

Working paper: Voting in companies' general meetings - voting patterns by institutionals as compared with proxy consultants' recommendations

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Abstract

An assessment of the area of proxy consulting to institutionals in Israel revealed that a single consultant controls a large share of the market (approximately 70% of the assets managed by institutionals in Israel). The purpose of the study was to contribute to the understanding of the role of proxy consulting services in terms of corporate governance by studying the proxy consultant's recommendation pattern and its impact on the process of exercising voting rights by institutional investors in public companies. In addition, the study estimated – using event analysis – to what extent the recommendations of the proxy consultant include information relevant to capital market players. The event study yielded that, in most cases, there was an increase in the surplus cumulative yield where the voting in the meeting was consistent with the proxy consultant's positive recommendation, except in cases where the subject of the voting was approval of transactions with interested parties or management agreement with controlling shareholders. In such cases, voting according to a positive recommendation led to zero or adverse response from the market. The study found that entities who use proxy consultant services adopt the consultant's recommendation 97% of the time, while entities which do not use the service vote the same as the consultant's recommendation only 47% of the time. This finding may reflect positions that differ from that of the proxy consultant, rather than stronger support for management by fund managers who do not use the consultant's services.

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