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## Beauty and appearance in corporate director elections

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### ABSTRACT

We study the role of facial appearance in corporate director (re-)elections by means of director photographs published in annual reports. We find that shareholders use inferences from facial appearance in corporate elections, as a better (higher rated) appearance measure of a director reduces voting dissent. These heuristics are based on perceived competence, trustworthiness, likability, and intelligence, but not on physical beauty. The results are valid for director re-elections but not for first appointment elections as in the latter cases, shareholders may not as yet be familiar with a director's looks. In firms with few institutional shareholders and more retail investors owning small equity stakes, the latter tend to rely more on facial appearance than institutional shareholders, presumably as institutions conduct more research on the director's background and performance, and consequently rely less on facial appearance. While female directors generally experience lower voting dissent, their facial appearance does not affect their elections results.

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## 1. Introduction

The fact that an election candidate's facial appearance affects and even accurately predicts a political election's outcome has been shown by several studies (e.g. [Todorov et al., 2005](#)). Most research examines the effect of beauty on electoral success ([Berggren et al., 2010](#); [Benjamin and Shapiro, 2009](#); [Leigh and Susilo, 2009](#); [Olivola and Todorov, 2010](#); [Rosar et al., 2008](#)). [Berggren et al. \(2010\)](#), for example, show that an increase in their measure of beauty by one standard deviation augments the votes in favor of a candidate by 20 percentage points. This finding holds for both male and female candidates and is unaffected by their education and occupation. While one would expect a rational voter to form an opinion about the candidate's suitability based on his or her political ideas, past track record, competence, or at least the program of the political party, the fact that beauty plays such an important role may surprise. The psychology literature on decision-making dedicates much attention to the dual-process decision framework, according to which individuals make instantaneous, unreflective, and effortless assessments of a candidate's appearance (the System 1 brain), and subsequently correct possible biases by consciously engaging in slow and effortful System 2 brain processes ([Todorov et al., 2005](#)). The strength of immediate decisions (System 1) can affect the processing of subsequent information, which may not (sufficiently) take place for a segment

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of the voters who thus mostly rely on first impressions (e.g. Bar et al., 2006; Willis and Todorov, 2006, Hall et al., 2009). Still, some, such as White et al. (2013), try to rationalize the voters' choice by stating that they rely on attractiveness as a cue to avoid electing leaders suffering from diseases. Others suggest that voters may simply favor good-looking candidates, as they enjoy watching them (Berggren et al., 2010). It could also be possible that facial attraction is related to a set of traits, which are desirable for a job or position, but Graham et al. (2017) reject this connection between facial attraction and superior performance.

In this paper, we turn to elections at the corporate level, namely the elections and the re-elections of executive and non-executive directors, which are mandatory in the UK,<sup>1</sup> and wonder *whether facial beauty is an advantage in director (re-)elections?* Our basic hypothesis is that facial beauty would not play a role because shareholders who vote on director<sup>2</sup> (re-)appointments can rely on information about the director's education and experience as well as about the firm's past performance, all of which is presented in the annual report and available prior to the (re-)election votes. However, even in a corporate context, there is some evidence that beauty plays a role: beauty is reflected in a corresponding premium in a top manager's remuneration (Hammermesh and Biddle, 1994; Graham et al., 2017), and the share price returns to news announcements made by CEOs with high facial attractiveness are higher (Halford and Hsu, 2014).

Even if facial attractiveness were to affect corporate elections, *the question arises whether only beauty matters or also the appearance of competence?* In the context of political elections, not only facial beauty but also perceived competence based on appearance augments electoral success (Hall et al., 2009; Todorov et al., 2005; Sussman et al., 2013). Perceived (appearance-based) competence positively affects the CEO selection and the size of his compensation contract (Graham et al., 2017). In addition to beauty and perceived competence, some studies test for other perceived traits (based on looks), such as leadership, trustworthiness, and intelligence, but this does not yield conclusive results (Berggren et al., 2010; Todorov et al., 2005).

We then ask the question *whether facial appearance matters equally for male and female corporate directors?* Some studies suggest that appearance may be the strongest predictor of political electoral success for female candidates, and that voters associate higher female attractiveness with more positive traits (Poutvaara et al., 2009; Nisbett and Wilson, 1977). Kaplan (1978) states that the 'attractiveness halo effect' only exists for female candidates.

We also examine *whether facial appearance matters more for executive than for non-executive directors*, because the former bear direct responsibility for the corporate results whereas the latter are mainly performing a governance and monitoring role.

Given that we can study both the first elections and re-elections of corporate directors, we ask *whether facial appearance matters more in appointment elections than in re-elections?* The reason for this conjecture is that, in the case of re-elections, shareholders have more information at their disposal: they should by then be aware of the corporate performance for which they can hold the directors partially responsible (or accountable), and have had the opportunity to learn more about the directors' education, experience, and track record because this information has by then appeared at least twice in annual reports. Furthermore, shareholders have been able to study the facial appearance more than once such that there is no 'first impression' effect anymore. Alternatively, facial appearance may be less important at first elections when shareholders may just follow the nomination committee's proposed candidate without relying on facial impressions, and thus give the candidate the benefit of doubt.

To our knowledge, this is the first study on the effects of facial appearance on voting dissent in corporate director elections. Notably, the situation is different from political voting processes, in that shareholders usually vote only on a single candidate for a director position. Still, as we observe the total number of favorable, against, and abstained votes for each individual director for each firm-year, we consider the abstained and against votes a disciplining device or a critical indicator (Grundfest, 2003). We perform an experiment whereby we have the director candidates' photos, which we hand-collected from the annual reports, rated on five dimensions (beauty, competence, trustworthiness, likability, and intelligence) on the basis of which we subsequently built our global appearance measure.

Our main findings can be summarized as follows: shareholders rely on inferences from facial appearance at corporate director elections as voting dissent decreases in a candidate's appearance (while controlling for corporate performance, other firm characteristics, and director education). When we dissect facial appearance into its five dimensions, we find that beauty does not affect voting dissent, but that directors who look more competent, trustworthy, likable, and intelligent receive more votes in their favor. The correlation between facial appearance and voting dissent holds for executive directors but not for non-executive directors. Shareholders rely more on facial appearance in the setting of director re-elections than of first appointment elections, which may reflect that they are more familiar with the looks of the directors who are up for re-election. Inferences from facial appearance matter more for investors holding small equity stakes, presumably as they have less time to conduct research on the past performance and background of directors. While female candidates experience in general less voting dissent than their male counterparts, their facial appearance (including beauty) does not affect their elections results.

<sup>1</sup> The UK Corporate Governance Code from 2016 (CGC, 2016: B.7.1., p. 15) states that: "All directors of FTSE 350 companies should be subject to *annual election* by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of *no more than three years*. (...) The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election."

<sup>2</sup> Throughout the paper, we use the UK terminology regarding board membership: a director is a member of the board and can be an executive or non-executive director. In the US, the term 'director' is usually reserved for a non-executive director.

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