowAuditFees</i>	+	-0.001	0.965	-0.001	0.955	-0.001	0.956
<i>Abs(DA)</i>	+	-0.003	0.908	-0.005	0.985	-0.005	0.986
<i>SEC_CmtLtr</i>	+	0.000	0.809	0.000	0.743	0.000	0.736
<i>LegalLanguage</i>	+	0.038	0.000***	-0.002	0.793	0.000	0.458
<i>InAudTenure</i>	?	0.003	0.000***	0.003	0.000***	0.003	0.000***
<i>Big4</i>	-	0.001	0.986	0.001	0.991	0.001	0.992
<i>Specialist</i>	-	0.000	0.485	0.000	0.506	0.000	0.510
<i>InAssets</i>	?	-0.001	0.000***	-0.001	0.000***	-0.001	0.000***
<i>InCompanyAge</i>	?	0.001	0.006***	0.001	0.007***	0.001	0.006***
<i>Returns</i>	-	0.000	0.374	0.000	0.647	0.000	0.646
<i>ROA</i>	-	-0.001	0.301	-0.001	0.326	-0.001	0.315
<i>Loss</i>	+	0.000	0.174	0.000	0.158	0.000	0.171
<i>Insiders</i>	-	-0.019	0.000***	-0.020	0.000***	-0.020	0.000***
<i>Blockholders</i>	-	-0.013	0.000***	-0.014	0.000***	-0.014	0.000***
<i>CEO_Chair</i>	+	0.001	0.006***	0.001	0.004***	0.001	0.004***
<i>InstPerc_NonTran</i>	?	0.002	0.045**	0.003	0.013**	0.003	0.013**
<i>DirVote</i>	+	0.024	0.000***	0.024	0.000***	0.024	0.000***
<i>Year Fixed Effects</i>		Included		Included		Included	
<i>N</i>		8,773		8,773		8,773	
<i>Adjusted R²</i>		0.275		0.335		0.335	
<i>Mean VIF</i>		1.31		1.54		1.76	

The dependent variable is *PercAgAbst* in Panel A, *PercAgAbst - Sainty* in Panel B, and *PercAgainst* in Panel C. I estimate each model using ordinary least squares regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 7
Proxy Advisor Recommendations on Auditor Ratification and Auditor Dismissals

Panel A: Univariate Statistics, Auditor Dismissals thru end of $t+1$

	Full Sample			Matched Sample		
	Total	N	%	Total	N	%
<i>RecAgainst = 1</i>	44	3	6.82	44	3	6.82
<i>RecAgainst = 0</i>	6,036	96	1.59	44	2	4.55
<i>Tests of Differences</i>	p-value		0.006	p-value		0.650

Panel B: Univariate Statistics, Auditor Dismissals thru end of $t+2$

	Full Sample			Matched Sample		
	Total	N	%	Total	N	%
<i>RecAgainst = 1</i>	35	2	5.71	35	2	5.71
<i>RecAgainst = 0</i>	3,940	147	3.73	35	2	5.71
<i>Tests of Differences</i>	p-value		0.539	p-value		1.000

All variables are as defined in Appendix A. P-values are based on two sample t-tests. In Panel A, I require auditor opinion information from $t+1$. In Panel B, I require auditor opinion information from both $t+1$ and $t+2$, resulting in a smaller sample.

TABLE 8
Descriptive Statistics:
Full Sample, Equation (3)

Panel A: Descriptive Statistics

		N = 5,903				
		Mean	Std Dev	25%	Median	75%
1	<i>PercAgAbst</i>	0.015	0.017	0.005	0.010	0.019
2	<i>PercAgAbst - Sainity</i>	0.017	0.019	0.006	0.012	0.021
3	<i>PercAgainst</i>	0.012	0.014	0.003	0.008	0.016
4	<i>RecAgainst</i>	0.007	0.083	0.000	0.000	0.000
5	<i>ΔlnAuditFees</i>	0.038	0.179	-0.049	0.029	0.107
6	<i>ΔlnAssets</i>	0.081	0.195	-0.007	0.056	0.142
7	<i>ΔSales</i>	0.011	0.160	-0.033	0.002	0.061
8	<i>ΔCurrent</i>	-0.037	1.047	-0.193	0.000	0.147
9	<i>ΔLeverage</i>	0.006	0.084	-0.023	0.000	0.029
10	<i>ΔROA</i>	0.003	0.105	-0.013	0.002	0.019
11	<i>ΔLoss</i>	-0.032	0.389	0.000	0.000	0.000
12	<i>ΔGoingConcern</i>	0.002	0.070	0.000	0.000	0.000
13	<i>ΔMB</i>	0.029	4.283	-0.304	0.038	0.375
14	<i>ΔReceivables</i>	0.001	0.026	-0.006	0.000	0.008
15	<i>ΔInventory</i>	0.002	0.020	-0.002	0.000	0.005
16	<i>ΔSegments</i>	0.004	0.053	0.000	0.000	0.000
17	<i>ΔForeign</i>	0.002	0.203	0.000	0.000	0.000
18	<i>ΔRestatement</i>	0.011	0.309	0.000	0.000	0.000
19	<i>ΔRestructure</i>	-0.005	0.399	0.000	0.000	0.000
20	<i>ΔMWeak</i>	0.008	0.182	0.000	0.000	0.000
21	<i>ΔEffort404b</i>	0.006	0.110	0.000	0.000	0.000
22	<i>ΔAuditLag</i>	-0.241	5.429	-2.000	0.000	2.000
23	<i>ΔInitial</i>	-0.021	0.153	0.000	0.000	0.000
24	<i>ΔFinUtility</i>	0.266	0.442	0.000	0.000	1.000
25	<i>ΔLitigation</i>	0.260	0.439	0.000	0.000	1.000
26	<i>lnAuditFees</i>	14.163	1.040	13.459	14.019	14.773
27	<i>lnAssets</i>	7.440	1.757	6.170	7.358	8.581

Panel B: Pearson and Spearman Correlation Coefficients

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27
1		0.97	0.93	0.13	0.03	-0.05	0.00	-0.01	0.01	-0.02	0.01	0.01	0.01	0.00	0.01	-0.02	-0.01	0.01	0.02	-0.03	-0.02	-0.01	0.04	0.01	-0.01	0.12	0.13
2	0.97		0.89	0.13	0.03	-0.05	0.01	0.00	0.01	-0.01	0.01	0.02	0.01	0.00	0.01	-0.02	-0.01	0.01	0.02	-0.03	-0.01	-0.01	0.04	-0.01	0.00	0.09	0.10
3	0.87	0.83		0.13	0.03	-0.03	0.01	0.00	0.00	0.00	0.01	0.00	0.02	0.00	0.02	-0.02	0.00	0.01	0.02	-0.04	-0.04	0.00	0.05	-0.03	0.00	0.17	0.16
4	0.32	0.33	0.35		0.01	-0.03	0.03	0.00	0.01	0.01	-0.01	0.00	-0.01	0.01	0.02	-0.01	-0.01	-0.02	0.00	-0.03	0.00	-0.01	-0.04	0.02	-0.01	-0.02	0.02
5	0.02	0.01	0.02	0.01		0.27	-0.11	-0.06	0.11	-0.13	0.08	-0.01	-0.06	-0.07	-0.02	0.03	-0.01	0.04	0.03	0.08	0.07	0.10	-0.01	0.03	-0.01	-0.11	0.00
6	-0.06	-0.06	-0.05	-0.02	0.33		-0.39	0.05	0.05	0.09	-0.09	-0.04	-0.09	-0.17	-0.17	0.02	0.01	-0.02	-0.04	0.01	0.05	0.01	0.01	-0.03	0.01	-0.05	-0.07
7	0.02	0.02	0.03	0.02	-0.11	-0.43		-0.08	-0.03	0.27	-0.09	0.01	0.11	0.42	0.28	0.00	0.00	-0.03	0.00	-0.01	0.01	-0.05	-0.03	-0.12	0.04	0.00	-0.05
8	-0.01	0.00	-0.01	0.01	-0.05	0.10	-0.08		-0.38	0.10	-0.07	-0.06	-0.09	-0.13	-0.06	-0.01	0.00	-0.01	-0.02	-0.04	0.01	-0.05	-0.01	0.02	-0.01	0.01	0.01
9	0.02	0.02	0.01	0.01	0.13	0.00	0.00	-0.33		-0.28	0.19	0.09	0.14	0.07	0.04	0.01	-0.01	0.01	0.06	0.02	-0.04	0.07	-0.01	-0.04	0.01	0.01	0.01
10	-0.05	-0.05	-0.03	-0.01	-0.09	0.26	0.11	0.15	-0.34		-0.50	-0.08	0.11	0.12	0.02	-0.01	0.03	-0.03	-0.09	-0.04	0.03	-0.08	-0.02	-0.04	-0.03	0.01	-0.03
11	0.02	0.02	0.01	-0.01	0.09	-0.08	-0.09	-0.05	0.17	-0.46		0.05	-0.06	-0.03	0.02	0.01	-0.06	0.05	0.05	0.02	-0.02	0.06	0.00	-0.01	0.06	0.00	0.02
12	0.01	0.01	0.00	0.00	-0.01	-0.06	0.01	-0.09	0.12	-0.12	0.05		0.02	0.02	0.02	-0.01	-0.02	0.02	0.04	0.03	-0.02	0.05	0.00	-0.03	0.01	0.00	-0.02
13	0.02	0.02	0.00	0.01	-0.03	-0.04	0.04	-0.07	0.06	0.02	-0.02	0.03		0.08	0.02	-0.01	-0.01	0.00	-0.04	0.00	0.01	-0.05	0.00	0.00	0.00	0.03	0.02
14	0.01	0.01	0.02	0.00	-0.05	-0.19	0.39	-0.13	0.07	0.02	-0.01	0.01	0.06		0.17	0.01	0.00	0.01	0.01	0.01	0.00	-0.02	-0.01	-0.07	0.03	0.00	-0.05
15	0.02	0.02	0.02	0.01	-0.02	-0.17	0.27	-0.06	0.06	-0.06	0.03	0.04	0.02	0.13		0.00	-0.01	-0.01	-0.01	0.00	-0.01	0.00	-0.01	-0.08	0.05	-0.01	-0.03
16	-0.02	-0.02	-0.01	0.00	0.04	0.04	-0.01	0.00	0.00	0.01	0.00	-0.01	0.01	0.01	0.00		-0.01	-0.01	-0.01	0.00	0.01	0.01	0.02	0.01	0.00	0.00	0.02
17	0.00	-0.01	0.00	-0.01	-0.01	0.01	0.00	-0.02	-0.01	0.04	-0.06	-0.02	-0.02	-0.01	-0.01	-0.02		0.01	0.00	0.00	0.01	0.00	-0.01	0.00	0.01	0.00	0.00
18	0.00	0.00	0.01	-0.02	0.03	-0.01	-0.02	0.01	0.01	-0.03	0.05	0.02	0.02	0.01	-0.02	-0.01	0.01		0.03	0.14	-0.01	0.06	0.02	0.00	0.00	0.02	0.02
19	0.02	0.02	0.02	0.00	0.03	-0.03	0.00	-0.02	0.06	-0.07	0.05	0.04	-0.03	0.00	0.00	-0.01	0.00	0.03		0.01	-0.01	0.05	-0.02	-0.01	0.00	-0.01	0.00
20	-0.04	-0.04	-0.04	-0.03	0.12	0.02	-0.02	-0.05	0.03	-0.03	0.02	0.03	0.00	0.01	-0.01	0.00	0.00	0.14	0.01		-0.04	0.16	0.04	-0.01	0.01	-0.02	-0.03
21	0.00	0.01	-0.02	0.00	0.06	0.07	0.00	-0.01	-0.04	0.07	-0.02	-0.02	0.02	-0.01	-0.01	0.00	0.01	-0.01	-0.01	-0.04		-0.07	-0.01	-0.03	0.03	-0.08	-0.09
22	-0.01	-0.02	0.00	-0.01	0.14	0.02	-0.06	-0.07	0.11	-0.06	0.06	0.08	0.00	-0.02	-0.01	0.01	0.01	0.08	0.05	0.25	-0.11		0.02	0.02	-0.01	-0.05	-0.03
23	0.02	0.01	0.02	-0.04	0.00	0.00	-0.02	0.00	-0.02	-0.03	0.00	0.00	-0.01	0.00	-0.01	0.02	-0.01	0.02	-0.02	0.04	-0.01	0.03		0.00	-0.01	0.07	0.05
24	-0.01	-0.03	-0.04	0.02	0.01	-0.02	-0.07	0.02	-0.04	-0.01	-0.01	-0.03	-0.01	-0.03	-0.06	0.00	0.00	0.00	-0.01	-0.01	-0.03	0.01	0.00		-0.36	-0.09	0.35
25	0.00	0.01	0.00	-0.01	-0.01	-0.01	0.01	0.00	0.01	-0.05	0.06	0.01	0.00	0.01	0.04	-0.01	0.01	0.00	0.00	0.01	0.03	-0.02	-0.01	-0.36		-0.11	-0.28
26	0.02	-0.01	0.06	-0.01	-0.12	-0.07	-0.01	0.02	0.00	0.01	0.01	0.00	0.02	-0.01	-0.02	0.02	0.00	0.02	-0.01	-0.02	-0.08	-0.02	0.06	-0.07	-0.10		0.69
27	0.01	-0.03	0.04	0.01	-0.02	-0.09	-0.01	0.01	0.00	-0.02	0.02	-0.01	0.00	-0.03	-0.04	0.03	0.00	0.02	0.00	-0.03	-0.10	-0.01	0.05	0.34	-0.27	0.73	

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All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . Continuous variables are winsorized by year at the 1% and 99% level. In Panel B, Pearson (Spearman) correlation coefficients are reported in the bottom (top) half; numbers correspond with the variable names in Panel A; bolded values indicate coefficient is statistically significant at p -value < 0.10 .

TABLE 9
Proxy Advisor Recommendations on Auditor Ratification and Change in Audit Fees:
Propensity Score Matched Sample Univariate Statistics

	<i>RecAgainst</i> = 0 (N=41)		<i>RecAgainst</i> = 1 (N=41)		Tests of Differences	
	Mean	Median	Mean	Median	Mean	Median
<i>ExcessNAS</i>	0.171	0.000	0.366	0.000	**	**
<i>Restate</i>	0.463	0.000	0.195	0.000	***	**
<i>MWeak</i>	0.220	0.000	0.049	0.000	**	**
<i>LowAuditFees</i>	0.195	0.000	0.195	0.000		
<i>AbsDA</i>	0.117	0.066	0.064	0.045	**	*
<i>SEC_CmtLtr</i>	0.268	0.000	0.268	0.000		
<i>LegalLanguage</i>	0.171	0.000	0.366	0.000	*	**
<i>lnAudTenure</i>	1.952	2.079	2.217	2.197		
<i>Big4</i>	0.756	1.000	0.902	1.000	*	*
<i>Specialist</i>	0.122	0.000	0.244	0.000		
<i>lnAssets</i>	7.514	7.505	7.688	7.743		
<i>lnCompanyAge</i>	2.824	2.833	2.989	2.890		

Propensity score matching is based on the factors in Equation (1) using the full sample in Equation (3). All variables are as defined in Appendix A. Continuous variables are winsorized by year at the 1% and 99% level. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively, based on two sample t-tests.

TABLE 10
Proxy Advisor Recommendations on Auditor Ratification and Change in Audit Fees:
Univariate Statistics, Equation (3)

	$\Delta \ln \text{AuditFees}_{t+1}$			
	Full Sample		Matched Sample	
	N	Mean	N	Mean
<i>RecAgainst = 1</i>	41	0.056	41	0.056
<i>RecAgainst = 0</i>	5,862	0.038	41	0.058
<i>Tests of Differences</i>	p-value	0.513	p-value	0.959

All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . Continuous variables are winsorized by year at the 1% and 99% level. P-values are based on two sample t-tests.

TABLE 11
Proxy Advisor Recommendations on Auditor Ratification and Change in Audit Fees:
Multivariate Results, Equation (3)

Panel A: Measuring *Vote* using *PercAgAbst*

		<i>ΔlnAuditFees_{t+1}</i>											
		Full Sample Column (1)		Matched Sample Column (2)		Full Sample Column (3)		Matched Sample Column (4)					
		coef	p-value	coef	p-value	coef	p-value	coef	p-value	coef	p-value		
<i>Intercept</i>	?	0.472	0.000	***	0.743	0.047	**	0.472	0.000	***	0.735	0.052	*
<i>RecAgainst</i>	+	-0.005	0.563		-0.012	0.570		0.014	0.432		0.002	0.489	
<i>PercAgAbst</i>	+	0.400	0.001	***	0.140	0.420		0.408	0.000	***	0.327	0.388	
<i>RecAgainst*PercAgAbst</i>	+							-0.239	0.605		-0.301	0.581	
<i>ΔlnAssets</i>		0.373	0.000	***	0.436	0.011	**	0.373	0.000	***	0.437	0.012	**
<i>ΔSales</i>		0.090	0.000	***	0.023	0.936		0.090	0.000	***	0.021	0.941	
<i>ΔCurrent</i>		-0.005	0.073	*	0.021	0.298		-0.005	0.073	*	0.021	0.311	
<i>ΔLeverage</i>		0.114	0.003	***	0.739	0.002	***	0.114	0.003	***	0.733	0.003	***
<i>ΔROA</i>		-0.261	0.000	***	-0.375	0.112		-0.261	0.000	***	-0.377	0.119	
<i>ΔLoss</i>		0.017	0.016	**	-0.014	0.765		0.017	0.016	**	-0.013	0.790	
<i>ΔGoingConcern</i>		-0.055	0.211					-0.055	0.210				
<i>ΔMB</i>		-0.001	0.182		-0.004	0.348		-0.001	0.183		-0.004	0.371	
<i>ΔReceivables</i>		-0.041	0.684		-0.564	0.497		-0.041	0.685		-0.555	0.515	
<i>ΔInventory</i>		0.169	0.203		1.978	0.146		0.169	0.203		1.957	0.151	
<i>ΔSegments</i>		0.077	0.037	**	0.023	0.939		0.077	0.038	**	0.029	0.925	
<i>ΔForeign</i>		-0.005	0.646		-0.011	0.848		-0.005	0.647		-0.009	0.869	
<i>ΔRestatement</i>		0.010	0.279		-0.034	0.409		0.010	0.277		-0.034	0.418	
<i>ΔRestructure</i>		0.009	0.075	*	-0.030	0.659		0.009	0.076	*	-0.031	0.653	
<i>ΔMWeak</i>		0.081	0.000	***	-0.172	0.234		0.081	0.000	***	-0.166	0.278	
<i>ΔEffort404b</i>		0.096	0.001	***	0.226	0.231		0.096	0.001	***	0.230	0.223	
<i>ΔAuditLag</i>		0.003	0.000	***	0.011	0.014	**	0.003	0.000	***	0.011	0.013	**
<i>ΔInitial</i>		-0.010	0.626		-0.060	0.585		-0.010	0.625		-0.059	0.586	
<i>ΔFinUtility</i>		-0.029	0.000	***	-0.112	0.105		-0.029	0.000	***	-0.113	0.107	
<i>ΔLitigation</i>		-0.002	0.703		0.001	0.985		-0.002	0.700		0.001	0.981	

<i>lnAuditFees</i>	-0.046	0.000	***	-0.085	0.007	***	-0.046	0.000	***	-0.084	0.007	***
<i>lnAssets</i>	0.025	0.000	***	0.063	0.002	***	0.025	0.000	***	0.063	0.002	***
N	5,903			82			5,903			82		
Adjusted R ²	0.207			0.341			0.207			0.330		
Mean VIF	1.35			1.76			2.28			2.90		

Panel B: Measuring *Vote* using *PercAgAbst - Sainty*

Prediction	$\Delta \ln \text{AuditFees}_{t+1}$											
	Full Sample Column (1)			Matched Sample Column (2)			Full Sample Column (3)			Matched Sample Column (4)		
	coef	p-value		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	0.471	0.000	***	0.733	0.049	**	0.471	0.000	***	0.735	0.051	*
<i>RecAgainst</i> +	-0.005	0.569		-0.018	0.611		-0.019	0.601		-0.022	0.597	
<i>PercAgAbst - Sainty</i> +	0.354	0.001	***	0.227	0.358		0.348	0.001	***	0.186	0.431	
<i>RecAgainst*PercAgAbst - Sainty</i> +							0.158	0.414		0.065	0.480	
$\Delta \ln \text{Assets}$	0.373	0.000	***	0.435	0.011	**	0.373	0.000	***	0.435	0.012	**
ΔSales	0.090	0.000	***	0.024	0.932		0.090	0.000	***	0.024	0.932	
$\Delta \text{Current}$	-0.005	0.070	*	0.021	0.293		-0.005	0.070	*	0.021	0.312	
$\Delta \text{Leverage}$	0.114	0.003	***	0.732	0.003	***	0.114	0.003	***	0.734	0.004	***
ΔROA	-0.261	0.000	***	-0.375	0.109		-0.261	0.000	***	-0.375	0.112	
ΔLoss	0.017	0.016	**	-0.014	0.761		0.017	0.016	**	-0.015	0.757	
$\Delta \text{GoingConcern}$	-0.056	0.201					-0.056	0.202				
ΔMB	-0.001	0.181		-0.004	0.349		-0.001	0.180		-0.004	0.353	
$\Delta \text{Receivables}$	-0.040	0.687		-0.552	0.508		-0.041	0.685		-0.555	0.516	
$\Delta \text{Inventory}$	0.167	0.207		1.954	0.142		0.167	0.207		1.956	0.144	
$\Delta \text{Segments}$	0.077	0.038	**	0.030	0.922		0.077	0.038	**	0.027	0.933	
$\Delta \text{Foreign}$	-0.005	0.657		-0.013	0.826		-0.005	0.657		-0.013	0.824	
$\Delta \text{Restatement}$	0.010	0.282		-0.035	0.397		0.010	0.283		-0.035	0.399	
$\Delta \text{Restructure}$	0.009	0.075	*	-0.029	0.665		0.009	0.075	*	-0.029	0.676	
ΔMWeak	0.081	0.000	***	-0.166	0.260		0.081	0.000	***	-0.168	0.275	
$\Delta \text{Effort404b}$	0.095	0.002	***	0.227	0.226		0.095	0.002	***	0.226	0.222	
$\Delta \text{AuditLag}$	0.003	0.000	***	0.011	0.017	**	0.003	0.000	***	0.011	0.018	**
$\Delta \text{Initial}$	-0.009	0.645		-0.057	0.604		-0.009	0.646		-0.057	0.609	
$\Delta \text{FinUtility}$	-0.028	0.000	***	-0.110	0.115		-0.028	0.000	***	-0.109	0.119	
$\Delta \text{Litigation}$	-0.002	0.718		0.004	0.950		-0.002	0.721		0.004	0.952	
$\ln \text{AuditFees}$	-0.046	0.000	***	-0.084	0.007	***	-0.046	0.000	***	-0.084	0.007	***
$\ln \text{Assets}$	0.025	0.000	***	0.063	0.002	***	0.025	0.000	***	0.063	0.002	***
N	5,903			82			5,903			82		

Adjusted R ²	0.207	0.343	0.207	0.331
Mean VIF	1.35		1.75	

Panel C: Measuring Vote using *PercAgainst*

Prediction		$\Delta \ln \text{AuditFees}_{t+1}$											
		Full Sample Column (1)		Matched Sample Column (2)			Full Sample Column (3)			Matched Sample Column (4)			
		coef	p-value	coef	p-value		coef	p-value		coef	p-value		
<i>Intercept</i>	?	0.474	0.000	***	0.741	0.043	**	0.474	0.000	***	0.723	0.053	*
<i>RecAgainst</i>	+	-0.006	0.588		-0.025	0.635		0.000	0.501		-0.001	0.502	
<i>PercAgainst</i>	+	0.481	0.000	***	0.396	0.332		0.485	0.000	***	0.736	0.298	
<i>RecAgainst*RecAgainst</i>	+							-0.091	0.533		-0.579	0.625	
$\Delta \ln \text{Assets}$		0.372	0.000	***	0.429	0.013	**	0.372	0.000	***	0.433	0.014	**
ΔSales		0.089	0.000	***	0.023	0.935		0.089	0.000	***	0.018	0.949	
$\Delta \text{Current}$		-0.005	0.075	*	0.021	0.298		-0.005	0.075	*	0.022	0.301	
$\Delta \text{Leverage}$		0.114	0.003	***	0.726	0.003	***	0.115	0.003	***	0.725	0.003	***
ΔROA		-0.262	0.000	***	-0.374	0.106		-0.262	0.000	***	-0.376	0.117	
ΔLoss		0.017	0.016	**	-0.014	0.764		0.017	0.016	**	-0.012	0.795	
$\Delta \text{GoingConcern}$		-0.054	0.220					-0.054	0.220				
ΔMB		-0.001	0.195		-0.004	0.351		-0.001	0.196		-0.004	0.380	
$\Delta \text{Receivables}$		-0.042	0.672		-0.624	0.462		-0.042	0.674		-0.573	0.530	
$\Delta \text{Inventory}$		0.169	0.201		2.047	0.138		0.169	0.201		1.998	0.150	
$\Delta \text{Segments}$		0.077	0.038	**	0.040	0.896		0.077	0.038	**	0.049	0.874	
$\Delta \text{Foreign}$		-0.005	0.636		-0.017	0.778		-0.005	0.637		-0.013	0.818	
$\Delta \text{Restatement}$		0.010	0.293		-0.036	0.377		0.010	0.292		-0.035	0.399	
$\Delta \text{Restructure}$		0.009	0.076	*	-0.030	0.662		0.009	0.077	*	-0.032	0.643	
ΔMWeak		0.081	0.000	***	-0.164	0.269		0.081	0.000	***	-0.155	0.316	
$\Delta \text{Effort404b}$		0.097	0.001	***	0.229	0.223		0.097	0.001	***	0.234	0.218	
$\Delta \text{AuditLag}$		0.003	0.000	***	0.011	0.016	**	0.003	0.000	***	0.011	0.015	**
$\Delta \text{Initial}$		-0.010	0.628		-0.056	0.615		-0.010	0.627		-0.056	0.612	
$\Delta \text{FinUtility}$		-0.028	0.000	***	-0.108	0.123		-0.028	0.000	***	-0.108	0.125	
$\Delta \text{Litigation}$		-0.002	0.724		0.004	0.948		-0.002	0.724		0.004	0.945	
$\ln \text{AuditFees}$		-0.046	0.000	***	-0.084	0.006	***	-0.046	0.000	***	-0.084	0.007	***
$\ln \text{Assets}$		0.024	0.000	***	0.062	0.002	***	0.024	0.000	***	0.062	0.002	***
N		5,903			82			5,903			82		

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Adjusted R ²	0.207	0.344	0.207	0.334
Mean VIF	1.35		1.79	

The dependent variable in all panels is $\Delta \ln \text{AuditFees}_{t+1}$. I measure *Vote* using *PercAgAbst* in Panel A, *PercAgAbst - Sainity* in Panel B, and *PercAgainst* in Panel C. Columns (1) and (3) use all available observations with non-missing data, and Columns (2) and (4) use a propensity score matched sample. Each model is estimated using ordinary least squares regression with robust standard errors clustered by company identifier. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 12
Descriptive Statistics:
Full Sample, Equation (4)

Panel A: Descriptive Statistics

		N = 5,817				
		Mean	Std Dev	25%	Median	75%
1	<i>PercAgAbst</i>	0.015	0.017	0.005	0.010	0.019
2	<i>PercAgAbst - Sainty</i>	0.017	0.019	0.006	0.012	0.021
3	<i>PercAgainst</i>	0.012	0.014	0.003	0.008	0.016
4	<i>RecAgainst</i>	0.007	0.083	0.000	0.000	0.000
5	$\Delta AbsDA$	-0.003	0.075	-0.026	-0.001	0.021
6	$\Delta SignDA$	0.002	0.107	-0.033	0.001	0.035
7	$\Delta \ln Assets$	0.080	0.191	-0.007	0.056	0.141
8	$\Delta SalesGrowth$	0.014	0.449	-0.088	0.015	0.141
9	$\Delta Loss$	-0.032	0.389	0.000	0.000	0.000
10	$\Delta Leverage$	0.005	0.082	-0.023	0.000	0.028
11	ΔCFO	-0.005	0.077	-0.028	-0.001	0.020
12	ΔMB	0.030	4.226	-0.300	0.037	0.373
13	$\Delta TACCR_Lag$	0.015	0.123	-0.023	0.003	0.044
14	$\Delta M\&A$	0.015	0.477	0.000	0.000	0.000
15	<i>AbsDA</i>	0.058	0.077	0.015	0.037	0.072
16	<i>SignDA</i>	-0.021	0.094	-0.054	-0.016	0.013

Panel B: Pearson and Spearman Correlation Coefficients

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1		0.97	0.93	0.13	0.01	-0.01	-0.04	0.00	0.01	0.01	-0.02	0.02	-0.03	-0.03	-0.04	0.00
2	0.97		0.89	0.13	0.01	-0.01	-0.05	0.01	0.01	0.01	-0.01	0.02	-0.02	-0.03	-0.03	0.00
3	0.87	0.83		0.13	0.01	0.00	-0.03	0.02	0.01	0.00	-0.01	0.02	-0.02	-0.02	-0.03	-0.02
4	0.32	0.32	0.34		0.00	0.00	-0.02	0.00	-0.01	0.01	-0.01	-0.01	0.00	-0.02	0.00	0.00
5	0.01	0.01	0.01	0.01		-0.30	0.02	0.01	0.15	0.07	0.12	-0.02	0.13	0.02	-0.50	0.19
6	-0.01	-0.01	-0.02	0.00	-0.20		0.07	0.09	-0.26	-0.10	-0.43	0.02	-0.37	-0.01	0.16	-0.55
7	-0.06	-0.06	-0.05	-0.01	0.05	0.09		0.15	-0.09	0.05	-0.03	-0.10	0.00	0.15	0.05	-0.01
8	0.00	0.00	0.02	-0.03	0.10	0.09	0.11		-0.19	0.01	0.04	0.17	-0.08	0.07	0.02	-0.06
9	0.02	0.01	0.01	-0.01	0.11	-0.29	-0.09	-0.19		0.19	-0.14	-0.06	0.09	0.00	-0.07	0.13
10	0.02	0.02	0.02	0.00	0.07	-0.19	0.00	0.00	0.17		-0.11	0.15	0.00	0.07	0.00	-0.03
11	-0.04	-0.04	-0.02	0.01	0.14	-0.37	0.06	0.14	-0.17	-0.13		0.06	0.23	-0.07	-0.12	0.29
12	0.02	0.02	0.00	0.01	-0.01	0.04	-0.05	0.05	-0.02	0.08	0.00		-0.06	0.00	-0.01	-0.04
13	0.00	0.01	-0.01	-0.01	0.06	-0.44	0.02	-0.11	0.09	0.00	0.19	-0.02		0.00	-0.10	0.46
14	-0.03	-0.03	-0.03	-0.02	0.01	-0.02	0.14	0.05	0.00	0.05	-0.04	0.00	0.01		-0.01	0.01
15	-0.01	0.00	-0.03	0.00	-0.59	0.17	0.05	-0.09	-0.06	-0.06	-0.12	0.00	-0.04	-0.01		-0.38
16	-0.01	-0.01	-0.01	0.00	0.14	-0.65	0.02	-0.06	0.15	0.01	0.27	0.00	0.60	0.02	-0.24	

All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . Continuous variables are winsorized by year at the 1% and 99% level. In Panel B, Pearson (Spearman) correlation coefficients are reported in the bottom (top) half; numbers correspond with the variable names in Panel A; bolded values indicate coefficient is statistically significant at p-value < 0.10.

TABLE 13
Proxy Advisor Recommendations on Auditor Ratification and Change in Audit Quality:
Propensity Score Matched Sample Univariate Statistics

	<i>RecAgainst</i> = 0 (N=40)		<i>RecAgainst</i> = 1 (N=40)		Tests of Differences	
	Mean	Median	Mean	Median	Mean	Median
<i>ExcessNAS</i>	0.200	0.000	0.350	0.000		
<i>Restate</i>	0.425	0.000	0.200	0.000	**	**
<i>MWeak</i>	0.200	0.000	0.050	0.000	**	**
<i>LowAuditFees</i>	0.150	0.000	0.200	0.000		
<i>AbsDA</i>	0.103	0.065	0.057	0.044	*	*
<i>SEC_CmtLtr</i>	0.250	0.000	0.275	0.000		
<i>LegalLanguage</i>	0.175	0.000	0.375	0.000	**	**
<i>lnAudTenure</i>	2.032	2.138	2.255	2.197		
<i>Big4</i>	0.775	1.000	0.900	1.000		
<i>Specialist</i>	0.125	0.000	0.250	0.000		
<i>lnAssets</i>	7.287	7.397	7.791	7.828		
<i>lnCompanyAge</i>	2.870	2.862	3.000	2.890		

Propensity score matching is based on the factors in Equation (1) using the full sample in Equation (4). All variables are as defined in Appendix A. Continuous variables are winsorized by year at the 1% and 99% level. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively, based on two sample t-tests.

TABLE 14
Proxy Advisor Recommendations on Auditor Ratification and Change in Audit Quality:
Univariate Statistics, Equation (4)

	$\Delta AbsDA_{t+1}$				$\Delta SignDA_{t+1}$			
	Full Sample		Matched Sample		Full Sample		Matched Sample	
	N	Mean	N	Mean	N	Mean	N	Mean
<i>RecAgainst = 1</i>	40	0.007	40	0.007	40	-0.003	40	-0.013
<i>RecAgainst = 0</i>	5,777	-0.003	40	-0.017	5,777	0.002	40	-0.003
<i>Tests of Differences</i>	p-value	0.411	p-value	0.248	p-value	0.739	p-value	0.722

All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . Continuous variables are winsorized by year at the 1% and 99% level. P-values are based on two sample t-tests.

TABLE 15
Proxy Advisor Recommendations on Auditor Ratification and Change in Audit Quality:
Multivariate Results, Equation (4)

Panel A: Measuring Vote using *PercAgAbst*

Prediction	$\Delta AbsDA_{t+1}$											
	Full Sample Column (1)			Matched Sample Column (2)			Full Sample Column (3)			Matched Sample Column (4)		
	coef	p-value		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	0.028	0.000	***	0.029	0.011	**	0.027	0.000	***	0.029	0.009	***
<i>RecAgainst</i> -	0.012	0.819		0.021	0.817		0.055	0.890		0.021	0.683	
<i>PercAgAbst</i> -	0.022	0.658		-0.204	0.211		0.041	0.774		-0.201	0.195	
<i>RecAgainst*PercAgAbst</i> -							-0.553	0.104		-0.006	0.495	
$\Delta \ln Assets$	0.030	0.000	***	-0.029	0.681		0.030	0.000	***	-0.029	0.682	
$\Delta Sales Growth$	0.008	0.014	**	0.015	0.488		0.008	0.013	**	0.015	0.493	
$\Delta Loss$	0.020	0.000	***	0.050	0.002	***	0.020	0.000	***	0.050	0.002	***
$\Delta Leverage$	0.029	0.159		0.242	0.005	***	0.029	0.162		0.242	0.006	***
ΔCFO	0.078	0.001	***	0.227	0.180		0.078	0.001	***	0.226	0.181	
ΔMB	0.000	0.661		-0.004	0.008	***	0.000	0.676		-0.004	0.010	***
$\Delta TACCR_Lag$	0.009	0.474		-0.126	0.164		0.009	0.459		-0.126	0.172	
$\Delta M\&A$	0.000	0.973		0.002	0.908		0.000	0.955		0.002	0.911	
<i>AbsDA</i>	-0.561	0.000	***	-0.323	0.002	***	-0.561	0.000	***	-0.323	0.002	***
N	5,817			80			5,817			80		
Adjusted R2	0.373			0.460			0.374			0.452		
Mean VIF	1.08			1.48			1.92			2.60		

Panel A, Continued: Measuring Vote using *PercAgAbst*

		$\Delta SignDA_{t+1}$											
		Full Sample Column (5)			Matched Sample Column (6)			Full Sample Column (7)			Matched Sample Column (8)		
Prediction		coef	p-value		coef	p-value		coef	p-value		coef	p-value	
	<i>Intercept</i>	-0.014	0.000	***	-0.023	0.126		-0.014	0.000	***	-0.024	0.123	
	<i>RecAgainst</i> -	0.002	0.574		-0.019	0.237		-0.050	0.108		-0.014	0.391	
	<i>PercAgAbst</i> -	-0.120	0.032	**	0.384	0.922		-0.142	0.014	**	0.441	0.951	
	<i>RecAgainst*PercAgAbst</i> -							0.666	0.950		-0.096	0.438	
	$\Delta \ln Assets$	0.059	0.000	***	0.007	0.931		0.058	0.000	***	0.007	0.927	
	$\Delta Sales Growth$	0.012	0.003	***	0.025	0.356		0.011	0.003	***	0.026	0.373	
	$\Delta Loss$	-0.057	0.000	***	-0.061	0.005	***	-0.057	0.000	***	-0.061	0.006	***
	$\Delta Leverage$	-0.242	0.000	***	-0.299	0.073	*	-0.241	0.000	***	-0.299	0.074	*
	ΔCFO	-0.422	0.000	***	-0.304	0.092	*	-0.421	0.000	***	-0.304	0.094	*
	ΔMB	0.001	0.002	***	0.003	0.318		0.001	0.002	***	0.003	0.315	
	$\Delta TACCR_Lag$	-0.046	0.006	***	-0.132	0.338		-0.046	0.006	***	-0.129	0.371	
	$\Delta M\&A$	-0.007	0.000	***	-0.014	0.453		-0.007	0.000	***	-0.014	0.456	
	<i>SignDA</i>	-0.576	0.000	***	-0.223	0.138		-0.577	0.000	***	-0.224	0.140	
	N		5,817			80			5,817			80	
	Adjusted R ²		0.576			0.497			0.576			0.489	
	Mean VIF		1.18			1.98			2.02			3.07	

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Panel B: Measuring Vote using *PercAgAbst - Sainty*

Prediction	$\Delta AbsDA_{t+1}$											
	Full Sample Column (1)			Matched Sample Column (2)			Full Sample Column (3)			Matched Sample Column (4)		
	coef	p-value		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	0.027	0.000	***	0.029	0.011	**	0.027	0.000	***	0.029	0.009	***
<i>RecAgainst</i>	-0.010	0.771		-0.022	0.825		-0.047	0.850		-0.022	0.689	
<i>PercAgAbst - Sainty</i>	-0.048	0.838		-0.185	0.207		-0.063	0.903		-0.187	0.183	
<i>RecAgainst*PercAgAbst - Sainty</i>							-0.418	0.145		0.002	0.502	
<i>ΔlnAssets</i>	0.030	0.000	***	-0.029	0.683		0.030	0.000	***	-0.029	0.682	
<i>ΔSalesGrowth</i>	0.008	0.015	**	0.015	0.487		0.008	0.013	**	0.015	0.494	
<i>ΔLoss</i>	0.020	0.000	***	0.051	0.002	***	0.020	0.000	***	0.051	0.002	***
<i>ΔLeverage</i>	0.029	0.160		0.243	0.004	***	0.029	0.162		0.243	0.005	***
<i>ΔCFO</i>	0.078	0.001	***	0.226	0.173		0.078	0.001	***	0.226	0.173	
<i>ΔMB</i>	0.000	0.658		-0.004	0.008	***	0.000	0.669		-0.004	0.008	***
<i>ΔTACCR_Lag</i>	0.008	0.480		-0.127	0.159		0.009	0.468		-0.127	0.164	
<i>ΔM&A</i>	0.000	0.959		0.001	0.916		0.000	0.950		0.001	0.919	
<i>AbsDA</i>	-0.561	0.000	***	-0.320	0.002	***	-0.561	0.000	***	-0.320	0.002	***
N		5,817			80			5,817			80	
Adjusted R ²		0.373			0.461			0.374			0.453	
Mean VIF		1.08			1.49			1.91			2.66	

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Panel B, Continued: Measuring Vote using *PercAgAbst - Sainty*

Prediction	$\Delta SignDA_{t+1}$											
	Full Sample Column (5)			Matched Sample Column (6)			Full Sample Column (7)			Matched Sample Column (8)		
	coef	p-value		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	-0.015	0.000	***	-0.028	0.049	**	-0.014	0.000	***	-0.025	0.096	*
<i>RecAgainst</i>	-	0.000	0.507	-0.033	0.106		-0.070	0.036	**	-0.042	0.202	
<i>PercAgAbst - Sainty</i>	-	-0.075	0.101	0.549	0.986		-0.103	0.042	**	0.449	0.977	
<i>RecAgainst* PercAgAbst - Sainty</i>	-						0.790	0.986		0.165	0.620	
<i>ΔlnAssets</i>	0.059	0.000	***	0.000	0.998		0.058	0.000	***	-0.002	0.983	
<i>ΔSalesGrowth</i>	0.012	0.003	***	0.025	0.356		0.011	0.004	***	0.024	0.399	
<i>ΔLoss</i>	-0.057	0.000	***	-0.062	0.003	***	-0.057	0.000	***	-0.063	0.003	***
<i>ΔLeverage</i>	-0.242	0.000	***	-0.306	0.061	*	-0.241	0.000	***	-0.305	0.062	*
<i>ΔCFO</i>	-0.421	0.000	***	-0.282	0.106		-0.421	0.000	***	-0.280	0.109	
<i>ΔMB</i>	0.001	0.002	***	0.003	0.362		0.001	0.002	***	0.003	0.376	
<i>ΔTACCR_Lag</i>	-0.046	0.006	***	-0.148	0.270		-0.046	0.006	***	-0.153	0.271	
<i>ΔM&A</i>	-0.007	0.000	***	-0.014	0.436		-0.007	0.000	***	-0.014	0.458	
<i>SignDA</i>	-0.576	0.000	***	-0.209	0.159		-0.577	0.000	***	-0.206	0.166	
N		5,817			80			5,817			80	
Adjusted R ²		0.576			0.517			0.576			0.511	
Mean VIF		1.18			1.99			2.01			3.13	

Panel C: Measuring Vote using *PercAgainst*

Prediction	$\Delta AbsDA_{t+1}$											
	Full Sample Column (1)			Matched Sample Column (2)			Full Sample Column (3)			Matched Sample Column (4)		
	coef	p-value		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	0.029	0.000	***	0.028	0.012	**	0.029	0.000	***	0.030	0.007	***
<i>RecAgainst</i> -	0.016	0.893		0.020	0.785		0.053	0.875		0.013	0.600	
<i>PercAgainst</i> -	-0.050	0.224		-0.199	0.269		-0.031	0.317		-0.281	0.171	
<i>RecAgainst* PercAgainst</i> -							-0.544	0.151		0.149	0.585	
$\Delta \ln Assets$	0.029	0.000	***	-0.028	0.699		0.030	0.000	***	-0.029	0.685	
$\Delta Sales Growth$	0.008	0.013	**	0.016	0.472		0.008	0.012	**	0.015	0.511	
$\Delta Loss$	0.020	0.000	***	0.051	0.002	***	0.020	0.000	***	0.050	0.002	***
$\Delta Leverage$	0.029	0.157		0.244	0.006	***	0.030	0.157		0.242	0.008	***
ΔCFO	0.077	0.001	***	0.230	0.182		0.077	0.001	***	0.231	0.181	
ΔMB	0.000	0.662		-0.004	0.008	***	0.000	0.673		-0.004	0.008	***
$\Delta TACCR_Lag$	0.009	0.470		-0.127	0.162		0.009	0.452		-0.131	0.163	
$\Delta M\&A$	0.000	0.997		0.001	0.926		0.000	0.983		0.001	0.913	
<i>AbsDA</i>	-0.561	0.000	***	-0.328	0.001	***	-0.562	0.000	***	-0.326	0.002	***
N	5,817			80			5,817			80		
Adjusted R ²	0.373			0.458			0.374			0.451		
Mean VIF	1.08			1.53			2.00			2.82		

∞

Panel C, Continued: Measuring Vote using *PercAgainst*

		$\Delta SignDA_{t+1}$											
		Full Sample Column (5)			Matched Sample Column (6)			Full Sample Column (7)			Matched Sample Column (8)		
Prediction		coef	p-value		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	?	-0.014	0.000	***	-0.018	0.269		-0.014	0.000	***	-0.026	0.093	*
<i>RecAgainst</i>	-	0.005	0.636		-0.008	0.392		-0.044	0.164		0.021	0.644	
<i>PercAgainst</i>	-	-0.172	0.011	**	0.204	0.710		-0.197	0.004	***	0.558	0.949	
<i>RecAgainst* PercAgainst</i>	-							0.708	0.911		-0.643	0.197	
$\Delta \ln Assets$?	0.059	0.000	***	0.010	0.904		0.058	0.000	***	0.014	0.858	
$\Delta SalesGrowth$?	0.012	0.003	***	0.025	0.363		0.011	0.004	***	0.028	0.321	
$\Delta Loss$?	-0.057	0.000	***	-0.064	0.004	***	-0.057	0.000	***	-0.063	0.004	***
$\Delta Leverage$?	-0.242	0.000	***	-0.297	0.071	*	-0.242	0.000	***	-0.290	0.077	*
ΔCFO	?	-0.421	0.000	***	-0.324	0.074	*	-0.421	0.000	***	-0.329	0.070	*
ΔMB	?	0.001	0.002	***	0.003	0.282		0.001	0.002	***	0.003	0.260	
$\Delta TACCR_Lag$?	-0.046	0.006	***	-0.116	0.413		-0.046	0.006	***	-0.100	0.495	
$\Delta M\&A$?	-0.007	0.000	***	-0.013	0.487		-0.007	0.000	***	-0.014	0.475	
<i>SignDA</i>	?	-0.576	0.000	***	-0.233	0.126		-0.577	0.000	***	-0.233	0.125	
N		5,817			80			5,817			80		
Adjusted R ²		0.576			0.486			0.576			0.484		
Mean VIF		1.19			2.02			2.10			3.27		

The dependent variable is $\Delta AbsDA_{t+1}$ in Columns (1) – (4) and $\Delta SignDA_{t+1}$ in Columns (5) – (8). I measure *Vote* using *PercAgAbst* in Panel A, *PercAgAbst - Sainty* in Panel B, and *PercAgainst* in Panel C. Columns (1), (3), (5), and (7) use all available observations with non-missing data, and Columns (2), (4), (6), and (8) use a propensity score matched sample. The model is estimated using ordinary least squares regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 16
Proxy Advisor Recommendations on Auditor Ratification and Change in Nonaudit Fees:
Propensity Score Matching Model

	Prediction	<i>RecAgainst_NAS</i>	
		coefficient	p-value
<i>Intercept</i>	?	-8.379	0.000 ***
<i>NAS</i>	+	12.542	0.000 ***
<i>lnAssets</i>	?	-0.112	0.002 ***
<i>Year Fixed Effects</i>		Included	
<i>N</i>		8,213	
<i>Pseudo R²</i>		0.414	
<i>Area Under ROC Curve</i>		96.43%	

The dependent variable is *RecAgainst_NAS*. The model is estimated using logistic regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 17
Descriptive Statistics:
Matched Sample, Equation (5)

Panel A: Descriptive Statistics

		N = 60				
		Mean	Std Dev	25%	Median	75%
1	<i>PercAgAbst</i>	0.058	0.046	0.017	0.045	0.114
2	<i>PercAgAbst - Sainity</i>	0.068	0.051	0.021	0.057	0.132
3	<i>PercAgainst</i>	0.051	0.038	0.014	0.042	0.096
4	<i>RecAgainst_NAS</i>	0.500	0.504	0.000	0.500	1.000
5	Δ <i>NAS</i>	-0.161	0.140	-0.277	-0.146	-0.042
6	Δ <i>lnAssets</i>	0.071	0.243	-0.045	0.028	0.177
7	<i>NAS</i>	0.535	0.106	0.532	0.556	0.584

Panel B: Pearson and Spearman Correlation Coefficients

	1	2	3	4	5	6	7
1		0.94	0.99	0.76	0.12	-0.02	-0.01
2	0.97		0.92	0.75	0.06	-0.03	0.03
3	0.99	0.96		0.76	0.13	-0.04	-0.03
4	0.81	0.80	0.82		0.08	-0.21	-0.02
5	0.09	0.06	0.12	0.10		0.14	-0.26
6	-0.10	-0.09	-0.14	-0.24	0.10		0.08
7	0.02	-0.01	-0.01	0.01	-0.37	-0.15	

All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . Continuous variables are winsorized by year at the 1% and 99% level. In Panel B, Pearson (Spearman) correlation coefficients are reported in the bottom (top) half; numbers correspond with the variable names in Panel A; bolded values indicate coefficient is statistically significant at p -value < 0.10 .

TABLE 18
Proxy Advisor Recommendations on Auditor Ratification and Change in Nonaudit Fees:
Univariate Statistics, Equation (5)

	NAS_t		ΔNAS_{t+1}	
	N	Mean	N	Mean
<i>RecAgainst_NAS = 1</i>	30	0.536	30	-0.147
<i>RecAgainst_NAS = 0</i>	30	0.533	30	-0.174
<i>Tests of Differences</i>	p-value	0.912	p-value	0.448

All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . Continuous variables are winsorized by year at the 1% and 99% level. P-values are based on two sample t-tests.

TABLE 19
Proxy Advisor Recommendations on Auditor Ratification and Change in Nonaudit Fees:
Multivariate Results, Equation (5)

Prediction	ΔNAS_{t+1}					
	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)	Column (6)
<i>Intercept</i>	0.102 (0.208)	0.030 (0.788)	0.106 (0.207)	0.077 (0.461)	0.097 (0.221)	0.044 (0.664)
<i>RecAgainst_NAS</i> -	0.035 (0.740)	0.129 (0.936)	0.058 (0.857)	0.112 (0.893)	0.016 (0.612)	0.111 (0.897)
<i>PercAgAbst</i> -	0.020 (0.513)	2.442 (0.908)				
<i>PercAgAbst - Sainty</i> -			-0.256 (0.318)	0.582 (0.655)		
<i>PercAgainst</i> -					0.317 (0.661)	2.345 (0.915)
<i>RecAgainst_NAS*Vote</i> -		-2.856 * (0.078)		-1.108 (0.248)		-2.691 * (0.087)
<i>Joint Test of Interaction</i> <i>RecAgainst_NAS +</i> <i>RecAgainst_NAS * Vote = 0</i>		<i>(0.167)</i>		<i>(0.525)</i>		<i>(0.184)</i>
$\Delta \ln Assets$	0.039 (0.588)	0.041 (0.573)	0.045 (0.541)	0.050 (0.497)	0.036 (0.618)	0.043 (0.566)
<i>NAS</i>	-0.525 *** (0.000)	-0.506 *** (0.000)	-0.526 *** (0.000)	-0.524 *** (0.000)	-0.526 *** (0.000)	-0.517 *** (0.000)
Year Fixed Effects	Included	Included	Included	Included	Included	Included
N	60	60	60	60	60	60
Adjusted R ²	0.081	0.104	0.084	0.077	0.084	0.101
Mean VIF	1.96	8.55	1.94	6.56	1.99	6.58

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The dependent variable is ΔNAS_{t+1} . I measure *Vote* using *PercAgAbst* in Columns (1) - (2), *PercAgAbst - Sainty* in Columns (3) - (4), and *PercAgainst* in Columns (5) - (6). The model is estimated using a propensity score matched sample with ordinary least squares regression and robust standard errors clustered by company identifier. All variables are as defined in Appendix A. Δ indicates the variable is set equal to the value in $t+1$ minus the value in t . All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 20
Proxy Advisor Recommendations on Auditor Ratification and Change in Disclosure of
Engagement Letter Provisions

		<i>Language Removed in</i>				<i>Language Not Removed</i>
Panel A						
Meeting Year (<i>t</i>)	N	2010	2011	2012	2013	by end of 2013
2009	50 <i>100%</i>	-9 <i>-18%</i>	-5 <i>-10%</i>	-6 <i>-12%</i>	-2 <i>-4%</i>	28 56%
2010	10 <i>100%</i>		-1 <i>-10%</i>	-4 <i>-40%</i>	0 <i>0%</i>	5 50%
2011	6 <i>100%</i>			-2 <i>-33%</i>	0 <i>0%</i>	4 67%
Panel B						
Total	N	<i>t</i>+1		<i>t</i>+2		by end of <i>t</i>+2
Total, including 2009	66 <i>100%</i>	-12 <i>-18%</i>		-9 <i>-14%</i>		45 68%
Total, excluding 2009	16 <i>100%</i>	-3 <i>-19%</i>		-4 <i>-25%</i>		9 56%

N represents the number of unique companies in the sample without auditor turnover where *RecAgainst_Legal* = 1 in *t* and *RecAgainst_Legal* = 0 in *t*-1 (in 2009, there is no restriction on *RecAgainst_Legal* in *t*-1), and where DEF 14A filings are available for at least *t*+1 and *t*+2. *Language Removed in* indicates that the DEF 14A in the respective period no longer includes reference to alternative dispute resolution (ADR), punitive damages, or limitation of liability.

TABLE 21
The Influence of Institutional Ownership and Proxy Advisors on Shareholder Voting

	Prediction	<i>PercAgAbst</i> Column (1)			<i>PercAgAbst - Sainty</i> Column (2)			<i>PercAgainst</i> Column (3)		
		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	?	0.017	0.000	***	0.017	0.000	***	0.011	0.000	***
<i>RecAgainst</i>	+	0.024	0.001	***	0.037	0.000	***	0.023	0.000	***
<i>RecAgainst*</i> <i>InstPerc_NonTran</i>	?	0.063	0.000	***	0.048	0.002	***	0.056	0.000	***
<i>ExcessNAS</i>	+	0.025	0.000	***	0.030	0.000	***	0.020	0.000	***
<i>Restate</i>	+	0.000	0.350		0.001	0.316		0.000	0.372	
<i>Mweak</i>	+	0.004	0.006	***	0.005	0.010	***	0.003	0.003	***
<i>LowAuditFees</i>	+	-0.001	0.943		-0.001	0.961		-0.001	0.942	
<i>Abs(DA)</i>	+	-0.005	0.988		-0.007	0.994		-0.004	0.981	
<i>SEC_CmtLtr</i>	+	0.000	0.499		0.000	0.615		0.000	0.728	
<i>LegalLanguage</i>	+	-0.008	0.991		-0.008	0.986		-0.006	0.981	
<i>lnAudTenure</i>	?	0.003	0.000	***	0.003	0.000	***	0.003	0.000	***
<i>Big4</i>	-	0.001	0.903		0.001	0.910		0.002	0.996	
<i>Specialist</i>	-	0.000	0.597		0.000	0.514		0.000	0.487	
<i>lnAssets</i>	?	-0.001	0.000	***	-0.001	0.000	***	-0.001	0.000	***
<i>lnCompanyAge</i>	?	0.001	0.000	***	0.002	0.000	***	0.001	0.005	***
<i>Returns</i>	-	-0.001	0.253		-0.001	0.201		0.001	0.730	
<i>ROA</i>	-	-0.001	0.276		-0.001	0.344		-0.001	0.320	
<i>Loss</i>	+	0.001	0.009	***	0.002	0.006	***	0.001	0.125	
<i>Insiders</i>	-	-0.025	0.000	***	-0.010	0.000	***	-0.020	0.000	***
<i>Blockholders</i>	-	-0.017	0.000	***	-0.019	0.000	***	-0.014	0.000	***
<i>CEO_Chair</i>	+	0.001	0.023	**	0.001	0.027	**	0.001	0.005	***
<i>InstPerc_NonTran</i>	?	-0.003	0.007	***	-0.003	0.019	**	0.001	0.165	
<i>DirVote</i>	+	0.041	0.000	***	0.047	0.000	***	0.024	0.000	***
Year Fixed Effects		Included			Included			Included		
N		8,773			8,773			8,773		
Adjusted R ²		0.309			0.276			0.345		
Mean VIF		2.09			2.09			2.09		

The dependent variable is *PercAgAbst* in Column (1), *PercAgAbst - Sainty* in Column (2), and *PercAgainst* in Column (3). I estimate each model using ordinary least squares regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are

one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 22
The Influence of Auditor Tenure and Proxy Advisors on Shareholder Voting

	Prediction	<i>PercAgAbst</i> Column (1)		<i>PercAgAbst - Sainty</i> Column (2)		<i>PercAgainst</i> Column (3)	
		coef	p-value	coef	p-value	coef	p-value
<i>Intercept</i>	?	0.017	0.000 ***	0.017	0.000 ***	0.010	0.000 ***
<i>RecAgainst</i>	+	0.038	0.000 ***	0.049	0.000 ***	0.038	0.000 ***
<i>RecAgainst*</i> <i>lnAudTenure</i>	?	0.007	0.084 *	0.005	0.260	0.005	0.122
<i>ExcessNAS</i>	+	0.028	0.000 ***	0.032	0.000 ***	0.022	0.000 ***
<i>Restate</i>	+	0.000	0.358	0.001	0.321	0.000	0.382
<i>Mweak</i>	+	0.004	0.006 ***	0.005	0.010 ***	0.003	0.003 ***
<i>LowAuditFees</i>	+	-0.001	0.946	-0.001	0.963	-0.001	0.945
<i>Abs(DA)</i>	+	-0.006	0.990	-0.007	0.995	-0.004	0.982
<i>SEC_CmtLtr</i>	+	0.000	0.514	0.000	0.624	0.000	0.737
<i>LegalLanguage</i>	+	-0.006	0.953	-0.006	0.960	-0.004	0.907
<i>lnAudTenure</i>	?	0.002	0.000 ***	0.003	0.000 ***	0.003	0.000 ***
<i>Big4</i>	-	0.001	0.897	0.001	0.905	0.002	0.995
<i>Specialist</i>	-	0.000	0.613	0.000	0.526	0.000	0.506
<i>lnAssets</i>	?	-0.001	0.000 ***	-0.001	0.000 ***	-0.001	0.000 ***
<i>lnCompanyAge</i>	?	0.001	0.000 ***	0.002	0.000 ***	0.001	0.005 ***
<i>Returns</i>	-	-0.001	0.224	-0.001	0.183	0.001	0.691
<i>ROA</i>	-	-0.001	0.348	-0.001	0.395	0.000	0.403
<i>Loss</i>	+	0.001	0.012 **	0.002	0.007 ***	0.001	0.148
<i>Insiders</i>	-	-0.025	0.000 ***	-0.011	0.000 ***	-0.020	0.000 ***
<i>Blockholders</i>	-	-0.018	0.000 ***	-0.019	0.000 ***	-0.014	0.000 ***
<i>CEO_Chair</i>	+	0.001	0.028 **	0.001	0.031 **	0.001	0.007 ***
<i>InstPerc_NonTran</i>	?	-0.002	0.107	-0.002	0.110	0.003	0.013 **
<i>DirVote</i>	+	0.041	0.000 ***	0.047	0.000 ***	0.024	0.000 ***
Year Fixed Effects		Included		Included		Included	
N		8,773		8,773		8,773	
Adjusted R ²		0.301		0.272		0.336	
Mean VIF		2.40		2.40		2.40	

The dependent variable is *PercAgAbst* in Column (1), *PercAgAbst - Sainty* in Column (2), and *PercAgainst* in Column (3). I estimate each model using ordinary least squares regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are

one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 23
The Influence of Auditor Size and Proxy Advisors on Shareholder Voting

	Prediction	<i>PercAgAbst</i> Column (1)			<i>PercAgAbst - Sainty</i> Column (2)			<i>PercAgainst</i> Column (3)		
		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	?	0.017	0.000 ***		0.017	0.000 ***		0.010	0.000 ***	
<i>RecAgainst</i>	+	0.029	0.036 **		0.038	0.039 **		0.032	0.021 **	
<i>RecAgainst*Big4</i>	?	0.026	0.106		0.024	0.278		0.019	0.233	
<i>ExcessNAS</i>	+	0.027	0.000 ***		0.032	0.000 ***		0.022	0.000 ***	
<i>Restate</i>	+	0.001	0.269		0.001	0.253		0.000	0.302	
<i>Mweak</i>	+	0.005	0.004 ***		0.005	0.008 ***		0.003	0.002 ***	
<i>LowAuditFees</i>	+	-0.001	0.947		-0.001	0.963		-0.001	0.946	
<i>Abs(DA)</i>	+	-0.006	0.990		-0.007	0.995		-0.004	0.983	
<i>SEC_CmtLtr</i>	+	0.000	0.502		0.000	0.617		0.000	0.729	
<i>LegalLanguage</i>	+	-0.007	0.977		-0.008	0.980		-0.005	0.944	
<i>InAudTenure</i>	?	0.003	0.000 ***		0.003	0.000 ***		0.003	0.000 ***	
<i>Big4</i>	-	0.001	0.823		0.001	0.858		0.001	0.990	
<i>Specialist</i>	-	0.000	0.614		0.000	0.527		0.000	0.506	
<i>InAssets</i>	?	-0.001	0.000 ***		-0.001	0.000 ***		-0.001	0.000 ***	
<i>InCompanyAge</i>	?	0.001	0.000 ***		0.002	0.000 ***		0.001	0.005 ***	
<i>Returns</i>	-	-0.001	0.229		-0.001	0.187		0.001	0.695	
<i>ROA</i>	-	-0.001	0.363		-0.001	0.409		0.000	0.417	
<i>Loss</i>	+	0.001	0.010 **		0.002	0.006 ***		0.001	0.138	
<i>Insiders</i>	-	-0.025	0.000 ***		-0.011	0.000 ***		-0.020	0.000 ***	
<i>Blockholders</i>	-	-0.017	0.000 ***		-0.019	0.000 ***		-0.014	0.000 ***	
<i>CEO_Chair</i>	+	0.001	0.028 **		0.001	0.031 **		0.001	0.007 ***	
<i>InstPerc_NonTran</i>	?	-0.002	0.102		-0.002	0.104		0.003	0.013 **	
<i>DirVote</i>	+	0.041	0.000 ***		0.047	0.000 ***		0.024	0.000 ***	
Year Fixed Effects		Included			Included			Included		
N		8,773			8,773			8,773		
Adjusted R ²		0.301			0.273			0.336		
Mean VIF		4.02			4.02			4.02		

The dependent variable is *PercAgAbst* in Column (1), *PercAgAbst - Sainty* in Column (2), and *PercAgainst* in Column (3). I estimate each model using ordinary least squares regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 24
The Influence of Auditor Industry Expertise and Proxy Advisors on Shareholder Voting

	Prediction	<i>PercAgAbst</i> Column (1)			<i>PercAgAbst - Sainty</i> Column (2)			<i>PercAgainst</i> Column (3)		
		coef	p-value		coef	p-value		coef	p-value	
<i>Intercept</i>	?	0.016	0.000 ***		0.017	0.000 ***		0.010	0.000 ***	
<i>RecAgainst</i>	+	0.051	0.000 ***		0.058	0.000 ***		0.047	0.000 ***	
<i>RecAgainst*</i> <i>Specialist</i>	?	0.008	0.227		0.007	0.304		0.006	0.281	
<i>ExcessNAS</i>	+	0.027	0.000 ***		0.032	0.000 ***		0.022	0.000 ***	
<i>Restate</i>	+	0.000	0.359		0.001	0.320		0.000	0.382	
<i>Mweak</i>	+	0.004	0.005 ***		0.005	0.009 ***		0.003	0.002 ***	
<i>LowAuditFees</i>	+	-0.001	0.950		-0.001	0.965		-0.001	0.949	
<i>Abs(DA)</i>	+	-0.006	0.990		-0.007	0.995		-0.004	0.982	
<i>SEC_CmtLtr</i>	+	0.000	0.497		0.000	0.613		0.000	0.725	
<i>LegalLanguage</i>	+	-0.005	0.936		-0.006	0.950		-0.004	0.885	
<i>lnAudTenure</i>	?	0.003	0.000 ***		0.003	0.000 ***		0.003	0.000 ***	
<i>Big4</i>	-	0.001	0.885		0.001	0.900		0.002	0.995	
<i>Specialist</i>	-	0.000	0.448		0.000	0.390		0.000	0.355	
<i>lnAssets</i>	?	-0.001	0.000 ***		-0.001	0.000 ***		-0.001	0.000 ***	
<i>lnCompanyAge</i>	?	0.001	0.000 ***		0.002	0.000 ***		0.001	0.005 ***	
<i>Returns</i>	-	-0.001	0.232		-0.001	0.189		0.001	0.699	
<i>ROA</i>	-	-0.001	0.334		-0.001	0.385		0.000	0.389	
<i>Loss</i>	+	0.001	0.012 **		0.002	0.007 ***		0.001	0.149	
<i>Insiders</i>	-	-0.025	0.000 ***		-0.011	0.000 ***		-0.020	0.000 ***	
<i>Blockholders</i>	-	-0.017	0.000 ***		-0.019	0.000 ***		-0.014	0.000 ***	
<i>CEO_Chair</i>	+	0.001	0.023 **		0.001	0.026 **		0.001	0.006 ***	
<i>InstPerc_NonTran</i>	?	-0.002	0.106		-0.002	0.108		0.003	0.013 **	
<i>DirVote</i>	+	0.041	0.000 ***		0.047	0.000 ***		0.024	0.000 ***	
Year Fixed Effects		Included			Included			Included		
N		8,773			8,773			8,773		
Adjusted R2		0.301			0.272			0.336		
Mean VIF		1.54			1.54			1.54		

The dependent variable is *PercAgAbst* in Column (1), *PercAgAbst - Sainty* in Column (2), and *PercAgainst* in Column (3). I estimate each model using ordinary least squares regression with robust standard errors clustered by company identifier. All variables are as defined in Appendix A. All continuous variables have been winsorized by year at the 1% and 99% level. P-values are

one (two) tailed when a prediction is (is not) made. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively.

TABLE 25
Sample Attrition: Comparing Dropped Observations to Final Sample

Panel A: Univariate Statistics, Variable of Interest

	<i>N</i>	<i>RecAgainst</i>	<i>Rec Legal</i>	<i>Rec NAS</i>	<i>Rec Other</i>
Dropped sample	1,328	37 2.79%	29 78%	4 11%	4 11%
Final sample	8,773	231 2.63%	186 81%	30 13%	15 6%
<i>Test of Differences</i>	<i>p-values</i>	0.7464	0.8811	0.8112	0.3074

Panel B: Univariate Statistics, Other Variables

	Dropped Sample		Final Sample		Tests of Differences	
	Mean	Median	Mean	Median	Mean	Median
<i>PercAgAbst</i>	0.016	0.008	0.016	0.010		***
<i>PercAgainst</i>	0.012	0.005	0.013	0.008	***	***
<i>Restate</i>	0.035	0.000	0.035	0.000		
<i>MWeak</i>	0.054	0.000	0.021	0.000	***	***
<i>CmtLtr</i>	0.364	0.000	0.442	0.000	***	***
<i>LegalLanguage</i>	0.020	0.000	0.024	0.000		
<i>lnAudTenure</i>	1.800	1.792	2.213	2.197	***	***
<i>Big4</i>	0.583	1.000	0.874	1.000	***	***
<i>lnAssets</i>	6.109	5.996	7.367	7.291	***	***
<i>lnCompanyAge</i>	2.631	2.639	2.924	2.890	***	***
<i>Returns</i>	0.020	-0.001	0.021	0.006		**
<i>ROA</i>	-0.055	0.010	0.004	0.028	***	***
<i>Loss</i>	0.390	0.000	0.261	0.000	***	***
<i>InstPerc_NonTran</i>	0.324	0.300	0.472	0.496	***	***
<i>DirVote</i>	0.041	0.016	0.034	0.014	***	***

All variables are as defined in Appendix A. Continuous variables are winsorized by year at the 1% and 99% level. ***, **, and * represent significance at the 0.01, 0.05, and 0.10 levels, respectively, based on two sample t-tests.