ROBO-VOTING PHENOMENA: AN EMPIRICAL ANALYSIS OF INSTITUTIONAL INVESTORS' VOTING AND PROXY ADVISORS' RECOMMENDATIONS

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Abstract

Proxy advisors' recommendations have emerged as the key determinant of shareholder voting, and the evidence provided in this study raises some questions as to the influence and power of proxy advisors. Despite assertions that proxy advisors are powerful, few empirical studies in relation to their influence on shareholder votes have been conducted in a European context. This study is the first to analyse the robo-voting phenomena in one of the major European markets (Italy). In this way, our paper aims to identify those institutional investors that strictly vote in alignment with external recommendations (including proxy advisors or management recommendations). Our main results are that two main characteristics influence the voting approach of institutional investors: country of residence and size. We think that our results are timely not only because of the general rise of importance of proxy advisor and shareholder voting, but also because the debate on corporate governance has now shifted to fiduciary duty to vote and a focus on social or legal enforcement.

Keywords: corporate governance, shareholder right directive, proxy advisor, shareholder voting.

1. Introduction

Recent research identifies a troubling number of institutional investors that automatically follow the advice of their proxy advisors so that they can prove to have complied with their fiduciary duties, in a practice known as "*robo-voting*". This phenomenon highlights two important aspects: on the one hand, the influence and power of proxy advisors, and, most importantly, on the other hand, a lack of full responsibility of institutional investors in fulfilling the fiduciary mandate towards their clients, which is to dedicate time and resources to the analysis of the investee companies and the general shareholders meeting (GSM). Both aspects have received attention by the recent EU Directive 2017/828, noted as Shareholder Rights Directive II (SRD II)[1]. What is certain is that proxy advisory services have transformed proxy voting by institutional investors. Consequently, proxy advisors have become powerful players in corporate governance because institutional investors base, or even delegate, their proxy voting decisions on the analysis of outside specialists. The importance of proxy advisors is so flagrant that their activities have attracted the attention of policy makers. The US Securities and Exchange Commission (SEC) raised the question in a 2010 report as to whether and in what way they should be regulated. On October 11, 2017, Representative Sean Duffy introduced the Corporate Governance Reform and Transparency Act of 2017, which enhances transparency in the shareholder proxy system by providing for, among other things, the registration of proxy advisory firms with the SEC, disclosure of proxy firms' potential conflicts of interest and codes of ethics, and the disclosure of proxy firms' methodologies for formulating proxy recommendations and analyses. At the same time, the European Commission and the European Securities and Markets Authority (ESMA) have raised concerns about the role and influence of proxy voting advisors at European GSMs. In 2013, ESMA recommended the development of a code of conduct to improve investors' and issuers' understanding of what they can expect from proxy advisors. ESMA's recommendation

[1] Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. This directive aims to define minimum rights for shareholders in listed companies across the EU, representing a measure for modernizing company law and enhancing corporate governance in the EU

was based on its finding that while there was no clear evidence of market failure in relation to proxy advisors' interaction with investors and issuers, stakeholders raised a number of concerns regarding the independence of proxy advisors and the accuracy and reliability of their advice.

Although the use of proxy advisors does not necessarily imply that investors take a passive governance role (McCahery et al., 2016), institutional investors might not control the votes associated with all the shares held in their portfolios (Belinfanti, 2010). However, institutional investors are generally fiduciaries for the ultimate economic owners of the assets they are investing, which obligates them to a duty of care and loyalty that includes exercising the voting rights on shares in their portfolios (Larcker et al., 2015). The academic literature on these issues is growing, and it investigates various aspects of the role and influence of proxy advisors, such as the determinants of their voting recommendations, their influence at GSMs, and market reactions to the release of voting recommendations (e.g., Rose, 2010; Ertimur et al., 2013, Malenko and Shen, 2016; Sauerwald et al., 2018). While the literature on shareholder voting lacks a specific focus on institutional investors' diversity, and often minority shareholders tend to be seen as a unique block (Belcredi et al., 2017; Çelik and Isakkson, 2014).

Our paper aims to determine the actual magnitude of the "robo-voting" phenomenon through the analysis of institutional investors' voting behaviour in one of the major European markets (Italy). In this way, our paper aims to identify those institutional investors that strictly vote in alignment with external recommendations (including proxy advisors and issuers' proposals, or management recommendations). We argue that such voting based on "robo-voting" phenomena is restricted to specific types of institutional investors, and it may be a result of various factors, both internal and external to the investors, such as specific market regulations.

Therefore, our central research question is: *How much does the vote of institutional investors depend on external recommendations, and which types of institutional investors are affected by the "robo-*

voting" phenomenon? Our paper directly addresses this question by providing descriptive evidence on how the "types" of institutional shareholders affect how they function as shareholders.

Generally, the literature provides robust evidence on the influence and power of the proxy advisor. For example, Malenko and Shen (2016) find that Institutional Shareholder Services (ISS) moves about a quarter of the votes, and this effect is economically significant if we consider that dissent above 20% is viewed as an indication of substantial dissatisfaction with change on the governance practice (Del Guercio et al., 2008; Ferri and Maber, 2013). In our study, we go beyond the mere analysis of rates of opposition, taking into account the voting behaviour of each institutional investor. To shed light on the level of fulfilment of their fiduciary duties, we are interested in the extent to which findings vary by the typology of institutional investors and are thus associated with institutional investors' differences: typology, legal framework (geography), assets under management (size), investment strategy, level of experience of proxy voting (measured as adoption of voting guidelines) and proxy advisors used.

We use a manually constructed sample of coverage information at 123 annual general meetings (AGMs) held by large Italian companies (FTSE MIB index's components) in the 4-year period 2015 to 2018 and the voting reports of two leading proxy advisors, ISS and Glass Lewis (GL), and the European proxy advisor ECGS, which is represented in Italy by the local partner Frontis Governance.

In doing so, this paper extends the growing but US-dominated literature on proxy voting advisory (e.g., Cai et al., 2009; Ertimur et al., 2013; Larcker et al., 2015) and contributes to the current European debate on the regulation of proxy advisors and on the evidence of institutional investors (Hitz and Lehmann, 2018). After all, the increasing significance of shareholder voting in corporate governance requires better understanding of how institutional investors perform their investment stewardship role (Gomtsian, 2018).

A general literature overview on this topic reveals two important caveats. First, empirical studies focus exclusively on ISS and GL and do not consider the effect of other proxy advisors on shareholder

voting. Second, and more importantly, they deal with the sole issue of "power" or "influence" of proxy advisors. In our study, we try to advance the debate and address these issues in three ways. First, we examine the relationship between shareholder votes and the recommendations of proxy advisors, including not merely the US-based ISS and GL but also the European ECGS (through the Italian partner Frontis Governance). Second, we analyse the voting recommendations of proxy advisors to determine whether there is a standardization in the analysis or institutional investors have the opportunity to choose from a variety of views. Third, we try to disentangle the focus on proxy advisors, highlighting the issues of how institutional investors fulfil their fiduciary duties to their clients, including monitoring corporate governance and engaging with investee companies to preserve shareholders' value in the long term.

The remainder of the paper is structured as follows. Section 2 provides background information on the European Shareholder Rights Directive and reviews the major related literature. Section 3 explains our research design and method. Section 4 introduces the empirical analysis, and Section 5 offers discussion and conclusions from our results.

2. Background and literature review

2.1 Shareholder Rights Directive: What are the changes for proxy advisors and institutional investors?

Little is known on how institutional investors approach shareholder voting and whether the increased attention to voting from policymakers has translated into enhanced shareholder engagement efforts by institutional investors (Gomtsian, 2018). From this point of view, after the "Action Plan: European company law and corporate governance — a modern legal framework for more engaged shareholders and sustainable companies" (2012), the European Commission announced a number of actions in the area of corporate governance, in particular to encourage long-term shareholder engagement and to enhance transparency between companies and investors. With the Shareholder Rights Directive, the EU set out to foster long-term investments of institutional investors (intended as asset owners)

through a transparent and ongoing dialogue (engagement) with investee companies. As highlighted by the SRD II, institutional investors and asset managers are often not transparent about their investment strategies, their engagement policy, or the implementation thereof. In this regard, the directive establishes specific requirements to encourage shareholder engagement in specific areas, such as transparency of institutional investors or asset managers and proxy advisors. More specifically, the directive requires institutional investors to disclose how they take the long-term interests of their beneficiaries into account in their investment strategies and how they incentivise their asset managers to act in the best long-term interests of the institutional investor. This would raise awareness of the importance of this issue and make it transparent whether asset management mandates are based on best practices. A key role in improving shareholder engagement is done also by proxy advisors. The services of proxy advisors include providing research, helping investors to develop their own voting guidelines, handling the mechanics of the voting process, and offering recommendations (Choi et al., 2010). A vote recommendation, the core business of proxy advisors, is issued as part of a written research report distributed privately to institutional clients approximately two weeks before a scheduled vote (Alexander et al., 2010). Based on article 3j of the SRD II, proxy advisors should be subject to transparency requirements. Each Member State should ensure that proxy advisors are subject to a code of conduct and that they effectively report on the application of that code. They should also disclose certain key information relating to the preparation of their research, advice, and voting recommendations, and any actual or potential conflicts of interests or business relationships that may influence the preparation of the research, advice, and voting recommendations. That information should remain publicly available for a period of at least three years to allow institutional investors to choose the services of proxy advisors taking into account their performance in the past. In addition, the directive recognizes that proxy advisors can contribute to reduce the costs of the analysis related to company information, but also that they may have an important influence on the voting behaviour of investors. While the use of proxy advisors is absolutely necessary to monitor and understand the corporate governance of all the investee companies across jurisdictions

with differing legal frameworks and market practices, it should not exempt the institutional investors from responsibly exercising their fiduciary duties.

Soft law norms in this framework (disclosure duties based upon the 'comply or explain' principle) correspond to the need to focus more on educational efforts to enable proxy advisors and institutional investors to prepare themselves for more meaningful compliance while aiming to understand the benefits of more engagement with other constituencies in the market. At the same time, soft law norms are vital to all recipients of such disclosure so as to clarify the variety of expectations that they should have in respect of the engagement duties, the content of the new requirements, as well as the informational contours of the information disclosed. This will enable all parties to converge their understanding of these new duties and better understand their respective rights and responsibilities without being subject to stringent legal requirements.

Nevertheless, notwithstanding the "comply or explain" flexibility offered to institutional investors and proxy advisors, these disclosure duties operate within a legal framework that can trigger legal enforcement mechanisms if violated, as it will be explained in the next section. Indeed, we are witnessing a legalization of stewardship via the introduction of a duty to demonstrate engagement, which is based on public interests that aim to re-regulate this area (Chiu and Katelouzou, 2017). This legalization trend may have serious consequences upon the efficiency of these duties and the behaviour of the concerned market actors, driving them towards a formalistic compliance and depriving them from the benefits of meaningful engagement. Yet is disclosure enough on its own to ensure engagement and long-termism in capital markets? Indeed, these new obligations may be viewed in a more critical light. Disclosure in this area will not necessarily increase the low levels of engagement since it does not create any financial incentives for investors towards the accomplishment of such role. At a parallel level, it may increase the costs of engagement if the ultimate beneficiaries start exerting pressure upon institutional investors for more engagement (Birkmose, 2014) or, more simply, if the driving force behind compliance is the threat of legal enforcement and not a genuine incentive-based engagement behaviour. The same concerns about enabling or interventionist rules in

the area of stewardship and engagement applies therefore *mutatis mutandis* to enforcement in this area to which our attention will now turn.

2.2 Governance and engagement duties: the relevance of social enforcement

Legal enforcement refers to the administrative measures and sanctions imposed upon proxy advisors and investors for not complying with the engagement duties; this possibility – but not obligation – is provided by article 14b of the SRD II to the Member States for all violations of the Directive's provisions that will be transposed into national law in 2019. The disclosure duties applicable to proxy advisors can therefore be sanctioned, in the case of violation, by the national competent authorities, depending on the enforcement framework chosen at the national level. Social enforcement relates to informal enforcement strategies, such as "naming and shaming", via the disclosure not only of the violations themselves (e.g. public warning instead of the imposition of pecuniary sanctions) but also of formal sanctions imposed (e.g. pecuniary sanctions). Legal sanctions that result into penalties belong to the legal enforcement spectrum. Other administrative measures that purport to sanction the concerned persons by disclosing either the penalty itself or a public warning should be seen as social sanctions, since they pay attention to a meta-regulatory function, namely the expected reputational effects of such actions upon the concerned shareholders and their ramifications upon the reaction stemming from market actors. The crucial question therefore arises in relation to what is the most optimal enforcement framework so as to ensure compliance with these disclosure duties. Legal enforcement presents the advantage of a straightforward sanction that obliges market actors to respect in the future the legal rule while holding them accountable for their illegal behaviour. Social enforcement focuses on a different approach, namely not through the accountability and the imposition of legal sanctions but through the disclosure of the violation – to trigger reputational sanctions – and the incentivisation of other market actors to react to a violation and discipline themselves the concerned party. As reported by Sergakis (2019), concerns may be raised with regard to the suitability of public enforcement tools in the area of the emerging shareholders' governance

and engagement duties. That is because we conceive the disclosure duties, provided by the SRD II, as driving forces for the creation and implementation of social engagement norms between market actors that will enhance engagement, better communication within the investment chain and, ultimately, a more meaningful compliance mindset to sounder corporate governance practices. Shaping social norms via disclosure duties requires a sufficient amount of flexibility that will enable the concerned parties to keep on operating in capital markets without the threat of legal sanctions, if their behaviour is found to be violating these duties. Indeed, in order for the objectives of the SRD II to be achieved, it is crucial to keep on providing incentives for and not limitations to engagement and stewardship strategies. Nevertheless, as mentioned above, adopting at the national level legal enforcement mechanisms to ensure compliance with the series of duties, according to article 14b of the SRD II, will have a chilling effect on engagement and will risk generating more formalistic compliance. More specifically we maintain that legal enforcement can exacerbate "robo-voting phenomena" and automatic reliance upon proxy advisory services since the main concern of market actors will be to avoid sanctions by adopting a "box ticking" approach. We maintain that social enforcement, with regard to the infringement of applicable rules, should therefore be preferred in this area since it will allow engagement to evolve without the threat of formal sanctions, while allowing market actors to sanction within the market the concerned parties as they see fit. Empirical evidence on the efficiency of social enforcement in the area of issuer disclosure of compliance with corporate governance code provisions can be particularly useful in this context. Indeed, taking as a case study the use of the "comply or explain" principle by issuers, investors who receive the related information tend to remain apathetic even if the company does not provide sufficient explanation for non-compliance with a code, especially in the case where its operations are profitable (Arcot et al., 2010). This apathy towards "non-compliance" – which only transforms itself into interest when corporate strategies create losses – is an alarming message for the usefulness and the overall impact of social enforcement, based on the example of the perception of the "comply or explain" principle. Applying this empirical evidence to the engagement and stewardship duties, we could argue that, if potentially

harmed investors are solely concerned about avoiding the losses arising from infringements of such duties, and sanction at the social level the concerned shareholders or proxy advisors (by withdrawing from agreements or services, selling securities, etc.) only when they are financially harmed, social enforcement loses its importance in this context; indeed, harmed actors will be unlikely to react when they are not themselves financially affected notwithstanding the presence of an event that should in theory trigger a negative reaction. The reprioritization of investor strategies therefore lies in understanding the need to react to all infringements, even when investors themselves are not directly harmed, and to avoid adopting a single-minded vision of such violations. It is therefore hoped that these new disclosure tools will, together with educational efforts, inculcate market actors with a different mentality so as to enhance the functioning of social sanctions. In addition, we argue that social enforcement mechanisms can be seen as a first experimental approach to enforcement strategies in stewardship norms that will allow a gradual and steady transition towards the legal enforcement, once these norms have been interpreted and used consistently at both national and EU levels. For example, the engagement duties could justify the option of social enforcement, as we will explain in section 5, due to their novel and still relatively unknown character both to national competent authorities and to market actors. Intervening directly with legal enforcement, as it is currently the case with the SRD II, without passing through this soft law stage will ultimately impede greater convergence in the understanding, application and optimal use of these duties at the expense of clarity, engagement and stewardship.

2.3 Literature review

Shareholder voting has increased in importance during the last decade, and the ability of proxy advisors to influence investor voting becomes particularly significant as the importance of shareholder voting increases (Choi et al., 2010). Although the influence of proxy advisors is difficult to quantify, studies in the literature have investigated the impact of the largest proxy advisor (Bethel and Gillian, 2002), the level of agreement between ISS and GL (Ertimur et al., 2013), the conflicts of

interest in the proxy advisor industry (Li, 2016), the difference between local and foreign proxy advisors (Heinen et al., 2018), and the role of proxy advisors in a specific market (Hitz and Lehmann, 2018). A number of studies find that proxy advisors have a substantial impact on say-on-pay vote outcomes (Larcker et al., 2015; Ertimur et al., 2013) and that some firms change the composition of executive compensation so as to avoid a negative recommendation of proxy advisors (Bethel and Gillan, 2002; Morgan et al., 2006; Malenko and Shen, 2016; Balsam et al., 2016). For the European context, Hitz and Lehmann (2018) find that the supply of proxy advisory services is incrementally higher in countries with comparatively weak investor protection standards and varies with firm characteristics in a way that suggests that, more specifically, outside ownership drives the demand for proxy advisor services. Based on descriptive analyses, the authors find that proxy advisors' recommendations are associated with voting outcomes and that stock prices react to the publication of negative recommendations, in line with recent US evidence. Heinen et al. (2018), using the German setting to compare the voting recommendations by the US-based foreign proxy advisors ISS and GL to those of the German-based local proxy advisor IVOX, find that the three proxy advisors ISS, GL, and IVOX differ significantly in their voting recommendations. In particular, the local proxy advisor stands out, suggesting that the information content provided by local proxy advisors differs from that provided by foreign proxy advisors. In addition, they find that the local proxy advisor has an incremental impact on voting outcomes and, finally, that the impact of proxy advisors is stronger for companies with a larger free float. Another group of studies has focused on the influence of proxy advisory firms on voting by institutional investors, finding a correlation between these firms' recommendations and the typology of companies and shareholders (Bethel and Gillan, 2002; Ertimur et al., 2010; Iliev and Lowry, 2015). For example, Larcker et al. (2015) suggest that non-blockholders and passive institutional investors are particularly likely to follow the advice of proxy advisors. Malenko and Shen (2016) show that the influence of ISS is particularly strong in firms with large institutional ownership, firms where institutional ownership is more dispersed, and where a larger fraction of shares is held by institutions with small stakes or high turnover. Hitz and Lehmann (2018)

find that the supply of proxy advisor services is incrementally higher in countries with comparatively weak investor protection standards and varies with firm characteristics in a way that suggests that outside ownership particularly drives the demand for proxy advisors' services. Quite the opposite, Aggarwal et al. (2014) show that investor voting has become more independent of ISS recommendations. They find that institutional investors have given more attention to voting, and conduct their own analysis regarding the voting decision on a case-by-case basis. According to these authors, an explanation for this result is that institutional investors increasingly developed their own policies. As reported by Dent (2014), the overall influence of proxy advisors is not significant. More recently, Proxy Insight, a data provider, also dismisses suggestions that investors were blindly following proxy advisors' recommendations (Financial Times, 2018[2]). However, the proxy advisors' influence cannot be measured precisely for a different reason, and it may be largely the result of a self-fulfilling prophecy (Dent, 2014). For example, both voting by institutional investors and recommendations of proxy advisory firms can be influenced by the same factors that they have identified as important. In other words, if the same "best practice" (e.g. separation of powers between Chairman and CEO, alignment of executive remuneration with long-term result) independently affect both shareholders' voting behaviour and the proxy advisor's recommendation, shareholder votes and recommendations will be correlated (Choi et al., 2010). In addition, strategic voting with many responsively voting shareholders can lead to the same outcome as vote coordination (Maug and Rydqvist, 2008). It is also interesting how network theory can help in studying institutional investors' voting behaviour (Enriques and Romano, 2018). Enriques and Romano (2018) show how network theory may help to understand some of the dynamics that reduce institutional shareholders' passivity. They argue that the voting behaviour of institutional investors is affected by their connections with other institutional investors and more generally with the agents that populate their networks (e.g., proxy advisors or portfolio companies' management). To conclude, an unintended consequence of

[2] "Voting advice on CEO pay is usually ignored by big asset managers", Attracta Mooney, November 18, 2018

this attempt to conform to proxy advisory firms' guidelines is that the shareholder value can decrease (Larcker et al., 2015). The "robo-voting" seems to reduce the impact of economic value creation, and thus institutional shareholders should evaluate the recommendation of proxy advisors in the best long-term interests of each investee company and their clients. For some institutional shareholders, the economic advantages of using a third actor on proxy voting are obvious, because in paying a relatively small fee, they achieve the goal of maximizing the value of their own portfolios rather than incurring the expense of doing in-house research. Indeed, (rational) shareholders will expend the effort to make informed decisions only if the expected benefits outweigh the costs (Mason et al., 2017). If in recent years the research debate on this topic has considerably grown in the European context, only anecdotal evidence exists in the Italian context (Belcredi et al., 2014; Esposito De Falco et al., 2016; Cucari, 2019). For example, Belcredi et al. (2017) analyse how different classes of investors (in particular, institutional investors) voted on say-on-pay and how their vote was related to proxy advisors' recommendations. They find, among other results, that institutional shareholders' vote is strongly correlated with proxy advisors' recommendations; this is particularly true for non-blockholders (holding less than 2% of the share capital), which have lower incentives to carry out autonomous research. However, remarkable differences in the institutional business model may induce a different behaviour by institutional investors (Hitz and Lehmann, 2018). Thus, different categories of minority shareholders tend to follow different patterns. For example, mutual funds vary greatly in their voting behaviour and also in their reliance on proxy advisor recommendations (Iliev and Lowry, 2015). Çelik and Isakkson (2014) have identified seven different features that influence how an institution will behave as an owner: i) purpose, ii) liability structure, iii) investment strategy, iv) portfolio structure, v) fee structure, vi) political/social objectives, and vii) regulatory framework. Finally, institutions can also be broken down on other dimensions that can affect how they function as shareholders (Coates, 2015): i) size, ii) investment strategy or style, iii) sponsorship or affiliation, iv) level of intermediation, v) nationality, vi) distribution channel, and vii) liquidation method.

Accordingly, in this study, we suppose that some "types" of institutional shareholder are likely biased by robo-voting phenomena. To formalize our idea, we present our hypothesis to be tested:

Hypothesis 1: The level of dependence of shareholders' vote on external recommendations depends on:

Hp1a: category of institutional investors;

Hp1b: regulations in their country of residence,

Hp1c: size (measured as assets under management),

Hp1d: investment style,

Hp1e: experience in proxy voting (measured as adoption of specific voting guidelines),

Hp1f: proxy advisor used.

3. Research method

Our study analyses shareholders' vote and proxy advisors' recommendations on remuneration policy at 123 AGMs held by large Italian companies (FTSE MIB index's components) in the 4-year period 2015 to 2018. This analysis focuses on Italian listed companies for two reasons. First, the previous literature has focused on the Anglo-Saxon context and we maintain that the Italian context, representative of continental European models of corporate governance, is also relevant for research for its characteristics, such as high concentration of ownership, the existence of cross-holdings, low protection of minority shareholders, an underdeveloped capital market, and a low degree of liquidity (Ciampi, 2015). As a result, in the Italian context, rather than principal–agent conflict, principal–principal conflict occurs between majority and minority shareholders (Sancetta et al., 2018). Second, the Italian context is the only major market where listed companies have to publish the minutes of general shareholder meetings on the corporate website, and the minutes must include details of votes per resolution at asset owners' level. In almost all other markets, the meeting minutes do not report

any details on voting shareholders and, in the few cases where this information is available, foreign shareholders are only reported by custodian (generally the CSD participant), so that it becomes a highly arduous—if not impossible—task to verify each institutional investor's voting direction. The number of AGMs analysed per year (31 AGMs in 2015, 28 in 2016, 33 in 2017, and 31 in 2018) depends on the composition of the FTSE MIB index, which may change every year, the availability of proxy advisors' recommendations, and the disclosure of voting details in meeting minutes[3]. Cooperative banks are excluded from the analysis in 2015 and 2016, as they adopted the "one shareholder–one vote" principle and institutional investors were not able to attend general meetings. All companies that are not incorporated in Italy are also excluded from the analysis, due to the lack of disclosure of voting details[4]. The analysis exclusively refers to the vote on remuneration policy ("say-on-pay vote"), as it is generally the most controversial resolution in almost every market, and it is the resolution where voting recommendations of proxy advisors differ the most, due to the large variety of aspects to be analysed and differences in voting guidelines. We have analysed the recommendations of the three proxy advisors that are more active in the Italian market in terms of clients: ISS, GL, and Frontis Governance, which is the Italian partner of the European network of proxy advisors ECGS[5]. We have analysed 106 institutional investors that voted at least at 3 AGMs every year, or at least at 10 AGMs in any year from 2015 to 2018. Doing so, almost all investors that are more active in the Italian market have been analysed, including those which might have changed their voting policy in any of the years under analysis (i.e., Mediolanum Gestione Fondi and Ethos Foundation are included, as they respectively voted at 11 AGMs in 2018 and 13 AGMs in 2015, but

[3] Although it should be part of the meeting minutes, the annex with voting shareholders' details is not always published by listed companies. Be that as it may, only a few large Italian companies did not disclose any details of shareholders' votes: Moncler in 2016 and 2018, and Recordati in 2018. As it is held in October, the information on proxy advisors' recommendations for Mediobanca's AGM were not always available at the time of data gathering, so Mediobanca is not included in the sample.

[4] CNH Industrial, Exor, FCA, Ferrari, and STMicroelectronics are incorporated in the Netherlands, and Tenaris is incorporated in Luxembourg.

[5] The research reports of Frontis Governance are issued both under the national and the international label ECGS; the former are delivered to Italian clients and the latter to foreign investors.

did not vote in other years). Investors that attended the AGMs but abstained or withheld from voting on the remuneration policy at all meetings in any year are excluded from the analysis (i.e., Italian asset managers such as Mediolanum from 2015 to 2017, Arca in 2015 and 2016, and Anima in 2015 attended the AGMs only to vote for the election of board members, abstaining or withholding from voting on all other resolutions). Investors that are part of the same group but take voting decisions independently from the mother company are analysed separately (i.e., F&C Investments has been part of BMO Group since 2014, but it voted differently from BMO in 35% of AGMs attended by both investors, especially in 2015 and 2016). The sample of institutional investors also takes into account the general composition of Italian AGMs and the share ownership structure of large Italian companies in terms of number of shareholders, rather than percentage of share capital held. Main sources of information are the websites of listed companies, institutional investors and UNPRI[6]. Proxy advisors' voting recommendations were provided by the proxy advisors themselves or obtained from market research published by proxy solicitors or other entities active in the proxy voting business.

3.1 Definition of the sample

In order to verify whether specific characteristics of institutional investors tend to influence their dependence on external recommendations when voting at AGMs, we have aggregated the sample in several groups according our hypothesis: category of institutional investors (Table 1 to verify our *Hp 1a*), geography (Table 2, to verify *Hp 1b*), size (Table 3, to verify *Hp 1c)*, main investment strategy (Table 4, to verify *Hp d*), experience in proxy voting (Table 5, to verify *Hp 1e*), proxy advisors used (Table 6, to verify *Hp 1f*).

[6] UNPRI is an initiative supported by, but not part of, the United Nations for the development of Principles for Responsible Investment. Almost 2,000 institutions signed the PRI.

Table 1: Investors' type

	Investors	%
Traditional/diversified asset manager (independent)	43	41%
Banking group	28	26%
Insurance group	15	14%
Pension and sovereign funds	13	12%
Alternative investor/hedge fund	7	7%

Pension and sovereign investment funds have been considered in the same category because they have similar objectives and the two categories may be overlapped in several cases (i.e., public-sector pension funds, such as CalPERS, may be considered a type of sovereign wealth fund). The "banking group" category includes traditional and diversified asset management companies that are part of, or are controlled by, a banking group. The "insurance group" includes 7 insurance companies and 11 traditional asset management companies that are part of insurance conglomerates.

In order to verify the level of dependence on external advices by relevant regulations (*Hypothesis 1b*), we have aggregated the institutional investors in 4 geographical areas, which might be considered as similar in terms of corporate governance practices and/or legal framework (Table 2).

Table 2: Geographical composition of the sample

	Investors	%
North America	50	47%
Continental Europe (excluding Italy)	32	30%
UK & Australia	13	12%
Italy	11	10%

North America includes 46 investors based in the US and 4 in Canada. Continental Europe includes 13 investors in France, 6 in Germany, 4 in Switzerland, 3 in the Netherlands, 2 in Belgium, 1 in Luxembourg, 1 in Norway, 1 in Spain, and 1 in Sweden. UK-based (10) and Australian (3) investors have been considered as a single area due to the similarities of regulations and culture between the two countries, where there is not a legal obligation to exercise voting rights but asset managers'

associations have adopted stewardship codes with strong recommendations to adopt a voting policy and disclose voting activity (since 2010 in the UK and since 2013 in Australia).

In order to verify whether the size of investors significantly influences their dependence on external advices (*Hypothesis 1c*), we have divided the sample of institutional investors in 4 groups, depending on their assets under management as at 31 December 2017 (Table 3). On aggregate, the investors in the sample manage over €45 trillion.

Table 3: Assets under management (€billion)

	Investors	%
Small (<= 100)	38	36%
Medium (> 100 <= 500)	45	43%
Large (> 500 <= 1,000)	13	12%
Macro (> 1,000)	10	9%

Our *Hypothesis 1d* is that the level of dependence on external advices is influenced by the investment strategy adopted by shareholders. By main investment strategy (Table 4) we considered the strategy according to which the majority of assets are invested. In many cases, this information is disclosed by the investors, but in some other cases it has been ascertained by the analysis of publicly available information on portfolios managed by each institution.

Table 4: Main investment strategy

	Investors	%
Active	53	50%
Mixed	37	35%
Quantitative	16	15%

Although an active management of investments is by far the most used strategy by institutional investors, quantitative portfolios are managed by the largest asset managers: average assets under

management of quantitative investors is €1,036 billion (on aggregate €16,572 billion managed by 16 investors), compared with an average of €213 billion of active investors and €464 billion of investors equally using both strategies ("mixed" investment strategy).

In order to verify *Hypothesis 1e*, we have considered the adoption of internal voting policy by each investor in the sample, and whether the policy is made publicly available (Table 5).

Table 5: Adoption of internal voting policy

	Investors	%
Yes— policy disclosed	89	84%
Yes—policy not disclosed	8	8%
No / Not disclosed	9	8%

Almost all the investors voting at Italian shareholder meetings disclosed that they have adopted a voting policy (97 out of 106, or 92%), and in 89 cases (84 %) the policy was made publicly available. Only in 9 cases (8%) this information is not available[7].

Finally, in order to verify *Hypothesis 1f*, we have taken into account the investors that disclose to make use of the research issued by at least one proxy advisor.

Table 6: Use of proxy advisors

	Investors	%
YES—one PA	45	42%
YES—various Pas	14	13%
YES—not disclosed	26	25%
NO	3	3%
Not disclosed	18	17%

As shown in Table 6, the large majority (80%) of institutional investors voting at Italian meetings disclose that they purchase the analysis of at least one proxy advisor, and 56% of investors also

[7] In addition, the large majority of voting investors (78, or 74%) were signatories of UNPRI at least since 2016, while 9 investors (8%) became signatories in 2017 or 2018, and only 19 (18%) have not signed the Principles yet.

disclose the name of the proxy advisors. Only 3 investors (3%) state that they do not use any external advice in taking voting decisions[8] and 18 (17%) do not disclose any information. Most of the investors that disclose that they make use of external researches use only one advisor (76%, or 42% of the entire sample). Unsurprisingly, investors using more than one proxy advisor are the biggest ones, with an average AuM of €776 billion, while those not using any external advice are the smallest ones, with an average of €25 billion assets managed.

4. Results

4.1 Proxy advisors' approaches

Before analysing the voting behaviour of institutional investors and their level of dependence on proxy advisors, it is worth considering the level of correlation among the recommendations issued by the proxy advisors (Table 7). In analysing the differences amongst voting recommendations, we should consider the different characteristics of proxy advisors in terms of coverage[9]. Therefore, while ISS and GL issued a recommendation with regards to all the AGMs analysed in this study (123 in the 2015–2018 period), ECGS covered only 88 AGMs through its Italian partner Frontis Governance[10] (21 in 2015, 26 in 2016, 20 in 2017, and 21 in 2018).

Table 7: Proxy advisors' voting directions

	For	Oppose	% Opposition
ISS	81	42	34%
GL	77	46	37%
ECGS	43	45	51%

[8] The French asset manager CM-CIC Asset Management, the Italian pension fund Inarcassa, and the hedge fund Amber Capital, whose voting decisions are taken from the Italian branch.

[9] While ISS and GL are global players covering all the listed companies in which institutional investors have a position, ECGS is a network of local advisors, each with a relatively low number of clients (at least compared with the global competitors) and basically releasing proxy research upon specific request of their clients.

[10] It is also worth noting that the partners of ECGS, including Frontis Governance, may issue proxy research under their own label to domestic clients (Italian institutions in this case) and not distributed to ECGS clients (mostly European investors). This study refers to ECGS regardless of whether the proxy report was delivered to ECGS clients or just to Frontis Governance's Italian clients.

The variety of recommendations issued by the proxy advisors is clear in Table 7, which refers to all recommendations issued in the 2015–2018 period: ECGS analysts tend to oppose more the remuneration policies proposed by Italian issuers, while the level of opposition of the two US-based advisors, ISS and GL, seems to be more similar. However, the different approaches of the three proxy advisors appear more evident when looking at their voting recommendation at specific AGMs. Taking into account the 88 AGMs covered by all proxy advisors, in only 42 cases (48%) did they recommend the same voting direction ("for" or "oppose"), while in 46 AGMs (52%) one of them recommended a different voting direction: in 12 cases (14%) ISS and ECGS were aligned and GL recommended differently, in 15 cases (17%) ECGS recommended a different vote, and in 19 cases (22%) ISS recommended differently from GL and ECGS. The highest level of disagreement is observed between ISS and GL which recommended different voting directions in 42% of AGMs where both of them issued a proxy report (123). ECGS recommended differently from ISS in 39% of cases, while the disagreement with GL is observed in 31% of cases.

The first result of our study is therefore that the proxy advisors use very different approaches in analysing the remuneration policies of listed companies. Moreover, despite the general misalignment of proxy advisors' recommendations, it is possible to observe a slightly higher alignment between GL and ECGS, which is probably due to a different approach used by ISS.

4.2 Institutional investors' voting behaviours and correlation with external recommendations

In the definition of the level of dependence of voting decisions on external advice, we have considered as "robo-voters" those investors whose votes are 100% aligned with an external recommendation at all times. However, it should be considered that in some cases investors do not have full control of their votes. "Highly dependent investors" are therefore considered those which voted at least 95% of the times in line with the proxy advisors' recommendations or with the management, and those which

voted differently from the advisor or the management less than once per year (or less than 4 times in the 2015–2018 period).

Table 8 shows that the voting direction of 30 out of 106 analysed investors (28%) was totally aligned with the recommendations of proxy advisors (29) or with the management's proposal (1[11]). Out of the 29 institutional investors that voted at all AGMs in line with proxy advisors' recommendations, 23 (79%) were totally aligned with ISS, 4 with GL (14%), and 2 with ECGS[12] (7%).

In aggregate, and eliminating "accidental correlations" due to similar recommendations issued by different entities, 57 institutional investors (54%) were highly dependent on the recommendations of a proxy advisor (49) or the management (8), as their vote was aligned with external recommendations in more than 95% of AGMs (Table 8).

Table 8: Correlation between shareholders' vote and external advice

	Investors	%
"Robo-voters" (100% aligned)	30	28%
Highly dependent (>=95% aligned)	57	54%
Indefinable (85% - 94% aligned)	19	18%
Independent (less than 85% aligned)	30	28%

Taking into account that there is a natural correlation between proxy advisors' recommendations and investors' vote, due to the alignment of voting policies and internationally recognized best practices, as said above, we have considered as a clearly low dependence a correlation below 85%. We have identified (Table 8) 30 investors that voted less than 85% of the time in line with external recommendations. Those investors may be considered as clearly independent and more careful in exercising the fiduciary duty to their clients; they may hire a proxy advisor (24 of them, or 80%, disclosed to have hired one or more proxy advisors) but use the proxy advisors' research just as a

[11] Which is the Italian engineers and architects' superannuation fund Inarcassa.

[12] Including the Swiss foundation of pension funds Ethos, which also offers proxy advisory research and is a partner of the ECGS network.

basis for their own analysis, and they take their voting decisions internally. A level of correlation of at least 85% but lower than 95% may be a signal of a sort of dependence, but may also be due to "accidental correlations". For this reason, we have defined as "indefinable" the investors with this level of correlation.

Table 9 shows the level of dependence on external advices according to the category of institutional investors (*Hp 1a*). The interests of an institutional investor may differ according to its category (traditional asset manager, alternative investor, pension fund or relevant group) influencing its voting policy and behaviours.

Table 9: Dependence by category of investor

	"Robo-voters"	% of the category	Highly dependent	% of the category	Indefinable	% of the category	Independent	% of the category
Alternative investor/HF	5	71%	7	100%	0	0%	0	0%
Traditional asset manager	15	35%	27	63%	9	21%	7	16%
Banking group	6	21%	11	39%	5	18%	12	43%
Insurance group	2	13%	5	33%	5	33%	5	33%
Pension and sovereign funds	2	15%	7	54%	0	0%	6	46%

All the alternative investors and hedge fund managers actively voting at Italian AGMs appear to be highly dependent on proxy advisors (6) or management recommendations (1, the Italian branch of Amber Capital). This result may be considered as surprising, as alternative investors are generally perceived more as activist shareholders than other categories, such as pension funds and banking groups. However, the very high correlation between alternative investors' vote and external recommendations may be explained by three main factors: i) the low number of alternative investors analysed, which reflect the common practice of this kind of investors not to vote at all AGMs but

only when they have a significant interest and their vote may have a real impact on the voting results and the issuer's corporate governance; ii) the fact that only alternative investors voting at all AGMs have a passive strategy, both in terms of investment and exercise of voting rights (the latter probably due to a prevailing necessity to comply with local regulations with respect to real active ownership practices); and iii) the common practice of alternative and activist investors, such as Amber Capital, to hold shares of those companies whose corporate governance is considered to be in line with best practices, using "hard activism" in other cases. Excluding alternative investors, independent traditional asset managers (which are not part of banking or insurance groups) are the most dependent on external recommendations (63%), and in particular on proxy advisors (24 cases, compared with only 3 cases of high dependence on management's recommendations). Also a majority of pension and sovereign funds tend to align their voting decisions with external recommendations (54%), but this category of investors appears to be the most polarized one, with a high number of highly dependent investors and the highest percentage of independent investors (46%) at the same time (there are no "indefinable" pension and sovereign funds in the sample). All the "independent" pension and sovereign funds are based in Europe (2 in France, 2 in the Netherlands, 1 in Norway, and 1 in the UK).

In order to verify the *Hypothesis 1b*, Table 10 reports the percentage of investors that were totally, highly or not dependent on external recommendations by geographical areas.

Table 10: Correlation between votes and external recommendations by geographical region

	"Robo-voters"	Highly dependent	Indefinable	Independent
North America	36%	74%	16%	10%
Italy	27%	55%	27%	18%
Continental Europe (ex-Italy)	22%	34%	13%	53%
UK & Australia	15%	23%	31%	46%

Table 10 shows that 60% of "robo-voters" (18 out of 30) are based in North America (36% of North American investors), 7 are based in Continental Europe (23% of the category and 22% of the area), 2 are based in the UK or Australia (7% and 15%), and 3 are Italian (10% of totally dependent investors and 27% of Italian investors). On the opposite, 17 out of 30 "independent investors" (57%) are non-Italian institutions based in Continental Europe (53% of the area), only 2 investors are based in Italy (18%), 5 in the UK (50%), 1 in Australia (33%), and only 5 in North America (10%), of which 4 are in the US (9%) and 1 in Canada (25%). In deeper detail, it is possible to identify the highest number of "independent investors" in France, with 9 out of 13 (69%) French investors that clearly take their voting decisions internally. However, it should be considered that some of the "independent investors" changed their voting behaviours in the analysed 4-year period: the French investors Amundi and Lyxor Asset Management (Société Générale Group) were poorly dependent from 2015 to 2017 but voted 100% of the time in line with ISS in 2018, while the Canadian BMO Group was 100% aligned with ISS in 2016 and 2017, but "independent" in 2015 and 2018. Even excluding Amundi and Lyxor, Continental European investors are still the most independent of proxy advisors and management recommendations (15 out of 32, or 47%), followed by UK investors (45%), while North American institutional investors seem to be the ones less compliant with their fiduciary duties.

It is also interesting to highlight that the average opposition of "independent investors" is much higher than that of highly dependent investors: 49% against votes on average versus 28% (31% excluding investors who are highly dependent on management's recommendations). Exactly half of the "independent investors" (15 out of 30) opposed more than 50% of remuneration policies in the 2015–2018 period. The remaining 19 investors (18%) voted in line with the recommendations of one or more proxy advisors in more than 85% and less than 95% of AGMs (Table 7), and have been defined as "indefinable" investors (not "independent" or "highly dependent"). As shown in Table 10, the countries with higher percentages of "indefinable" investors are UK and Australia (31%) and Italy

(27%), compared with only 13% of Continental European and 16% of North American investors in the sample.

Table 11 shows the level of dependence of institutional investors according to their size, measured as assets under management, in order to verify whether the availability of financial resources have an impact on the voting behaviours (*Hypothesis 1c*).

Table 11: Dependence by investor size (AuM in €billion)

	Robo-voters	%	Highly dependent	%	Indefinable	%	Independent	%
Small (<= 100)	19	50%	28	74%	4	11%	6	16%
Medium (> 100 <= 500)	8	18%	20	44%	9	20%	16	36%
Large (> 500 <= 1,000)	2	15%	6	46%	3	23%	4	31%
Macro (> 1,000)	1	10%	3	30%	3	30%	4	40%

The highest percentage of "robo-voters" (50%) and highly dependent investors (74%) is observable among small investors, with less than €100 billion in assets under management, which presumably do not have enough resources invested in dedicated corporate governance and proxy voting departments. In contrast, macro investors, managing more than €1,000 billion, seem to be the most independent of external recommendations (only 10% of "robo-voters" and 40% of "independent investors"), internally analysing the proposals and autonomously deciding the voting direction. No significant differences are observable between medium (more than €100 billion in AuM) and large investors (more than €500 billion in AuM), but the latter seem to be slightly more dependent on external recommendations than medium investors despite higher resources.

In order to verify whether the voting behaviour of institutional investors is affected by their investment strategy (*Hypothesis 1d*), in Table 12 we have considered the strategy according to which the majority of assets are invested.

Table 12: Dependence by main investment strategy

	"Robo-voters"	% of the category	Highly dependent	% of the category	Indefinable	% of the category	Independent	% of the category
Active	16	30%	29	55%	9	17%	15	28%
Mixed	6	16%	17	46%	8	22%	12	32%
Quantitative	8	50%	11	69%	2	13%	3	19%

The highest level of dependence is observable in those investors using a quantitative strategy for the majority of their portfolios. For quantitative investors, the exercise of voting rights is the main tool to protect the value of their investments in the long term, as their portfolios are based on quantitative analysis and a divestment is not always possible. As in the analysis of country of residence of shareholders (Table 10), also in this case the highest level of dependence is observable in investors that are in some ways forced to attend general meetings, but in the case of investment strategies the obligation arises from the voluntary linking of investments to quantitative analysis.

Our *Hypothesis 1e* is that the voting behaviour of institutional investors depends on their experience in proxy voting, which we measured as the adoption and disclosure of internal voting policies (Table 13): investors that have adopted a voting policy and made it publicly available are considered as the ones with greater experience.

Table 13: Dependence by voting policy

	"Robo-voters"	% of the category	Highly dependent	% of the category	Indefinable	% of the category	Independent	% of the category
Yes - disclosed	21	24%	43	48%	19	21%	27	30%
Yes - not disclosed	4	50%	6	75%	0	0%	2	25%
Not disclosed	5	56%	8	89%	0	0%	1	11%

Almost all the investors analysed have adopted an internal voting policy (92%), and 84% of them have made the policy publicly available (8 investors have not published the policy and 9 have not disclosed whether they adopted an internal policy). Therefore, the analysis of the voting behaviour by voting policy is not significant in terms of sample size. However, it is worth noting that the highest level of dependence is observable in less transparent investors that have not disclosed whether they use a voting policy (89% are highly dependent and 56% "robo-voters"), followed by investors that have adopted a policy but have not made it publicly available (75% highly dependent and 50% "robo-voters"). On the other hand, transparent investors appear also to be the most independent ones from external advice: 30% are "independent", 21% are "indefinable", 48% are highly dependent, and only 24% are "robo-voters".

In Table 14 and Table 15, we have analysed the level of dependence of institutional investors on the recommendations issued by each of the external entities considered (*Hypothesis 1f*)[13]. Although we do not believe that the use of a specific proxy advisor has a real influence on the level of dependence, it is interesting to verify the different approaches used by the clients of each advisor, which may reflect different cultures, as the majority of clients of ISS and GL are based in North America, while all the ECGS' clients are European investors.

Table 14: High dependence by source of recommendation

	"Robo-voters"	% of the sample	Highly dependent	% of the sample
ISS	23	22%	37	35%
GL	4	4%	10	9%
ECGS	2	2%	2	2%
Management	1	1%	8	8%

Table 14 takes into account all the "highly dependent" investors ("robo-voters" and those voting more than 95% of the times in line with external recommendations), regardless of whether they have hired

[13] The proxy advisors ISS, GL and ECGS, and the management (approving all or at least 95% of remuneration policies).

a proxy advisor. The large majority of highly dependent investors (37 out of 57, or 65%) replicated ISS' recommendations in more than 95% of Italian AGMs, 18% were aligned with GL, 14% with the management, and only 4% with ECGS. However, these percentages might be significantly influenced by the market share of each proxy advisor. Out of the 59 investors whose proxy advisors are known (Table 15), the large majority uses ISS (48, or 81%), of which 35 use ISS as the sole advisor (59%) and 13 hire more than one advisor. The research of GL is purchased by 16 investors (27%), 9 of which also use other advisors, and 8 investors use ECGS (14%), only 3 of which as sole provider and 5 along with other advisors.

Table 15: Dependence by disclosed proxy advisor

	"Robo-voters"	% of clients	Highly dependent	% of clients	Indefinable	% of clients	Independent	% of clients
ISS	12	25%	24	50%	8	17%	16	33%
GL	3	19%	10	63%	2	13%	4	25%
ECGS	2	25%	2	25%	2	25%	4	50%

Although the distribution of "robo-voters" is homogeneous (25% of ISS and ECGS, and 19% of GL clients), the highest level of dependence is observed with regards to GL (63%) and ISS (50%), probably because of the geographical composition of their client base, which includes more North American investors, while all ECGS clients are based in Europe. It should also be noted that one of ECGS' "robo-voter" clients is Ethos, which is a founding partner of the ECGS network of proxy advisors, and therefore their voting guidelines are exactly the same as those used by their advisor.

To conclude, the following Table 16 and Table 17 represent a summary of the main results of the analysis, respectively reporting the characteristics of institutional investors that show respectively the highest (Table 16) and lowest (Table 17) correlation with external advices.

Table 16: Categories of investors more dependent on external advice

	"Robo-voters" (100% aligned with recommendations)	Highly dependent (>=95% aligned)
Alternative investor/hedge fund	71%	100%
Traditional/diversified asset manager (independent)	35%	63%
North American investors	36%	74%
Small investors (<= €100 billion AuM)	50%	74%
Quantitative investors	50%	69%
Undisclosed voting policy	56%	89%
Glass Lewis' clients	19%	63%

The highest level of dependence is verified in investors that have poor experience in proxy voting (89% of investors that do not disclose the voting policy and are not UNPRI signatories), North American and small investors (74%).[14] On the other hand, the highest percentages of non-highly dependent investors (including "independent" and "indefinable" investors) are reported by macro investors, with more than € 1,000 billion of assets under management (70%) and non-Italian Continental European investors (68%), which is also the only category with a majority of "independent" investors (53%), voting less than 85% of the times in line with external advices.

[14] We have exclude the category of alternative investors/hedge funds, whose high dependence on external advice is affected by the low number of investors in the sample (7) and the specificities of this type of investors (investing in companies with corporate governance practices in line with their guidelines, and using "hard activism" rather than mere opposition when they identify a bad governance),

Table 17: Categories of investors less dependent on external advice

	Indefinable (85%–94% alignment)	Independent (< 85% alignment)	Total non-highly dependent
Insurance groups	33%	33%	66%
Banking groups	18%	43%	61%
Continental Europe (ex-Italy)	13%	53%	68%
UK & Australia	31%	46%	57%
Macro investors (> €1,000 billion AuM)	30%	40%	70%
Mixed investment strategies	22%	32%	54%
Disclosed voting policy	21%	30%	51%
ECGS' clients	25%	50%	75%

Table 18 indicate which hypotheses were confirmed and which were not. We present a systematic discussion later in the article, showing that in some cases lack of confirmation yields interesting interpretations.

Table 18: Verification of the hypothesis

Hypothesis	*Confirmed*
Hp 1a: The level of dependence of shareholders' vote on external recommendations depends on category of institutional investors;	NO
Hp 1b: The level of dependence of shareholders' vote on external recommendations depends on regulations in their country of residence,	YES
Hp 1c: The level of dependence of shareholders' vote on external recommendations depends on size	YES
Hp 1d: The level of dependence of shareholders' vote on external recommendations depends on investment style,	NO
Hp 1e: The level of dependence of shareholders' vote on external recommendations depends on experience in proxy voting	NO
Hp 1f:The level of dependence of shareholders' vote on external recommendations depends on proxy advisor used,	partly YES

5. Discussion and conclusion

Many institutional investors use the services of proxy advisors and, specifically, the recommendations on how to vote in general meetings of listed companies. Hiring proxy advisors is necessary to understand different market regulations and practices, and to efficiently manage a large number of general meetings at reasonable cost. Without the help of proxy advisors, institutional investors would be forced to hire a number of corporate governance experts, at least one per each market in which they invest, who would be employed only for a few months every year at significant fixed cost. However, the use of proxy advisors should not exempt institutional investors from their fiduciary duty to act in the best interest of their clients, by taking voting decisions in their best interest. Although proxy advisors base their analysis on internationally recognized best practices, shareholders' interests may significantly vary depending on their nature, culture, or investment strategy.

Our analysis identifies specific factors that may affect the level of dependence on external recommendations, and mainly on proxy advisors' recommendations. In particular, the two main characteristics influencing the voting approach of institutional investors are their country of residence (*Hypothesis 1b* is verified), which implies the relevant legal framework, and their size (*Hypothesis 1c* is verified), measured as assets under management, implying that different resources are available to be dedicated to proxy voting and corporate governance analysis.

More in detail, North American investors appear to be the most dependent ones on proxy advisors' recommendations (74% are highly dependent and only 10% are "independent"), while non-Italian European investors are the most "independent" (53% Continental European and 52% including UK investors). In addition, France stands out as the country with the highest number of "independent" investors (69%).

These results could be depend on that the US investors are obliged to vote at all general meetings held by investee companies, while French institutional investors have to adopt a voting policy and annually report on the implementation of their own policy, on a "comply or explain" basis. The French

legislation seems to have supported the development of investors' specific skills, allowing them to consciously exercise voting rights and fulfil fiduciary duties. In this regard, a legal enforcement seems to push investors through a "just comply" approach, as they are more worried about the mere compliance with the law rather than an informed and aware exercise of active ownership.

In addition, the investor's size is another key factor for the proper fulfilment of fiduciary duties, through an aware exercise of voting rights. Institutional investors should therefore consider the analysis of proxy advisors as a tool to take their own decision, based on voting guidelines defined by taking into account the needs of their clients and their investment strategy. We maintain that it is inappropriate to attribute the shareholder's voting decision to the "power" of the proxy advisor. As said by Choi et al., (2010), information provided by a proxy advisor affects the shareholder vote; the proxy advisor has some limited influence, but inferring from this correlation that the advisor has power over the shareholder vote is an overstatement. The key problem is that institutional shareholders might be paralyzed by rational reticence or rational apathy. Therefore, this type of problem might increase the incentives of institutional investors to cast their votes as "robo-voting" actors.

To conclude, this study is timely not only because of the general rise of importance of proxy advisor and shareholder voting, but also because the debate on corporate governance has now shifted to fiduciary duty to vote (Sharfma, 2018) and a focus on social or legal enforcement (Sergakis, 2019). The increased emphasis on shareholders' duties and their enforcement has been strong at both EU and national levels. Legislators and academics have discussed which roles shareholders should have in an efficient corporate governance framework and how to ensure sensible market practices by the investor community. Nevertheless, instead of enticing market actors to comply with engagement duties in a meaningful and not formalistic fashion, we observe a gradual shift of attention from a purely private company law agenda (with enabling rules among shareholders, companies and proxy advisors) towards a top-down capital markets law agenda (with stricter duties that are based on

increased disclosure obligations for all market actors – *inter alia* proxy advisors – in the investment chain as mentioned in Section 2.1). This trend towards an interventionist approach in proxy voting raised therefore concerns about its rationale and its overall efficiency since it risks driving both proxy advisors and institutional investors towards an even more formalistic conception of their role. This situation can further exacerbate the communication gap between market actors by aggravating the "robo-voting" phenomenon and by further dissociating these actors. We argue that legal enforcement currently sits uncomfortably with the conceptual and operational spectrum of engagement duties, as mentioned in Section 2.1, upon institutional investors and proxy advisors. Indeed, social enforcement has significant merits in the area of these engagement duties and should stand as a viable alternative to legal enforcement, at least at the current stage. We argue that, if imposed, legal enforcement in this area will legitimize investor disengagement and will make shareholder apathy more justified in the eyes of the public because the primary concern will be the avoidance of liability instead of the development of engagement practices. Indeed, the wording of Article 14b is very broad and can be interpreted in many different ways, raising concerns about its applicability across the EU and the ensuing consequences for the automatic use of services, as highlighted in our study. Another major concern about the perils of legal enforcement at this stage, which merits particular attention, is that it does not fit harmoniously with the conceptual premise of the new shareholder duties that relate to the engagement and interaction with other market actors. We strongly believe that the main benefit of these duties is to trigger further engagement in the markets, increase the educational benefits or disclosure in this area, and gradually fight against shareholder apathy. Imposing legal enforcement thus risks weakening the educational benefits that can derive from increased disclosure in this area.

Since the existing literature on these topics is based on data from US firms, and analyses in other contexts such as Europe are infrequent, this study is original and it is the first that analyses this issue in the Italian context. If we maintain that the recommendations of a proxy advisor are just "one of

many inputs"[15] in deciding how to vote, we find that "robo-voting", the practice of institutions automatically relying on both proxy advisors' recommendations and in-house policies without evaluating the merits of the recommendations or the analysis underpinning them, is also diffused in the Italian context. This study has some limitations; however, these limitations provide opportunities for further research. First, we refer only to the Italian market, which can be considered as a peripheral market for many institutional investors, especially North Americans. The high dependence of these investors could therefore also due to the fact that investments in Italy are not considered sufficiently relevant to justify the costs of an internal analysis. A more in-depth and precise analysis should compare the behavior of the investors themselves in different markets. Second, we included some features of institutional investors that are novel and cannot be directly derived from previous empirical research but only logically derived from literature and experience. Therefore future research should be consider other characteristics.

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