

Institutional Investors and Proxy Voting: The Impact of the  
2003 Mutual Fund Voting Disclosure Regulation

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Abstract

This paper examines the impact on shareholder voting of the mutual fund voting disclosure regulation adopted by the SEC in 2003, using a paired sample of proposals submitted before and after the rule change. We focus on how voting outcomes relate to institutional ownership and the voting behavior of mutual funds. While voting support for management has decreased over time, there is no evidence that mutual funds' support for management declined after the rule change, as expected by advocates of disclosure. In fact, in the context of management-sponsored proposals on executive equity incentive compensation plans, mutual funds appear to have increased their support for management after the rule change. We also find that this result is not due to changes in compensation plan features, nor that voting outcomes were plausibly related to broker voting, which was eliminated in a parallel 2003 stock exchange rule change. Finally, there is some evidence that firms with greater mutual fund ownership adopt a higher frequency of sponsoring executive equity incentive compensation plans, which could partly explain our findings.

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## 1. Introduction

The proxy voting process is thought to be a key mechanism by which shareholders monitor corporate managers. It is the means by which managers are replaced through proxy contests over director elections, and by which their major plans are reviewed as state law and stock exchange rules require shareholder approval of significant transactions. Moreover, in recent years, activist institutional investors have used the proxy process to advocate changes in corporate policies, such as repeal of takeover defenses and changes in board composition or managerial compensation. In January 2003, the U.S. Security and Exchange Commission (SEC) required mutual funds to disclose how they voted on proxy proposals presented at shareholder meetings. This rule followed a series of significant federal government interventions into firms' corporate governance in the Sarbanes-Oxley Act (SOX), Congress' response to the scandals of 2001-02 that began with the implosion of Enron.

There is a substantial literature debating Congress' legislative product, both for SOX's substantive content and for jurisdictional overreaching into subject matters long considered to be the domain of state corporate law – the governance of public corporations (e.g., Bainbridge, 2003; Cunningham, 2003; Romano, 2005). The fund vote disclosure rule has, however, been the subject of only limited study. Yet this rule was also intended to affect public corporations' governance, albeit more indirectly than SOX, by rendering mutual funds more active monitors who would be less supportive of management, and the agency's proposal of the rule generated considerable industry opposition in contrast to the shutting down of opposition in the whirlwind of events accompanying the enactment of SOX.<sup>1</sup>

This paper examines the impact of the mutual fund voting disclosure rule on corporate governance by examining its effect on proxy voting outcomes. To this end, we construct a sample of firms that experienced similar proposals, sponsored either by management or shareholders, both before and after the 2003 rule change. We then examine the difference in voting outcomes before relative to after this rule change, particularly in relation to mutual fund ownership, controlling for firm characteristics, including profitability, non-mutual fund institutional ownership and governance features. For the largest subsample of proposal pairs, management proposals on executive equity

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<sup>1</sup>As the SEC (2003) put it upon adopting the rule: “[R]equiring greater transparency of proxy voting by funds may encourage funds to become more engaged in corporate governance of issuers held in their portfolios, which may benefit all investors and not just fund shareholders.” The controversy over the rule's adoption is discussed in part 2.

incentive compensation plans, we also compare firm characteristics and outcomes to a matched sample of firms experiencing similar proposals solely before the disclosure rule change and not after.

We find that voting support for management has been declining for close to a decade and that mutual funds appear to support management less frequently than other investors. However, we find no evidence that the rule decreased mutual funds' voting in support of management. Indeed, some of the data suggest that mutual funds' support for management increased after the rule's adoption, particularly for executive equity incentive compensation plan proposals. This finding is contrary to the expectation of disclosure rule advocates, who contended that funds voted with management due to conflicts of interest and would reduce that support once their votes were transparent.

In addition, having greater ownership by mutual funds is associated with a higher likelihood of firms' sponsoring an executive equity incentive compensation plan proposal after the rule change, which again is not consistent with the view that disclosure would result in increased opposition to management by mutual funds whose votes were conflicted and favored management when they were not revealed publicly. We further find that some takeover defenses decrease support for management, results also independent of the rule change, but that the results are so varied across defenses, and within and across proposals, that we cannot draw a conclusion regarding the relation between defenses and voting outcomes.

The paper is structured as follows. Section 2 reviews the debate over the vote disclosure rule and the existing empirical research on institutional investors' potential conflicts of interest in voting. Section 3 introduces our research design and sample characteristics. The results of the analysis are discussed in detail in section 4. We begin by analyzing regressions in which we infer votes simply from institutional holdings. We then use funds' actual votes after the rule change to predict fund votes before the rule change, and use the expected votes in the regressions. Finally, for executive equity incentive compensation plan proposals, we compare the results of the sample firms to those of a matched sample of firms that only offered proposals prior to the mutual fund vote disclosure rule. Section 5 concludes.

## **2. Conflict of interest concerns and the mutual fund proxy vote disclosure rule**

The requirement of mutual fund proxy vote disclosure was proposed by activist institutional investors who maintained that disclosure would reduce mutual fund managers' conflicts of interest (IRRC 2002; Teitelbaum 2003).

Mutual fund managers were said to vote in support of corporate management, at the expense of investors in the funds, in order to facilitate other business relations with the corporations whose shares they owned. The rationale for the rule was that, once votes were revealed, investors could better monitor fund managers and thereby constrain such conflicts. Labor union funds were vigorous advocates of the rule change, having petitioned the SEC in 2000 and 2001 to require the disclosure (IRRC, 2002:1), as they considered it to be a key mechanism for monitoring whether mutual funds' voting meshed with union voting policies.<sup>2</sup>

The SEC's adoption of the vote disclosure regulation generated considerable controversy.<sup>3</sup> Members of the fund industry expressed concern that vote disclosure would lead to pressure and retaliation by corporate managers and to politicization of the proxy process by organizations, such as labor unions, and social responsibility activists. The contention was that such organizations and activists, whose investment objective differed from other shareholders with regard to the maximization of share value, would engage in media campaigns against the funds' voting records. Mutual funds also objected that the cost of special semi-annual disclosures would exceed the benefit to investors, noting that the vast majority of mutual fund holders never expressed interest in how funds voted. The SEC dismissed the industry's concerns and promulgated the disclosure rule, considering the benefit of transparency to outweigh the asserted costs, although it modified its proposal to require only annual disclosures, and it directed the staff to monitor the operation of the rule and report "any unintended consequences."

Rothberg and Lilien (2006) and Davis and Kim (2005) both examine the premise of the advocates of the vote disclosure rule, namely, conflicted voting by mutual funds, by analyzing the mutual fund votes disclosed since adoption of the rule,. Neither study finds evidence of conflicts of interest influencing fund voting.

Rothberg and Lilien (2006) examine voting by the five largest mutual fund families on all proxy proposals, whether sponsored by management or shareholders. They find that the funds frequently vote against management. To examine the issue of conflicted voting, Rothberg and Lilien compare the votes of the four large mutual funds whose business they consider to be "mostly mutual fund" companies (i.e., non-conflicted), with the votes of the one

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<sup>2</sup> With the rule's implementation they have indeed done so. In March 2006, the AFL-CIO surveyed mutual fund voting and reported to the press that it found that the "top eight mutual funds [were] in the bottom tier with regard to voting in line with AFL-CIO proxy voting policies" (BNA, 2006:294).

<sup>3</sup> The SEC received over 8,000 comment letters in response to the proposed rule: While labor unions, public pension funds and individual investors supported the proposed rule, the fund industry overwhelmingly opposed it (SEC

large fund that is affiliated with an insurance broker, and three additional financial services firms with mutual funds which they characterize as “mostly not mutual fund” companies (i.e., potentially conflicted because the funds’ parents’ business is principally the provision of financial services rather than the mutual fund business). The hypothesis is that if conflicts of interest lead funds to vote for management, then mutual funds with a sizeable amount of “non mutual fund” business should be more likely to vote in support of management than funds for whom other business opportunities are not a factor. Rothberg and Lilien find that there is no significant difference in the average support levels across the two sets of funds. They conclude, albeit tentatively because of the small sample size, that there is no evidence of conflicted voting by mutual funds.

Davis and Kim (2005) analyze mutual fund conflicted voting by examining the voting of mutual funds that manage corporate-sponsored pension plans. They compare mutual funds’ voting on shareholder proposals at firms whose pension plans the funds manage with their votes at firms whose pensions they do not manage. Davis and Kim find that there is no significant difference in funds’ voting support for management of clients and of non-client firms. An explanation they advance for the failure to find evidence of conflicted voting is that the funds knew that their votes were under scrutiny in the post-Enron environment that included mutual fund scandals involving discriminatory and illicit trading practices, and therefore they were constrained from voting differently for client and non-client firms, “even if that was the standard practice before” (Davis and Kim, 2005: 23). An alternative plausible interpretation of their data, consistent with Rothberg and Lilien’s study, is that mutual funds’ proxy voting is not affected by conflicts of interest.

Davis and Kim further investigate the question of conflicted voting at what they characterize as a fund’s voting “policy level,” by aggregating all of a mutual fund’s votes to calculate an average support rate, independent of votes at client and non-client firms, and comparing those votes to those of CREF (College Retirement Equity Fund) and CalPERS (California Public Employees Retirement System), two activist institutional investors with no business ties. In this analysis, Davis and Kim find a significant negative relation between funds’ number of clients and voting support, that is, the more pension plans a fund manages, the more likely it votes against shareholder proposals. In other words, funds with more business relations adopt voting policies that tend to support management,

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2003).

even if their specific votes do not differ for client and non-client firms. They consider this evidence of problematic, if not conflicted, voting.<sup>4</sup>

In sum, the two studies of mutual fund voting after the adoption of the vote disclosure rule offer differing assessments of mutual fund voting, although neither study identifies evidence of conflicted voting. Inferences from those studies are greatly hampered, however, by being limited to investigating voting subsequent to the rule change. If, as union funds contended in urging the SEC to adopt the rule change, disclosure eliminates conflicts of interest, then we would not expect to find evidence of a conflict in post-disclosure rule data. This is an explanation Davis and Kim advanced for their inability to identify differences in fund voting for clients and non-clients. To address that possibility, it is necessary to contrast voting outcomes both before and after mutual funds' votes had to be disclosed. Because actual votes are, of course, not available prior to the 2003 adoption of the disclosure requirement, we combine the inferential approach, used by earlier studies of conflicted voting,<sup>5</sup> with actual voting data, to examine changes in voting on both management and shareholder proposals before and after the adoption of the disclosure requirement.

### **3. Sample construction and description**

We construct our sample of pairs of proxy proposals from all votes on proxy proposals that are included in the Investor Responsibility Research Center's (IRRC) database of proxy voting from 1994-2005 and that are

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<sup>4</sup> Because the set of proposals voted on by the mutual funds and CREF and CalPERS is not identical, the support percentages are not necessarily comparable. For instance, if CREF voted on more defensive tactics and fewer compensation proposals than did a mutual fund, then with identical voting policies of supporting defenses and opposing compensation proposals, the two institutions' support level for management would differ in the direction Davis and Kim found. When Davis and Kim reanalyze the data by proposal type, the client variable is significantly negative only for some proposal categories, and they conclude that funds are less likely to oppose management on proposals in "gray" areas regarding shareholder value (Davis and Kim, 2005: 26).

<sup>5</sup> In the late 1980s, when managements were seeking approval of takeover defenses, two studies examined whether institutional investors' voting in that context was influenced by conflicts of interest, the focus then being on banks and insurance companies as the potentially conflicted shareholders. Brickley et al. (1988) found that support for managements' defensive tactic proposals was positively correlated with the stockholdings of banks and insurance companies, and considered this evidence of conflicted voting (those institutions, in their view, being more sensitive to management pressure to vote for the proposals because they could have other business relations with firms). However, Van Nuys (1993), in a case study of a contested proxy solicitation by Honeywell management to adopt defensive tactics, tracked the actual votes of institutions and their business relations with the firm, and found, in contrast to Brickley et al.'s inference, that there was no significant difference in support level between financial institutions with business relations with Honeywell and those without such relations.

classified by the IRRC as corporate governance (rather than social responsibility) proposals.<sup>6</sup> The IRRC tracks the proxy votes of over 1,900 firms, including the Fortune 500 and Standard & Poor's 500 (covering fewer firms, however, in the earliest years). Using the IRRC's four digit coding of proposals' subject, we identify all firms that had a vote on a proposal with the same code number at a meeting before as well as a meeting after the date of the mutual fund vote disclosure rule's effective date (meetings held after June 30, 2003). To minimize changes in a firm's environment, we adopt the following matching rule: When there is a choice, we include the proposal voted on at the last meeting occurring before, and at the first meeting occurring after, the disclosure rule's effective date. As indicated in Table 1, this produced 1,006 proposal pairs (2,012 proposals), offered at 680 firms. After eliminating proposals for which key data were missing (e.g., voting outcomes from IRRC or accounting performance measures from Compustat) and those proposed at firms with dual class stock,<sup>7</sup> the sample consists of 853 proposal pairs offered at 582 firms.

Information describing the sample proposals and firm characteristics is included in Tables 2-3. As indicated in Table 2, slightly over 80 percent of the proposals are sponsored by management, with the largest category involving approval of compensation plans (69 percent). Of the shareholder proposals, the largest category (approximately half) concerns removal of takeover defenses. Because proposals grouped into the management compensation category are diverse, we divide them into four subcategories: (i) stock incentive and award compensation plans for executives; (ii) stock incentive and award plans for outside directors; (iii) employee stock purchase plans; and (iv) bonus plans.<sup>8</sup> The table illustrates the well-known relationship that outcomes differ dramatically by proposal type. Management proposals receive considerably more support than shareholder

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<sup>6</sup> Social responsibility proposals are not intended to improve or affect corporate performance, and the conflicted voting concern is, accordingly, not implicated by voting on such proposals, because a vote for management, even if motivated by furthering business relations, would not be a vote contrary to the funds' investors' interest to maximize equity share prices.

<sup>7</sup> Proposals offered at firms with dual class stock were eliminated from the sample to ensure that institutional ownership accurately measures institutions' voting rights. These deleted proposals were approximately 20% of the original population of matched pairs. In addition to eliminating proposal pairs of firms missing accounting performance data, we also eliminated proposal pairs of firms with insufficient years of data to calculate market betas and those for which Thomson Financial Services' database of institutional investor holdings computed the institutions' share as over 120 percent.

<sup>8</sup> Table 2 indicates the IRRC classification codes defining the subcategories. We also analyzed the data aggregating the equity incentive compensation proposals for executives and outside directors (codes 1500-49), and the results are similar to, but noisier than, those reported of the analysis of only executives' incentive compensation proposals.

proposals; and among management proposals, executive equity incentive compensation plans average lower support levels. In addition, shareholder proposals on takeover defenses receive far greater support than shareholder proposals on executive compensation or board independence.

Table 3 provides information about sample firms, including characteristics that other studies have found to be relevant to voting outcomes, such as institutional ownership and profitability (e.g., Gillan and Starks, 2000; Thomas and Martin, 2000). On average, the sample firms in the years in which proposals are submitted are owned by financial institutions, have takeover defenses, and are managed by independent boards and officers and directors with low stock ownership. The table also presents mean values of firm characteristics for two alternative cuts of the data, grouped by whether the proposal was a management or shareholder proposal, and grouped by whether it was submitted before or after the disclosure rule's adoption. The same qualitative characteristics are present in those subsamples as in the full sample: high institutional ownership, takeover defenses, independent boards, and low officer and director stock ownership. Moreover, sample firms receiving shareholder proposals are similar to those in other studies of shareholder proposals.<sup>9</sup>

Table 2 also presents voting outcomes by proposal type, separately calculated for proposals voted upon before and after the adoption of the mutual fund vote disclosure rule. For most proposal categories, the voting support for management's position declined after the rule change, and the difference is statistically significant. These striking univariate statistics are our focus of inquiry. Our analysis seeks to determine whether increased opposition to management is attributable to the disclosure rule, and whether the rule reduced conflicted voting, as the SEC and the rule's advocates anticipated. Because firm-specific factors may affect voting outcomes, we control

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<sup>9</sup> Comparing the mean characteristics of the shareholder proposal firms in our sample to those in Thomas and Cotter's 2005 study of firms receiving shareholder proposals from 2002-04, for instance, the mean institutional holdings are similar: 68 percent compared to 67 percent, respectively. Our shareholder proposal firms are slightly less profitable: mean return on assets of 3 percent compared to 4 percent, respectively and net profit margin of 5.6 percent compared to 6.2 percent, respectively. They are also somewhat smaller, with respective mean market capitalizations of \$37 billion and \$43 billion. While Table 3 aggregates firm characteristics across all proposal types, it should be noted that the values for management-sponsored executive equity incentive compensation proposals, which are the principal focus of much of our analysis, are extremely close to those reported for all management proposals (since they make up 60 percent of management proposals), except for the presence of confidential voting and independent director ownership (mean of .13 and .0065, respectively). The values for shareholder proposals on takeover defenses, which constitute half of the shareholder proposals and also will feature more prominently in the discussion than other shareholder proposals, are also similarly close to those reported for all shareholder proposals, although again there are a few differences: they are smaller (mean market cap of \$19.5 billion) and somewhat more

for such variables in the analysis.

We obtain institutional ownership data from Thomson Financial Services, using three measures: (i) the percentage of outstanding shares owned by each of the five institutional investor classes as categorized by Thomson, and the sum of those five classes' percentage holdings;<sup>10</sup> (ii) the percentage owned by blockholders, for each of the five institutional investor classes, and the sum; and (iii) the number of blockholders, totaled separately for each of the five classes, and in the aggregate. Ownership of directors (separately classified for independent directors and insiders) is obtained from the IRRC's directors database.<sup>11</sup> We also collect additional firm-specific variables that are typically correlated with institutional ownership, for use as further proxies for institutional ownership (because small institutions are not subject to the SEC reporting requirements the Thomson data are not complete) as well as for controls: market capitalization, share turnover, and the number of analysts providing earnings forecasts.<sup>12</sup>

We collect several performance measures commonly used in the literature, with summary statistics in Table 3: past stock returns calculated over the 12-month interval prior to the date of the meeting at which the proposal is

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likely to have any of the takeover defenses, with a higher average G-index of 10.6.

<sup>10</sup> Institutional investment managers with discretion over accounts of at least \$100 million must report their holdings to the SEC on form 13-f. Thomson collects data from 13-f filings and sorts the reporting institutions into five classes: (1) banks (2) insurance companies; (3) mutual funds and their advisors; (4) independent investment advisors; and (5) others, which includes public pension funds and university endowments. If the Thomson data produced institutional holdings that summed to over 100 percent but less than 120 percent (58 observations), we rescaled the institutional holdings by the sum total. We take account of classification errors in the Thomson database whereby institutional classifications after 1998 of institutions previously included in the database were all erroneously set to category 5. We correct for this data error by classifying those institutions according to their pre-1998 category for years after 1998. Following Brickley et al. (1988), classes 1 and 2 are combined - these institutions may have conflicts (the rationale for their approach) but are not subject to the disclosure rule. We also run all analyses retaining these as separate classes, and combining all classes but the class affected by the rule, category 3 (mutual funds).

<sup>11</sup> The IRRC collects these data from firms' SEC proxy filings. This database is much smaller than IRRC's voting database. As a consequence, we lose approximately half of our sample observations when the director ownership data are used in the analysis. Moreover, because for many pairs IRRC data exist only for either the "before" or the "after" proposal, the usable dataset is far smaller than that implied by the number of observations. The descriptive statistics for those variables in Table 3 are calculated using only the 420 observations comprising pairs where the data are available for both the before and after proposal.

<sup>12</sup> These variables are obtained from the University of Chicago Graduate School of Business Center for Research in Securities Prices (CRSP) and I/B/E/S databases. We collected analyst forecast information for the proposal firms but because those variables were not significant in any regression on any proposal type, these variables are not discussed in the paper. While we include turnover as a control variable, it should be noted that Bethel and Gillan (2002) find that turnover over the shorter interval between the record date and meeting date is positively correlated with support for management.

offered, return on assets (ROA), and net profit margin (NPM).<sup>13</sup>

The explanatory firm-level characteristics that have been used in the proxy proposal literature are performance and ownership. An extensive literature has developed (after the bulk of the research on proxy proposals was undertaken) on the relation between performance and governance structure, although whether a true (causal) relation has been identified is in dispute (e.g., Gompers et al. 2003; Lehn et al. 2006). Because corporate governance is of significant concern to many institutional investors, particularly activist institutions which are likely to sponsor shareholder proposals, the presence or absence of governance devices those investors deem important could affect voting outcomes, independent of whether they affect performance.<sup>14</sup> We therefore include in our analysis of proxy voting, firms' governance features related to takeover defenses and board structure.

We employ two measures of takeover defenses, an aggregate measure of a firm's defenses and five individual provisions. The aggregate measure, if available in the IRRC's governance database, is the Gompers, Ishii and Metrick (GIM) governance (G) index, which is constructed by summing the presence of over 24 governance variables collected by the IRRC, most of which are takeover defenses. The five individual provisions are those in the more parsimonious takeover defense subindex of the G index constructed by Cremers and Nair (2005), along with the presence of a poison pill. Cremers and Nair's index consists of four defenses: ability to issue blank check preferred stock; the presence of a staggered board; restrictions on shareholders' ability to call special meetings; and restrictions on shareholder action by non-unanimous written consent. For the many sample observations that are not in the IRRC database, we hand collect information on the five individual defenses from firms' SEC filings.

For governance features related to board structure, we collect from the IRRC's director database board size and composition (percentage of independent directors), in addition to the stock ownership of directors mentioned earlier.<sup>15</sup> These are mechanisms of corporate governance well-recognized in the literature on governance and

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<sup>13</sup> The CRSP and Compustat databases are used to obtain the stock return and accounting data, respectively. Values of ROA or NPM greater than -1 are truncated to -1. We also calculated past stock returns using 24- and 60-month intervals, and return on equity, but because the results for these measures were either no different or insignificant compared to those for the measures reported in the paper, we do not discuss them. In addition, we computed industry-adjusted accounting measures (subtracting median industry values), but as subsequently noted, using these values in place of the unadjusted values did not affect the analysis.

<sup>14</sup> The websites of leading institutional activists, such as CalPERS and the AFL-CIO, focus on good corporate governance practices, as does the Council of Institutional Investors' (CII) website.

<sup>15</sup> The IRRC directors database contains information on more firms' board composition than director ownership, and

performance, and included in other governance indices (e.g., Brown and Caylor 2004). For example, Yermack (1996) finds an inverse correlation between performance and board size. Independent directors' ownership has also been found to correlate positively with performance (Bhagat and Bolton 2006). Although the literature does not find that increased board independence improves performance (Romano 2001:191-95), independent directors are emphasized in activist institutions' lists of good governance practices (e.g., Council of Institutional Investors 2006), and are a focal point of both federal and state regulation of corporations.

#### **4. Results**

Our main analyses seek to explain the vote in support of management and shareholder proposals (where a vote for a shareholder proposal is a vote against management, because in virtually all cases management took a position against the proposal). Because the dependent variable, the percentage of votes voted for a proposal, ranges between 0 and 1, it is transformed by a logistical transformation,  $\log [\text{percentage of votes for}/(100 - \text{percentage of votes for})]$ , to create a continuous variable with negative as well as positive values, for ordinary least squares estimation. As voting outcomes differ by proposal type, we estimate separate regressions for each proposal category.<sup>16</sup>

Given our interest in the effect of the mutual fund vote disclosure rule, in addition to explanatory variables related to firm characteristics, we include a dummy variable ("after") to indicate whether a proposal was introduced before or after the rule change, and interact the principal variable of interest, mutual funds' stock ownership, with that 'after' dummy. We also control for the presence of confidential voting, and examine interactions of that indicator variable with mutual fund holdings and the 'after' dummy. If the mutual fund disclosure rule had an impact on conflicted behavior, then it should presumably be greater for firms with confidential voting, as post-rule votes would be revealed to management, whereas they were not prior to the rule's adoption.

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we thus lose only about 30 percent of the sample observations when board variables are included in the analysis.

<sup>16</sup> Proposal categories with too few observations to be estimated reliably are omitted from the analysis. Deleted proposal categories (number of pairs in parentheses) are, for management proposals: outside director equity incentive compensation plans (36), removal of defenses (3), mergers (1), and miscellaneous (10); and for shareholder proposals: board independence (18), director elections (1), and miscellaneous (14). These proposals were omitted rather than grouped into one management or shareholder proposal category, respectively, because of their disparate subject matters and correspondingly, differing mean voting support.

The principal regression model estimated is:

$$\text{Ln} [\text{votes\_for}/(100\text{-votes\_for})] = \alpha + \beta_1\text{After} + \beta_{2..k}\text{Controls}(\text{size, profitability, governance}) + \beta_{k+1\dots m}(\text{institutional ownership}) + \beta_{m+1\dots n}(\text{After} * \text{institutional ownership}) + \varepsilon$$

We also estimate a base model excluding ownership variables for comparative purposes. In some models, additional interaction terms between governance characteristics and the ‘after’ dummy, and between those and institutional ownership, are included. All regressions are estimated using ordinary least squares and robust standard errors after Huber and White. Tables 4-6 present the main results.

#### **4.1. Management-sponsored proposals**

Tables 4 and 5 contain the analysis of management proposals on, respectively, executive equity incentive compensation plans, with and without board-related governance variables (in separate panels in Table 4); and (i) employee stock purchase plans, (ii) bonus plans, and (iii) common stock authorizations and issuance (Table 5). The first column in panel A of Table 4 (and in each of the panels in Table 5) provides the results of a benchmark regression of voting outcomes on firm characteristics without the key variables of interest, institutional ownership. The results from models including aggregate institutional ownership, and ownership by category of institution, are in the succeeding columns. Our primary focus will be on the interaction with the ‘after’ dummy, in order to see whether there is any effect of the vote disclosure rule change. Because that rule related only to mutual funds’ votes, in order to pinpoint its impact we will focus on the results of the regressions using ownership variables in which holdings are identified by category of institution.

A few generalizations can be made regarding what influences voting support on compensation proposals from the base model regressions (column one) – that is, the effect of firm characteristics independent of ownership – for all of the management compensation proposals (panel A in Table 4 and panels A and B of Table 5). First, support for management compensation proposals decreased after the adoption of the vote disclosure rule; and second, compensation proposals fare worse at firms with poison pills.<sup>17</sup> This may reflect shareholder dissatisfaction

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<sup>17</sup> The effect of other defenses is all over the map (insignificant, positive or negative, depending on the model and

with, or hostility to, managers who have adopted what is considered by commentators the most potent defensive tactic. Because we control for accounting and stock market performance, the negative significance of poison pills is not interpretable as a marker for poor performers adopting the defense and shareholders voting against management due to poor performance rather than the defense. As a further check, we interact the presence of a poison pill with our performance measures. None of these interactions are significant, while for some model estimations of executive equity incentive compensation plan proposals, the interaction terms of poison pills with the accounting variables are marginally significant and opposing in sign (positive for ROA and negative for NPM). Overall, this would suggest that the presence of the poison pill defense reduces support for management independent of performance.

#### *4.1.1. Executive equity incentive compensation plans*

Executive equity incentive compensation plans are the most controversial proposals sponsored by management, as indicated by their overall lower voting support. We find several distinctive results regarding the relation of the control firm characteristics and voting outcomes for these proposals. First, these proposals fare better in larger firms (i.e., support is positively associated with the firm's market capitalization) and worse in firms with higher stock turnover. Because those two variables remain significant when the institutional ownership variables are added, these results are not due to the size and turnover variables' proxying for institutional holdings (one reason why those variables were included as controls in the analysis). In addition, performance is not a significant factor in voting support, outside of the model of control variables with no ownership terms, in contrast to the finding of a

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proposal type), and we therefore do not discuss them, viewing those results as noise. Although the presence of some of the five individual defenses are positively correlated, those correlations are not significant, and variance inflation factor (VIF) tests for multicollinearity indicate that including all of the defenses in the estimations is not a problem: the VIFs are all less than 10. See Chatterjee & Hadi (2006: 236-238). Because we do not have the G index for all observations, we use the five defenses in the reported regressions. It should be noted, however, that in contrast to the reported regressions, the G index is significantly positive in regressions of votes for executive equity incentive compensation plans (728 observations), whereas the significance of the other variables is the same as that reported for the regressions using the five defenses. Because the G index is widely understood as a measure of defensive tactics, it is puzzling that it has the opposite association with voting support for management than that of poison pills -- support for the plans is greater the higher the G index (which represents more defenses, or lower quality governance). Moreover, unlike poison pills, the G index's effect differs across management compensation proposals: it is significantly negative in the regressions of votes for employee stock purchase plans. These findings suggest that one should be cautious in relying on the index, rather than unpacking it to examine the effect of

study of compensation plan proposals by Thomas and Martin (2000) of a negative relation between performance and voting support, but paralleling a finding of no significant relation of a more recent study of compensation plan proposals by Morgan et al. (2006).<sup>18</sup>

#### *4.1.1. a. Voting outcomes, mutual fund ownership and the vote disclosure rule*

Our principal exploration of whether the decline in voting support after the disclosure rule's adoption can be related to change in institutions' voting behavior involves examining the impact of institutional ownership on voting outcomes (we use mutual funds' actual votes to address this question in section 4.3). If institutions vote differently from other investors, as a group, we would expect to find a relationship between voting outcomes and institutional ownership. As a result, by comparing the association between institutional holdings and voting outcomes before and after June 30, 2003, we can relate the impact of the rule change to change in institutional voting. We find that aggregate institutional ownership is inversely related to voting outcomes: the higher the institutional holding, the lower the support for the plans. The significant effect of ownership is independent of the impact of the disclosure rule's adoption on outcomes, because the 'after' dummy remains significant in these estimations (column two). Moreover, when aggregate institutional ownership is interacted with the 'after' dummy variable, only the aggregate institutional ownership variable remains significant, and the interacted variable is positive but insignificant, thus implying that institutional voting behavior was not affected by the rule.<sup>19</sup>

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individual defenses on proxy voting.

<sup>18</sup> The difference in our results with that of the Thomas and Martin study may be due to differences across samples or the performance measure. We only consider firms with compensation plan proposals offered both before and after June 30, 2003, while their sample consists of plans proposed in 1998. We think sample rather than profit measure is the more likely explanation because the Morgan et al. study's sample period, consisting of plans proposed over 1992-2003, is more similar to ours, while they use the same profit measure as Thomas and Martin, market-adjusted prior stock returns. Our insignificant past stock return measure is not market-adjusted (in the benchmark regression without institutional ownership regressors, it is only the accounting measures that are significant.) We include the prior return on the market (also insignificant) separately from firms' raw returns to see whether investors' votes are differentially affected by poor market, as opposed to poor firm level returns, which would be obscured by using the firm's market-adjusted return. Including all three firm-specific performance measures, past stock returns, NPM and ROA, as well as the past return on the market does not present collinearity problems in the reported regressions: the correlations across the variables are low and insignificant, and variance inflation factor tests indicate an absence of multicollinearity.

<sup>19</sup> The results are similar for the other aggregate ownership measures. If percentage held by blockholders is used, it is also negative and significant with a positive and insignificant interaction term; the only difference is that the 'after' dummy remains negatively significant in the model that includes the interaction. If number of blockholders is

However, the failure to find an effect on institutional voting of the rule change could be caused by the fact that there is noise in an aggregate ownership measure, and particularly because only one class of institutions, mutual funds, was subject to the rule. We therefore repeat the analysis using aggregate holdings of four classes of institutional investors: banks and insurance companies; mutual funds, the affected class; independent investment advisors; and the remainder category that includes, among other institutions, activist investors such as public pension funds and hedge funds.<sup>20</sup> The key finding is that there is a marginally significant negative relation between mutual funds' holdings and voting outcomes, but a marginally significant positive interaction term (see the last column of Table 4, panel A). Moreover, the net effect after the rule change is positive, such that proposals at firms with more mutual fund ownership afterwards had more support. These results do not sustain advocates' expected view of the benefits of the rule change because, if their analysis were correct, we should find a decrease in mutual funds' support for management after the rule (under the rule's advocates' perception that prior to the rule funds engaged in conflicted voting, and that disclosure would diminish such activity). Yet any conclusion to be drawn from the data would be the opposite, that mutual funds increased their support for management after adoption of the rule.

Some sample firms had confidential proxy voting in place before the SEC adopted the mutual fund vote disclosure rule, and not having distinguished across firms on this dimension may be a factor reducing our ability to identify an impact of the rule change. That is because mutual funds' votes on proposals in firms with confidential voting became newly revealed to management after the rule change, along with their disclosure to investors and members of the public. In contrast, in firms without confidential voting, management would have been able to identify how mutual funds voted prior to the rule change, and were provided with no new information regarding those investors from the rule. If mutual funds are sensitive to management's knowledge of their votes, then the rule change could have disproportionately affected mutual funds' voting on proposals at firms that had confidential voting in place. We therefore estimate the voting outcome regressions with two additional interaction variables: the

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used instead of their percentage holdings, the sole difference from those results is that this measure is insignificant in the regression without an interaction term, and only marginally negatively significant (at 10 percent) when an interaction term is included.

<sup>20</sup> We also estimated regressions separating bank and insurance holdings, and combining the holdings of all of the classes of institutions other than mutual funds, or the holdings of banks, insurance companies and independent

interaction between the confidential voting dummy variable and mutual fund ownership; and the interaction among those two variables and the ‘after’ dummy. The latter interaction term will pick up an effect on proposal outcomes from mutual funds whose votes had newly become known to management upon the rule change. That interaction term is not, however, significant.<sup>21</sup> Considering this result in conjunction with the earlier interaction term results, it is possible that mutual funds, on average, are not especially concerned about disclosure to either insiders or outsiders, as their voting behavior appears to be unaffected by differences in the transparency of the voting environment.

We also investigate whether, in determining to support management after the rule change, mutual funds paid greater attention to the presence of defensive tactics, and in particular poison pills, which as previously noted reduce voting support, by interacting the defense, fund ownership and ‘after’ variables. We find instead that mutual fund support for management appears to increase in the presence of a poison pill, and this relation is not affected by the rule change: the interaction term between mutual fund holdings and the dummy variable indicating the presence of a poison pill is significantly positive, whereas the triple interaction term between fund holdings, poison pill presence and the ‘after’ dummy is insignificant.<sup>22</sup> This is a puzzling result, as we would have expected less support for incentive compensation for entrenched management, especially because, as will be discussed, fund holdings are associated with increased support for repealing defensive tactics such as poison pills.

We do not have an altogether satisfactory interpretation of this result. Perhaps it reflects an assessment by mutual funds that providing management with performance pay is more important when management is entrenched, and thus poison pills increase their support for incentive compensation plans. That would be consistent with Thomas and Martin’s (2000) interpretation of their finding of higher support for compensation proposals in firms with poor performance (that investors think incentive pay is an important interest-aligning device in this context), and with the fact that we do not find the result replicated for any of the other categories of management-sponsored

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investors advisors to treat the “other” class separately, and the results were not significantly different.

<sup>21</sup> The simple interaction between confidential voting and mutual fund holdings is marginally significantly positive for the model in column 4 of panel A, which includes the terms for the holdings of institutional investors but not their interactions with the ‘after’ dummy. Because neither interaction with confidential voting was significant for any other proposal type, we do not report the regressions with those variables or refer to that result when discussing the regressions of votes for other proposal categories.

proxy proposals. It might also suggest that mutual funds have a more nuanced view than the academic literature on defensive tactics, if they take them into consideration at all when voting on incentive compensation. However, what we can say with confidence regarding this result is that it indicates that the rule change did not impact mutual funds' assessment of whether to support management in the presence of a potent takeover defense.

Finally, we explore whether board characteristics affect outcomes, and in particular, mutual fund behavior in relation to the rule change. The category of executive equity incentive compensation proposals is the only one for which we have sufficient information on board composition and ownership to undertake a statistical analysis.<sup>23</sup> The subsample of firm proposals for which we have board data is similar to the full set of executive equity incentive compensation proposals.<sup>24</sup>

Panel B of Table 4 reports the regression results when we add the board governance variables. There is one critical finding: the triple interaction term between mutual fund holdings, independent director holdings, and the 'after' dummy is significantly positive.<sup>25</sup> In other words, mutual funds increase their support for management proposals on executive equity incentive compensation plan proposals after the rule change at firms where the independent directors hold more shares.

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<sup>22</sup> In this same regression, the fund holding variable is significantly negative.

<sup>23</sup> There are 129 pairs of executive equity incentive compensation proposals that have board data for both the before and after proposal. The number of pairs with board data for both before and after proposals in the other categories of manager and shareholder proposals analyzed in Tables 5 and 6 ranges from 3 to 25, numbers insufficient for statistical analysis.

<sup>24</sup> Means comparison tests indicate that compared to the firms for which board data are missing, these firms are larger and more profitable on the accounting performance measures but there is no significant difference on the key variable of interest, mutual fund ownership (respective means of 17.6 and 17.9 percent). There is also no difference in mean ownership of banks and insurance companies and the other category that includes activist investors; but the board subsample firms have significantly lower ownership by independent investment advisors (23 compared to 25 percent). Finally, there is no difference in the rate at which these firms have takeover defenses or confidential voting. If the firms are compared separately in the before and the after proposal years, then it turns out that the afore-mentioned significant differences occur only in the 'after' comparison. There is one significant difference obscured in the comparison across the full subsamples: in the 'before' comparison, the board subsample has lower average 'other' institutional ownership and in the 'after' comparison, that subsample has higher average 'other' institutional ownership, than the proposal firms that are missing board data.

<sup>25</sup> In addition, in these regressions past stock returns are inversely related to voting outcomes, consistent with the finding of the Thomas and Martin (2000) study of compensation proposals, albeit not with the Morgan et al. (2006) study, although conversely, NPM is significantly positive, and thus we still conclude that there is no consistent effect of performance on voting outcomes in our data. Moreover, the impact of takeover defenses differs from that in the full sample: poison pills are not significant while classified boards are, and in the opposite direction (positive), parallel to the impact of the aggregate takeover defense measure, the G index, in regressions of the subsample of firms for which the index was available. This further highlights the complexity of assessing investors' attitudes to

This suggests that the previous results of increased support after the disclosure rule's adoption by mutual funds for management's executive compensation packages depends upon other governance provisions in place.<sup>26</sup> In particular, this result suggests that mutual funds may use independent director ownership as a factor for supporting management when their votes are publicly disclosed, at least in the context of controversial proposals such as executive incentive compensation. This suggests, in contrast to the results regarding confidential voting, that mutual funds may not be completely indifferent to the transparency of the voting environment.

Why would independent director ownership impact the voting on management proposals by mutual funds? One explanation is suggested by the finding in the literature that such directors' ownership is positively correlated with performance (Bhagat and Bolton 2006). That finding may be explained by directors with higher ownership being better monitors (and/or advisors) of management. Such directors may also be more likely to scrutinize managements' compensation plans and hence, their firms would be more apt to introduce value-maximizing plans. The increased support associated with higher mutual fund holdings in that scenario would be due to plans offered by companies with outside directors with higher ownership having fewer terms deemed unfavorable by shareholders.<sup>27</sup> However, because one might expect voting in favor of such higher quality compensation plans to be independent of the 2003 adoption of the vote disclosure rule, that alternative is not a fully satisfactory explanation of the significance of the three-way interaction term.

An alternative hypothesis that better explains the result is that mutual funds began to key on outside directors' ownership, as a signal of compensation plan quality, as a defensive strategy, given the disclosure of their votes, when supporting proposals that had become increasingly controversial in the post-Enron environment of the

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defenses, or of determining whether defenses are considered by investors at all, in the context of proxy voting.

<sup>26</sup>The significance of the interaction term is not due to the shares voted by the outside directors (whose average holding is 0.65 percent, with a range of 0 to 14.6 percent), we control separately for the directors' ownership and that variable is insignificant in the regressions including interaction terms (and only marginally significant in the regression without interactions).

<sup>27</sup>We discuss the effect of changes in plan features on voting outcomes in part 4.1.1.c, *infra*. For the subset of firms for which we have both director ownership and plan features (depending on the plan feature, ranging from 49 to 78 pairs of proposals), although consistent with the hypothesis in the text, the correlations between independent director ownership and the presence of plan features institutional investors consider undesirable are mostly negative (ranging between -.05 and -.12), none of the correlations are statistically significant (whether computed for the full sample or for only the "before" or "after" sets of proposals). The only nonnegative correlation (also insignificant) is that for a proposal's dilution proportion (see part 4.1.1.c., *infra*) computed for the full sample and "before" only proposals (.01 and .09, respectively).

vote disclosure period. We investigate this alternative explanation of the data by interacting outside director ownership and the ‘after’ dummy with the holdings of the other classes of institutional investors. As column 3 in panel B of Table 4 indicates, we find the same significant, positive interaction term for independent investment advisors as for mutual funds and their advisors, but a significant negative interaction term for ‘other’ institutions, the institutional class including investor activists such as public pension funds and hedge funds.<sup>28</sup> The interaction term for banks and insurance companies (institutions characterized as conflicted in the confidential voting literature but unaffected by the disclosure rule) is insignificant. This suggests that the finding for mutual funds is distinctive among voters with potential conflicts, and accordingly, offers some support for the interpretation that funds began keying on outside director ownership when their votes became disclosed.<sup>29</sup> Whichever explanation is thought to be more persuasive – higher outside director ownership being associated with proposal quality or funds’ desire to key

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<sup>28</sup> The ‘after’ dummy and its interaction with other institutions’ holdings are omitted from these regressions because VIF tests indicate multicollinearity problems with their inclusion. If the reason why outside directors have high ownership is because they were awarded sizeable incentive stock and option awards in the past, and institutions in the “other” category object to large compensation packages, then that could explain the significant negative triple interaction term. Namely, those institutions might be more likely to vote against incentive pay packages at firms that have given such directors significant performance pay in the past which is represented by the outsiders’ now higher ownership. The ‘after’ dummy would be a factor because employment options take several years to vest, such that in the earlier sample years the independent directors would have had lower ownership levels and thereby not attracted institutions’ no votes, as the ‘before’ votes in the sample were not on plans for outside directors’ compensation.

<sup>29</sup> As columns 4 and 5 indicate, if we combine all non mutual-fund institutions’ holdings into one variable, as a further robustness check regarding our results for mutual funds, the three-way interaction term with outside director ownership is negatively signed and insignificant. That is also consistent with a conclusion that mutual funds are distinctive, but we do not emphasize those regressions because the results for the combination of holdings obscure that there are different effects for different types of institutional investor. A parallel explanation for the finding of increased fund support post-rule in conjunction with independent director ownership could be that ISS recommendations are more likely to be favorable for executive equity incentive compensation plan proposals offered in firms with higher independent director ownership, and that post-rule mutual funds key voting support on ISS recommendations. Independent director ownership is a positive factor in ISS’ corporate governance ratings, but ISS would not provide us with its recommendations for the sample proposals to test this “ISS” hypothesis. ISS was kind enough to provide us with the overall percentage of its recommendations on equity compensation plans that were against management for the four sample years 2002-05, and although 2002 had the highest proportion of negative recommendations, a fact seemingly consistent with the ISS hypothesis, there was no clear trend of increased affirmative recommendations in the years thereafter. In addition, some other results are inconsistent with the ISS hypothesis. First, if this were the explanation, then we would expect the same, and not a different sign, for the analogous interaction with the “other” category of institutional investors, as there is not a good reason to expect them to vote against ISS’ recommendations post-rule (subject to the hypothesis offered in note 28, supra or their receiving systematically different voting recommendations from ISS than those it provided mutual funds after the rule change). Nor would we expect there to be any significant “after” interaction for an ISS recommendation for the institutional investor category of independent advisors, who were not affected by the rule change. Second, the proportion of outside directors on a board is also a factor in the ISS governance ratings, yet the triple interaction among that variable, mutual fund holdings and the ‘after’ dummy is insignificant.

on a governance feature post-vote disclosure –, the finding is contrary to the expectations of advocates of the impact of the disclosure rule. For it is evidence that voting support for management by mutual funds did not decline after the rule’s adoption, but rather increased for that subset of firm proposals - management’s own equity incentive pay - that is most often criticized in the media and by activist investors.

A related governance feature determined by the board is the chief executive officer’s (CEO) compensation.<sup>30</sup> Because it is possible that voting on equity incentive compensation plans is influenced by existing levels of compensation, we obtain from the Execucomp database the total compensation of the CEO and include it in the regressions using a log transformation.<sup>31</sup> We also calculate a measure of the CEO’s abnormal or excess compensation, which is the residual from an annual regression of the log of total compensation on firm size and industry dummies (using all firms in Execucomp rather than only the firms in our sample). Panel C of Table 4 reports the results of adding these variables to the regression model of firm characteristics and institutional ownership, and of interacting these variables with the ‘after’ dummy and the board structure variables, including the triple interaction term of independent director ownership, mutual fund holdings and the ‘after’ dummy. The average total CEO compensation is \$6.1 million (\$8.5 million for the subset of firms for which board structure is available) (see Table 3). Neither compensation variable significantly differs across the two time periods under study (before and after the rule change).<sup>32</sup> We further add a dummy variable indicating whether the firm is a “new economy” firm, as the compensation practices of high tech firms, emphasizing options, differ from other firms.

As a benchmark for evaluating the relation between board structure, CEO compensation and voting outcomes, we first examine the impact of CEO compensation on the full model of column 5 in panel A using only the mutual fund interaction term with the ‘after’ dummy as it was the only interaction of even marginal significance in that regression. As the table shows (columns 1 and 2 of panel C), voting support decreases with being a high tech

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<sup>30</sup> The literature on the relation between board independence and CEO compensation is inconclusive (compare Bebchuk, Cremers and Peyer 2006, Mehran 1995 and Milliron 2000 with Wan 2003), although models of a monitoring board (e.g., Hermalin and Weisbach 1998) might suggest that there would be a significant relation.

<sup>31</sup> We use the Execucomp variable ‘TCD1’, which consists of all compensation items, including cash salary, bonus and option grant values (calculated using the Black-Scholes option pricing model). Execucomp data are available for only a subset of the sample (344 proposal pairs), and an even smaller subsample have both board structure and executive compensation data (102 proposal pairs).

<sup>32</sup> The t-statistic for the difference in mean for the samples of all firms with Execucomp data and those with both Execucomp and board structure data are, respectively, -.04 and .24.

firm, and with total compensation after the rule change,<sup>33</sup> but abnormal compensation has no impact on voting outcomes. We then add total compensation to the model including board structure and interact the board variables with total compensation. If higher quality boards are considered to be effective monitors, then we would expect them to exert an ameliorative influence on voting support from the interaction of these terms with CEO compensation, counteracting a possible negative impact of higher compensation. We find that larger boards decrease support in conjunction with CEO compensation, a finding consistent with the model of Hermalin and Weisbach (1998), in which small boards exercise greater monitoring over managers, as the negative interaction between board size and compensation implies that investors have less confidence in management compensation proposals, given higher management pay, when the board is large.

More important, as in the parallel model of column 5 in panel B, the multiple interaction term of independent director ownership, mutual fund holdings and the ‘after’ dummy, here interacted with compensation, is significantly positive (column 3). After the disclosure rule, mutual funds appear to key their votes in relation to the governance structure of the firm by increasing support for management proposals when the CEO’s salary is high in the presence of higher outside director ownership. Because the size of the board matters in relation to compensation, in the final column of panel C we examine whether mutual funds key on board size in addition, or instead of, independent director holdings, by adding an interaction term between fund holdings, board size, compensation, and the ‘after’ dummy. That term is insignificant, while the interaction with independent director holdings remains significant. We interpret these results as supporting the alternatives previously presented: mutual funds consider incentivized outsiders (independent directors with higher stock ownership) as either to be effective monitors, or to provide a credible rationale in a public voting context, such that they increase the acceptability of supporting equity incentive plans for managers in firms with higher CEO compensation.

#### *4.1.1.b. Robustness checks: Controlling for time trends and the enactment of SOX*

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<sup>33</sup> The model in column one does not include the ‘after’ dummy because VIF tests indicate that it is highly collinear with the other variables but that excluding it eliminates the multicollinearity problem. When included, the total compensation variable is insignificant. The VIF test when abnormal compensation is used instead (column 2), indicates no multicollinearity problem with the inclusion of the ‘after’ dummy. A VIF test indication of multicollinearity is also the reason why the interaction between mutual fund holdings and the ‘after’ dummy is

Because incentive compensation came under increasing scrutiny and challenge by activist investors post-Enron, the ‘after’ dummy may be picking up changes in the proxy environment following the enactment of SOX, and not the impact of the mutual fund vote disclosure rule. We therefore estimate the regressions using an additional “after-SOX” dummy (post-June 2002).

When ‘after-SOX’ replaces the ‘after’ dummy in the base regression without ownership variables, it is negative and significant, as is the ‘after’ dummy in the regression reported in column 1 of panel A. When we include both of these dummies in that regression, however, only the ‘after’ dummy, and not the ‘after-SOX’ dummy, is negative and significant. This suggests that the decline in votes is, in fact, as of 2003 and not 2002, and associated with the SEC’s disclosure rule rather than SOX. When we add the institutional variables and interact mutual fund holdings with both the ‘after’ and ‘after-SOX’ variables, the ‘after’ interaction is marginally positively significant while the ‘after-SOX’ interaction is insignificant (with negative sign). When only ‘after-SOX’ interactions are used for each class of institution, none of the interactions are significant.<sup>34</sup> While anecdotal accounts suggest that the proxy environment for incentive compensation plan proposals became increasingly more difficult before the mutual fund voting disclosure rule was enacted, this result suggests that the effect on voting that our estimations capture is associated with the time frame of the rule’s adoption and not SOX.<sup>35</sup>

To examine further changes in the voting environment across time, we estimate the regressions adding a time trend. A general trend of decrease in voting support for management (independent of the federal government’s response to Enron) could potentially explain the findings of decreased overall support after the rule change as well (though not the evidence of increased support by mutual funds thereafter). In the base model (column 1) with no ownership or ‘after’ dummy variables, the trend variable is significantly negative but when the institutional ownership and interaction terms (columns 4 and 5) are added, it is insignificant. This implies that the findings are not due to a general temporal decline in support. However, when both the trend and ‘after’ dummy are included in

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excluded from the regression reported in column four.

<sup>34</sup> In the model including board variables reported in panel B, if ‘after-SOX’ replaces all of the ‘after’ variables, including the interactions, then the results are identical to the reported regression. However, both the ‘after’ and ‘after-SOX’ dummies, and their three-way interactions, cannot be included because of multicollinearity.

<sup>35</sup> As we discuss in part 4.1.1.c, *infra*, some important features of compensation plans appear to have changed after June 2003, and that change, rather than the vote disclosure rule, may be the explanation of these findings.

any of the regression models, neither is significant.<sup>36</sup> To unpack these disparate results, we include year dummies rather than a trend variable in the estimation.

In the base model without ownership variables, all of the year dummies are negative in sign, with years 2000, 2001, 2004 and 2005 significant at 5 percent, and years 2002 and 2003 significant at 10 percent (1997 is the omitted year dummy, and the constant term is significantly positive). However, the coefficients are not uniformly increasingly negative over time (the most negative coefficient is that for 2005, followed by 2001 and then 2004), as would be expected if support would consistently fall over time. In a regression with the ‘after’ dummy and year dummies for 1998-2002, only the dummies for ‘after’ and 2000 are significant (2001 is marginally significant). Therefore, voting support decreased both before and after the rule change. When ownership variables are included and mutual fund holdings are interacted with both 2000 and 2001, as well as with the ‘after’ dummy, none of these interaction terms are significant. More important, if only one interaction term is included, neither the interaction with 2000, nor that with 2001, nor an interaction term combining years 2000 and 2001, is even marginally significant (in contrast to the results in column 5 of panel A using the ‘after’ dummy) and the sign on the 2001 interaction term, as well as the combined 2000-01 interaction, is negative. These results are consistent with the interpretation that adoption of the disclosure rule did not result in mutual funds’ reducing their support for management and that, if anything, the funds’ support increased after the rule’s enactment. The data are also consistent with viewing the decline in support for executive equity incentive compensation plans after the rule’s adoption as paralleling declining support prior to both the rule and 2002 corporate scandals, and accordingly, plausibly unrelated to the rule but to another factor in the environment that was also present in the earlier years.

#### *4.1.1. c. Robustness checks: Controlling for incentive compensation plan features and the impact of broker nonvotes*

Changes in compensation plan features over time are a potential alternative explanation of our results. Thomas and Martin (2000) identify five characteristics of compensation plans that in multivariate regressions are negatively correlated with voting support: dilution proportion (dilution caused by the specific proposal), total

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<sup>36</sup>Multicollinearity does not appear to be the explanation: although the two variables are highly significantly correlated, variance inflation factor tests are insignificant for all models but that including all of the institutional investor interaction terms, and even in that case it is non-mutual fund holding interaction terms that are highly

dilution (dilution due to all compensation plans and not just the proposal), ability to reprice or exchange underwater stock options; extension of loans to exercise options; and awards of time-lapsing (non-performance-based) restricted stock. As they discuss, those features are known to be considered objectionable by institutional investors. In addition, a study of compensation proposals introduced from 1992-2003 by Morgan et al. (2006) finds both dilution proportion and total dilution are negatively related with voting support. We are able to obtain information regarding at least one of the five plan features studied by Thomas and Martin for 258 plan proposal pairs.<sup>37</sup>

Table 3 reports summary statistics for the plan features, and shows that there is no significant difference in dilution (proportion or total) across proposals offered before and after the mutual fund vote disclosure rule's adoption.<sup>38</sup> There is a significant difference in the other three characteristics: significantly fewer plans permit repricing or loans, while significantly more plans award restricted stock post-disclosure. However, these changes cannot plausibly be related to management responding to the mutual fund vote disclosure rule. The reduction in repricing and loan provisions, which would be expected to increase support for the plans, can be attributed, respectively, to an alteration in the accounting rule for option repricing that imposed an unfavorable financial statement treatment of such action (effective in 2001), and to SOX's prohibition of executive loans (e.g., Personick, 2005). The increase in restricted stock usage, which would be expected to decrease support, can be attributed to the change in accounting rule, announced in 2003 with a 2005 implementation date, to require option expensing, because that meant that firms no longer obtained an accounting "benefit" from option awards, while restricted stock has other benefits compared to option grants, such as retaining some value in market downturns (compared to options that become underwater) (e.g., Personick, 2005:8). Because the changes in plan features go in offsetting directions relative to institutional investor preferences, the overall decline in support for these proposals after 2003 cannot be readily attributed to changes in compensation plan features.

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correlated with the 'after' dummy, and not the trend variable.

<sup>37</sup> We would like to thank Randall Thomas and Kenneth Martin for generously sharing with us their 1998 data. We use IRRC's online voting database for plan features, rather than collect and characterize plan features ourselves, in order to assure consistent treatment with plan classifications in the Thomas and Randall study, which are taken from IRRC data. Because the IRRC database begins in 2001 and it does not always summarize all features of plans in its analyses of proposals, we were able to obtain information on all five features for both the before and after proposal of a pair for only a subset of our sample (155 proposal pairs).

<sup>38</sup> The dilution rates before and after are, respectively, 4.7 versus 4.8 percent (4.74 and 4.67 in the subsample with plan features used in the regressions reported in panel D of Table 4) for dilution proportion, and 18.2 versus 19.7

We re-estimate the vote regression (the full model with holdings by institutional class of column 5 of panel A in Table 4) adding plan features. As indicated in the first column of panel D of Table 4, dilution proportion, total dilution and the repricing dummy are significantly negative.<sup>39</sup> These results, which are consistent with those of Thomas and Martin (2000) and Morgan et al. (2006), suggest that the findings regarding fund holdings in the prior panel regressions are not due to changes in the compensation plans, because two of the three plan features that changed over time are not significantly related to the voting outcomes, and the one that is significant, the repricing dummy, is negative, while the number of plans permitting repricing declined after 2003. Interacting the plan variables with the ‘after’ dummy, only the total dilution interaction term is significant (column two): while average total dilution is unchanged over the time period, after the disclosure rule proposals effecting higher total dilution attract more no votes.<sup>40</sup>

Next we add interactions between the plan variables, mutual fund holdings and the ‘after’ dummy, while eliminating the interactions between plan features and the ‘after’ dummy that are insignificant, in order to determine whether the afore-mentioned effect is due to the rule change (i.e., due to a change in mutual fund behavior). None

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percent (18.4 and 20.1 subsample) for total dilution.

<sup>39</sup> Variables significant in panel A (size, poison pill) are no longer significant, nor are the mutual fund holdings variables marginally significant, but it should be noted that the number of observations is significantly reduced (310 or 342, depending on the model, compared to 816). Because the restricted stock and loan dummies are insignificant, they are omitted from subsequent estimations, resulting in an increase in the number of observations. Only 49 pairs with board governance data also have information on compensation plans. In unreported regressions combining board and compensation plan features, only one interaction between independent director holdings and plan features – that for repricing- is significant, and it is positive, implying that voting support is higher for plans with repricing in firms with higher outside ownership. In addition, there is a negative association between inside directors’ stock ownership and voting support. A model analogous to that of column 4 in panel B, adding an interaction term among mutual fund holdings, the ‘after’ dummy, total dilution and either independent or inside directors’ holdings, and dropping the simple interactions between independent director holdings and plan features, finds that the multiple interaction term with independent directors’ holdings is marginally significantly positive, and that with inside directors’ holdings is significantly negative. Given the marginal significance of the former and small sample size, we are, however, loathe to conclude that after the vote disclosure rule, independent directors’ ownership might render acceptable to mutual funds otherwise undesirable compensation plan features.

<sup>40</sup> Column two of panel D excludes the ‘after’ dummy and its interaction with other holdings, along with total dilution, because VIF tests indicate multicollinearity. If the interaction between the ‘after’ dummy and total dilution is excluded rather than total dilution (the two variables’ variance inflation factors are above 10 when both are included, but below 10 if either is excluded), then total dilution is significantly negative and the other results are unchanged. Morgan et al. (2006) find that the impact on voting outcomes of proposals’ dilution proportion declines over time; although their sample ends in 2003, that finding is consistent with the interaction between dilution proportion and the ‘after’ dummy being insignificant. The omission of the ‘after’ dummy and other interaction terms in the reported estimations in the remaining panel columns is also due to VIF tests indicating multicollinearity problems if they are included.

are significant (column 3). The results indicate that changes in plan features in the period following the disclosure rule change do not explain our other results, suggesting that mutual funds have not reassessed their voting strategies for compensation plans post-disclosure.

Finally, we consider the impact of a parallel change in the proxy voting environment at the time of the mutual fund vote disclosure rule's adoption. In June 2003, the New York Stock Exchange (NYSE) altered its rule on when brokers can vote shares in cases where the beneficial owner does not provide voting instructions to exclude all executive equity incentive compensation plans. The previous rule permitted broker votes on plans whose dilution proportion was under 5 percent, and Bethel and Gillan (2002) find that under that regime compensation plans received significantly higher support when brokers could vote. Of course, brokers could only vote on plans with low dilution levels, which would render the plans less objectionable to institutional investors and thereby attract more support independent of the broker votes. Nevertheless, it is possible that the inability of brokers to vote shares for all compensation proposals after the disclosure rule, compared to only some such proposals before its adoption, could explain why the 'after' dummy is significantly negative.<sup>41</sup> We therefore create a dummy variable indicating whether a plan's dilution proportion is less than 5 percent. If managers had been proposing plans with dilution rates below 5 percent before 2003 to avoid the NYSE rule on broker nonvotes (Bethel and Gillan, 2002:33), then we would expect the proportion of such proposals to decrease after the rule change because all plans now require a vote.

There is, however, no significant difference between the rate of dilution proposals above and below 5 percent, before and after June 30, 2003 (the mean value of the dilution dummy is .67 before and .62 after, with a t-statistic for the difference in mean of 1.0). In addition, when we include that dummy variable, and its interaction with the 'after' dummy in the full model regression including institutional investor variables along with the two other significant plan features, total dilution and repricing (plan features to which institutions object but that are not related to the broker voting rule), the 'dilution' dummy is significantly positive, while the 'after' interaction is

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<sup>41</sup> The firms in Bethel and Gillan's sample paid significantly lower proxy solicitation fees for proposals on which brokers could vote (they appeared to spend more on controversial proposals, on which brokers were not permitted to vote, such as shareholder proposals). It is therefore possible that management could maintain voting support levels for those proposals once broker votes are not permitted by increasing proxy solicitation expenditures.

insignificant (see column 4 of Table 4, panel D).<sup>42</sup> There is greater voting support for proposals with lower dilution rates, and the broker voting rule change did not significantly alter that effect.

#### *4.1.2. Employee stock purchase plans*

Management proposals on employee stock purchase plans receive much greater overall support than incentive plans (as Table 2 indicated). However, these proposals are the only context in which, on first impression, the data appear to support the reasoning of advocates of the mutual fund vote disclosure rule: although aggregate institutional ownership is significantly positive, its interaction with the ‘after’ dummy is significantly negative (see column 3 of Table 5, panel A). The aggregate institutional investor findings appears to be related to the behavior of bank and insurance companies, as the interaction of that class of institutions’ holdings and the ‘after’ dummy is marginally significantly negative. These data suggest that in this proposal context, institutional support for management declined after the rule change, a finding consistent with an inference that the disclosure rule served to reduce conflicted voting because overall support by institutions diminished after its adoption.

The finding that support for employee stock purchase plans declined after the rule change and that the decline is related to institutional holdings, cannot, in fact, be directly connected to the mutual fund vote disclosure rule. As illustrated in columns 4-5 of the panel, the mutual fund ownership variables are insignificant, and it is, instead, banks and insurance companies that are the source of the statistical significance. Although Pound (1988) and Brickley et al. (1988) have emphasized the potential conflicts of banks and insurance companies, those institutions were unaffected by the vote disclosure rule. It is therefore difficult to attribute the statistically significant results to even a subtle influence of the disclosure rule. Not being subject to the SEC’s regulatory authority,<sup>43</sup> those institutions would have no reason to expect to have to disclose their votes in the future. Thus, for

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<sup>42</sup> If we substitute an interaction term between the ‘dilution’ dummy and a ‘before’ dummy for that with the ‘after’ dummy, to probe further whether voting outcomes changed when broker voting was eliminated, that interaction is also insignificant. If both of the interaction terms are used in the regression and the noninteracted ‘dilution’ dummy is excluded, the ‘before’ interaction is significantly positive while the ‘after’ dummy is only marginally so (significantly positive at 10 percent), but a test for whether the coefficients of the two terms differ is insignificant (F-statistic of 0.47).

<sup>43</sup> The rule was adopted under the SEC’s authority to regulate mutual funds and their advisors under the Investment Company Act. The SEC does not have analogous authority over either banks (which are regulated by federal and state banking authorities) or insurance companies (which are regulated by state insurance authorities). None of those

this category of compensation proposals as well, there is no apparent impact on voting outcomes from the mutual fund vote disclosure rule.

#### *4.1.3. Bonus plans*

The bonus plan proposals sponsored by management further solidify the view that mutual funds' voting behavior, and therefore voting outcomes, were not affected by the disclosure rule. Support for these proposals is increasing in aggregate institutional ownership, and more specifically, with mutual fund holdings (see panel B of Table 5). Moreover, none of the interactions with the 'after' dummy are significant. Voting support decreases in the holdings of the 'other' category of institutions that includes activist investors such as public pension funds, again, a class of investors on which the SEC disclosure rule had no impact, and which are not perceived to have conflicts of interest. We do not have an explanation for why there would be significant differences in institutional voting practices for these proposals, but if it is due to conflicts of interest, the disclosure rule appears to have had no affect on altering fund behavior.

#### *4.1.4. Proposals to issue or authorize common stock*

The mutual fund vote disclosure rule also has no effect on the voting outcomes of management proposals to authorize or issue common stock. As is true for the executive equity incentive compensation plan proposals, voting support declines after the rule, but none of the interaction terms between institutional ownership and the 'after' dummy are significant, as indicated in panel C of Table 5. Bank and insurance company holdings are inversely related to voting support. There is not even a marginally significant interaction effect, and as noted previously, those institutions were not affected by the mutual fund vote disclosure rule.

In some regressions, higher prior stock returns are associated with greater support, an intuitively plausible finding: firms that are performing well should be expected to obtain greater support from shareholders for undertaking activities that require additional equity financing, such as new projects or acquisitions, which are the common reasons why such proposals are introduced. But the firm characteristics significant for all of the regulators indicated at the time of, or subsequent to, adoption of the mutual fund vote disclosure rule that they were

compensation proposals – size and poison pills – are insignificant for common stock issuance proposals.<sup>44</sup> Indeed, none of the explanatory variables are consistently significant. We view this as indicating that the proposals in this category are heterogeneous, often idiosyncratic, with wide variety in the reason for the issuance (acquisitions, project financing, capital expenditures, alleviation of financial distress, and so forth), such that voting support is dependent on the specifics of the proposal, although we suspect that the level of dilution imposed by the proposal would most likely be negatively related to voting support, as is true for executive equity incentive compensation plan proposals.

#### **4.2. Shareholder proposals**

Table 6 reports the results for shareholder proposals on takeover defenses and executive compensation (panels A and B), respectively. In contrast to the management proposals, there is no effect on the support level for shareholder proposals upon the adoption of the mutual fund vote disclosure rule. The ‘after’ dummy variable, as well as the interaction terms, are insignificant in virtually all estimations for both proposal categories; the sole exception is that it is significantly positive in the base model with no ownership variables for compensation proposals.<sup>45</sup> Consistent with intuition, support levels for both types of proposals are positively associated with ownership by “other” institutions, the category that includes the activist investors – public pension and union funds – that sponsor such proposals. In addition, support levels for compensation proposals in some of the regressions are inversely related to profitability as measured by return on assets. That is also an intuitive result – it is plausible for shareholder dissatisfaction with management, and hence support for proposals to restrict management pay (the aim of the majority of these proposals), to be higher at poorly performing firms.

None of the firms’ takeover defenses are significantly related to support for shareholder proposals on

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considering requiring disclosure of their regulated entities’ votes.

<sup>44</sup> Stock issuance to be used for compensation plans are classified as compensation proposals, and not stock issuance proposals, by the IRRC.

<sup>45</sup> We therefore estimated a regression of the compensation proposal voting outcomes with the ‘after-SOX’ dummy, a time trend, and year dummies, to determine the robustness of this finding. It is not robust. When both the ‘after’ and ‘after-SOX’ dummies are included, only the ‘after-SOX’ dummy is significant. In addition, when both the ‘after’ dummy and a time trend are included, again, only the time trend is significant. Finally, when year dummies are included, only years before adoption of the SEC rule are significant. These data reinforce the conclusion in the text that the mutual fund vote disclosure rule had no impact on the outcomes of these proposals.

compensation, which is the opposite of the finding concerning management compensation proposals, which obtain lower support in the presence of a poison pill. However, if the G index is included instead of the individual defenses, it is significantly positive – which is a plausible finding, in contrast to the similar result for the management proposals - indicating decreased support for management when the firm has more defenses, or poorer governance, as Gompers et al. put it. Moreover, when the index is used instead of the individual defenses, the ‘after’ dummy is significantly positive in the model measuring institutional ownership by the aggregated percentage held, suggesting that voting support for management declined after adoption of the mutual fund disclosure rule, although the decline is not associated with any institutional class (no interaction term in the regression using disaggregated holdings is significant).

The table reports results for the full set of takeover defense proposals and all of the individual defense dummy variables; the proposals obtain higher support levels at firms with staggered boards and restrictions on special meetings.<sup>46</sup> Interpretation of the takeover defense variables is, of course, somewhat murkier for these proposals because shareholders will only propose to remove staggered boards or poison pills at firms that have the defenses. If we estimate the regressions for the full sample deleting the staggered board, blank check preferred and poison pill dummies, then none of the findings differ: the coefficients for restrictions on special meetings and other institutions’ holdings are still significantly positive. In addition, if the staggered board (poison pill) proposals are removed and the remaining proposals estimated without the poison pill and blank check preferred (staggered board) dummy variables, again, voting support is still significantly higher for firms with restrictions on special meeting, as well as those with greater holdings by other institutions.<sup>47</sup>

A possible explanation why restrictions on special meetings affect voting outcomes is that when shareholders do not have the option to replace the board at any time by calling a special meeting, they may deem eliminating takeover defenses to be essential for ensuring effective consideration of bids. For example, shareholders

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<sup>46</sup> The regressors’ variance inflation factors are all low (below 10), indicating that multicollinearity across defenses for the full set of shareholder proposals to remove defenses is not a problem for the estimation.

<sup>47</sup> There are no proposals to remove restrictions on special meetings or on written consent in the sample. The size of the sample that remains when either the staggered board or poison pill proposals are removed is about the same, 118 or 116 observations, respectively, both considerably smaller than the full sample of 180 observations (90 pairs). In the regression excluding staggered board proposals (i.e., the regression of votes on proposals regarding poison pill and other defenses not directed at staggered boards), the staggered board dummy variable is not significant.

need not be that concerned over a poison pill or staggered board if they can call a meeting at the onset of a hostile takeover at which they can replace all or part of the board and facilitate the pill's redemption. As a consequence they may be less likely to vote for a proposal to remove those defenses at firms permitting shareholders to call special meetings, as opposed to firms whose corporate charters prevent such action. Although this explanation of the data is speculative, it is consistent with the presence of special meeting restrictions affecting voting outcomes for shareholder proposals on takeover defenses and not for those on executive compensation.

#### **4.3. Inferences from mutual fund votes**

Thus far, we have analyzed the effect of the mutual fund vote disclosure rule on voting outcomes by inference from institutional holdings to votes. As mutual fund votes are available for post-disclosure rule proposals, in this section we use actual voting data to improve the inferential analysis of whether voting behavior changed. In particular, the previous results only relate the aggregate mutual fund ownership in each firm to the voting outcomes. This assumes that all firms are held by funds with similar voting behavior. By using actual voting data and the characteristics of the funds holding our sample firms, we can control for differences in funds across firms. This may be important, as fund holdings are clearly endogenous, especially the fund holdings for which we obtain votes, as those are funds that have the largest stake (relative to their assets under management). Specifically, our previous result that mutual funds did not decrease, and even seemed to have increased, their support for management-sponsored executive equity incentive compensation proposals after adoption of the mutual fund vote disclosure rule, could be due to changes in which funds hold the firms sponsoring such proposals.

We collect the votes of mutual funds whose holdings of the outstanding shares of the issuer of a sample proposal introduced after the rule change equals at least 0.75 percent of each particular fund's stock portfolio's assets under management. This criterion results in a sample of funds that are more than average invested in our sample firms, but is not weighted towards larger funds.<sup>48</sup> We identify the funds from Thomson Financial's

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<sup>48</sup> We selected this cutoff for feasibility of data collection. If that cutoff resulted in our collecting votes for less than one-third of the issuer's equity that is held by mutual funds, then for that proposal we used instead a cutoff of 0.25 percent of a fund's stock portfolio.

CDA/Spectrum mutual funds database, which contains quarterly report information on individual mutual funds' domestic equity portfolio holdings.

We seek to predict the mutual funds' actual votes on the 'after' proposals as a function of fund characteristics, which are obtained from the CRSP mutual fund database. However, the mapping between the Thomson and CRSP databases is only available for all-equity mutual funds, so that our fund characteristics are only for that subsample of funds for which we collect votes. This limitation does not affect our results, as these remain the same if only fund votes are considered for those funds for which we can obtain information on characteristics. The fitted regression of the actual votes produces the expected mutual fund vote for all proposals, both before and after (we will refer to these resulting fitted values as the "expected fund vote" variable). Next, we add the expected vote variable as an additional explanatory variable to the previous regressions of voting outcomes discussed in sections 4.1-4.2 to refine the analysis of whether the mutual fund vote disclosure rule affected fund behavior and consequently, voting outcomes.

Because we only observe the fund vote after the rule change, it is necessary to make some assumptions regarding the relation between fund characteristics and voting in order to calculate the expected fund votes before the rule change. We assume that the relationship is stable such that the only change in mutual fund voting (before versus after) is related to changes in mutual fund characteristics before versus after or due to changes in firm characteristics. As a result, in the second stage regressions, we test a joint assumption, that the fitted regression contains all of the relevant characteristics (of funds and firms) that affect mutual fund voting, and that the relation between those characteristics and voting is stable over time. If the expected fund vote variable differs before versus after, it could be either because mutual fund votes indeed changed before versus after in ways that are unrelated to their characteristics, or because of misspecification (i.e., the fitted regression of what factors affect fund voting has omitted important variables that changed before versus after). The assumption of stability functions as a null hypothesis that any change in fund voting after the disclosure rule is not related to fund characteristics. We will attempt to see whether there is a change in the relation using interaction terms with the expected vote variable in the regressions.

#### *4.3.1. Mutual fund votes and characteristics*

On average, mutual funds voted no differently from other shareholders (73.1 percent in support of proposals compared to 72.7 percent in support overall, see Table 7). However, when votes are disaggregated by proposal type, as indicated in Table 7, mutual funds voted against management at a higher frequency than other shareholders for both management-sponsored executive equity incentive compensation plan proposals and for shareholder-sponsored proposals.<sup>49</sup> Table 7 also shows that mutual fund holdings periods are not that long. On average and weighted by fund shares owned, only 38 percent of mutual funds holding stock in the firms at the time of the “before” proposal continued to own shares at the time of the “after” proposal, and of those funds for which we collect votes (only all equity funds), the average overlapping ownership is an even lower 17 percent. For the remainder of this section, we focus our analysis on management-sponsored proposals on executive equity incentive compensation plans, the only class of management proposals on which mutual funds voted differently from other investors, and the sample with the most interesting results in the prior section. For comparative purposes we also provide, albeit more briefly, the results for the shareholder-sponsored proposals on takeover defenses, the category of shareholder proposals with the largest sample size and thus offering the most reliable estimation.

Table 8 provides information on the characteristics of the mutual funds holding stock in our sample of firms for these two proposal categories. On average, the funds have total net assets over \$9 billion (the funds holding firms with shareholder proposals being considerably larger than those holding firms with management proposals), an expense ratio of 1 percent, a load of 2-3 percent, and an annual turnover ratio of 60 percent. The high turnover ratio of the average fund is consistent with the low proportion of mutual funds with continued ownership in the sample. As reported in Table 8, average fund characteristics differ significantly over time, with higher average turnover and expense ratios, and lower average net asset values, before the vote disclosure rule was adopted than afterwards. These differences are consistent with general trends in the mutual fund industry that are independent of

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<sup>49</sup> Specific other investors, of course, may have supported management at an even lower level than mutual funds. We sought to compare the funds’ voting to that of CalPERS but were able to identify how CalPERS voted for only eight proposals in our sample. For six of the eight proposals, all of the mutual funds whose votes we obtained voted identically to CalPERS, half of which were positions in support of management. With respect to the other two proposals, in one case all of the funds voted against a shareholder proposal that CalPERS supported (a proposal in the ‘miscellaneous’ category requiring a shareholder vote on executive retirement benefits), and in the other, 70 percent of the funds supported a management proposal that CalPERS opposed (an executive equity incentive compensation plan proposal).

the rule change: turnover rates and expenses have declined, and assets have increased, over the past decade.<sup>50</sup> In addition, the table reports the average holdings in the sample firms of the five largest fund families (as measured by their holdings in the sample firms). The average holding varies considerably across the fund families, but is still relatively small, ranging from less than 1 percent to 2 percent. It also varies considerably across sample firms (holding standard deviations are, for most families, at least double the mean). Finally, although the families' specific holdings differ across over proposal type, four of the five families are the largest holders of the sample firms for both the management and shareholder proposals studied in this section.

The estimated regressions of actual fund votes, which will be used to derive expected fund votes, are reported in Table 9. The fund characteristics used to predict fund votes are those reported in table 8, expense ratio, turnover ratio, load,<sup>51</sup> the log of total net assets, and the percentage held by the five largest fund families. Because actively managed funds' voting policies may differ from passively managed funds, we include expense and turnover ratios. We include net assets under management because larger funds have more resources to consider voting issues (firms with fewer resources would, for instance, be more likely to rely on the default rules of proxy voting services, such as ISS). We also include average load, in case funds with sales charges follow different voting policies from funds without sales charges. Given the dramatic alteration in the individual fund characteristics of the average mutual fund over the sample period indicated in Table 8, we de-trend those fund characteristics by subtracting annual means. Finally, we include the largest family fund holdings because voting policies are often set at the fund family level, which thereby affects voting outcomes independent of the individual funds' characteristics, and the larger the family holdings the more independently informed the family's voting policies should be. We do not de-trend family fund holdings, however, despite there being a significant increase in most of the families' holdings over time, because holdings are directly related to voting outcomes, on essentially a one to one basis.

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<sup>50</sup> The Investment Company Institute (ICI), the mutual fund trade association, tracks the asset-weighted turnover rate of stock funds, and the ratio ranged between 60% and 70% through 2001, falling below 60% only in 2003 (ICI, 2006: 21). Similarly, average expenses of stock funds have declined from 1.55% in 1995 to 1.13% in 2005, while assets flowing into no-load funds have continued to increase, and those flowing into load funds have dramatically decreased, from 2000-05 (ICI, 2006: 18, 39-41). Finally, mutual fund assets have doubled from 1997-2005 (ICI, 2006: 3, 7), the time period of the sample.

<sup>51</sup> The load variable is the sum of the maximum front- and rear-end loads. We average fund characteristics across all funds holding the proposal firms (the regression observation units).

We also include in the regressions firm characteristics that might affect funds' voting policies. The included firm characteristics are the three profitability measures, confidential voting and the five individual takeover defenses used in the regressions reported in the prior sections.<sup>52</sup> As reported in section 4.1.1.a, interactions between these firm characteristics and the 'after' dummy are insignificant, indicating that the relation between voting outcomes and these characteristics did not change over time. Consequently, inclusion of these variables should improve our ability to predict the "before" votes with these regressions of "after" votes.

As Table 9 indicates, the ability of fund characteristics to explain fund votes differs across proposal type, and although most fund characteristic regressors are insignificant, the overall regression is significant (the regression F-statistics are significant at less than 1 percent). Table 10 presents the correlation between the expected fund votes fitted from the regressions in Table 9 and the actual fund votes, as another measure of the goodness of the regression's "fit." The expected votes are significantly positively correlated with mutual funds' actual votes.<sup>53</sup> This lends confidence to the efficacy of using the two stage approach. As the next two sections report, in general, the results of the voting regressions using expected votes replicate those reported earlier for the regressions inferring mutual fund voting from mutual fund holdings that are estimated without the additional information that can be gleaned from some funds' actual votes.

#### *4.3.2. Management-sponsored executive equity incentive compensation plan proposals*

Table 11, panel A reports regression results for executive equity incentive compensation plan proposal voting outcomes using "expected fund vote" as an explanatory variable along with interactions of that variable with

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<sup>52</sup> We do not de-trend firm characteristics, although the presence of several defenses and prior returns are significantly different across sample firms before and after the rule change, for two reasons: the purpose of these estimations is to control for the identity of voters rather than firms; and it is probable that it is absolute, and not relative prior returns or presence of defenses that impacts votes.

<sup>53</sup> The regressions in Table 9 are estimated using all funds and not solely those for which we collect votes, on the assumption that the funds for which we have votes are representative of all of the funds holding the shares. There are too many cases of "zero" observations for family fund holdings to be able to estimate the regressions reliably for those variables using only the smaller number of funds for which we collect votes (for example, there are 350 zero observations for the Fidelity fund family in this instance). Regressions using only funds for which we collect votes can be estimated if the fund family holding variables are excluded. Compared to a regression using all observations on only the individual fund and firm characteristics in the reported regressions, the regressors in estimations using only funds for which we have votes are less significant. In addition, if the individual fund characteristic variables are not adjusted by their annual means, their significance levels are unchanged but the significance of some of the

mutual fund holdings, which we interpret as a variable indicating total mutual fund votes (i.e., total mutual fund ownership multiplied by expected votes based on characteristics of identified funds), as well as interactions with the ‘after’ dummy. Because mutual fund data were not available for each sample firm for both before- and after-disclosure rule change proposal years, the sample for the analysis using actual votes is smaller than that for the prior analysis (362 “after” proposals are used in the derivation of expected votes).

In addition to the “expected fund vote” variable and its associated interaction terms with fund holdings, we include a further new variable, “percent same,” which is the percentage of continued share ownership by mutual funds across the before and after proposals for which we obtain the funds’ votes (see column 4 in Table 7). If this percentage is relatively high, the funds holding that stock before should be relatively more similar to the funds holding that stock after. Firms for which this percentage is relatively low should be more likely to have funds whose characteristics differ before and after (because there is a greater difference between which funds own the stock before and after). If the percent same variable is not significant, it indicates that there is no difference between firms with high or low carryover of funds. Accordingly, this would confirm our estimation of the relation between fund characteristics and fund voting (see Table 9), and that the sample of funds for which we collect votes is representative of the set of all funds holding the stock. Moreover, percent same can also serve as a test for misspecification in the expected fund vote regression. If important fund characteristics are missing, then this should affect firms less for which funds’ characteristics before versus after changed less.

The first three columns of panel A of Table 11 present the results for regressions estimated without the firm characteristics included in the regression to fit expected mutual fund votes; they are included in the regressions reported in the final two columns. The firm characteristics significant in the regressions reported in Table 4, panel A are equally significant in those regressions: firm size increases, and share turnover and the presence of a poison pill decrease, voting support. In addition, mutual fund support increases with the presence of a pill. In unreported regressions, the interaction term between the poison pill dummy, expected votes and mutual fund holdings is significantly positive, paralleling the earlier reported results. Further, the percent same variable is not significant in

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fund family holdings variables decreases.

any regression, which suggests that differences in fund characteristics across our sample of funds before versus after are not significantly related to aggregate voting outcomes.

The expected fund vote variable is not significant on its own, but is marginally significantly negative when interacted with mutual fund holdings, the “total mutual fund vote” variable (comparing columns 1 and 2; and significant in column 3). However, when further interacted with the ‘after’ dummy, it is significantly positive (column 3). Those results continue to hold when all of the firm characteristics are included (column 4). This indicates that while, as the raw data reveal, mutual funds are less likely to vote for management than all other investors, their lower level of support is not a function of the vote disclosure rule. For that to be the case, the after-interaction must be significantly negative as well. These data indicate more strongly than the analysis in Table 4 (that did not use actual fund votes) that the disclosure rule increased, rather than reduced, mutual funds’ voting support for management.

We also estimate (unreported) the regression in column 4 replacing the single interaction term between expected fund votes and fund holdings with a triple interaction term of those two variables and a “before” dummy variable (indicating the period before the rule change). In this regression, the ‘before’ interaction term is significantly negative and the ‘after’ interaction term is now positive but insignificant, and a hypothesis test indicates that those two variables’ coefficients are unequal (F statistic of 5.35, significant at less than 5 percent).<sup>54</sup> Therefore, taking the reported and unreported regression results together, mutual funds’ voting behavior changed after the disclosure rule, but not as the rule’s advocates predicted: their voting became more, not less, supportive of management after the rule change, on proposals involving executive incentive compensation plans.

The final regression reported in column 5 of panel A of Table 11 parallels the regression reported in column 3 of panel B of Table 5 adding governance variables. As before, the multiple interaction term interacting independent director stock ownership, institutional holdings (now interacted with expected fund vote) and the ‘after’ dummy is positive and significant. Neither of the two interaction terms that are significant in the full sample models

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<sup>54</sup> There is substantial co-linearity between the ‘after’ dummy and these interaction terms. The results reported in the text are unchanged if the ‘after’ dummy is excluded from the regression. For a further robustness check of the results of the regression reported in column 4, we replace each of the institutional investor holdings variables with an interaction term between those variables and the ‘expected votes for’ variable. None of the statistically significant results reported in the table change, and none of these new interaction terms are significant, bolstering the

estimated without board governance characteristics (the measure of actual votes that interacts mutual fund holdings and expected votes, and that variable's interaction with the 'after' dummy), are significant, paralleling the insignificance of the analogous terms in the earlier regressions. Finally, interactions of independent director ownership, the 'after' dummy and the holdings of the "other" group of institutional investors and of independent investment advisors are significantly negative and positive, respectively, replicating the results of the regressions on institutional holdings discussed earlier.<sup>55</sup> In short, the statistical analysis using expected votes and governance variables does not alter the conclusion of the other analyses, that the mutual fund vote disclosure rule did not reduce mutual funds' support for management (as we would expect to occur had the analysis of proponents of the disclosure rule regarding conflicted voting by mutual funds been correct).

#### *4.3.3. Shareholder-sponsored proposals on takeover defenses*

Regressions using expected fund votes to explain voting outcomes for shareholder proposals to remove takeover defenses are reported in panel B of Table 11. In contrast to the regression for the management-sponsored compensation proposals earlier discussed, with substantially fewer observations, and more than half of the actual votes with 100 percent of funds voting for the proposal, fifteen fitted values of expected fund votes exceeded 100 percent. Those predicted values were replaced with 100 percent in the analysis of voting outcomes.

The regression results parallel those previously reported for such proposals in panel A of Table 6. Confirming intuition, voting support for the proposals increases with the holdings of other institutions, the institutional investor category including public pension funds and other activist shareholders. In addition, as discussed regarding the regressions estimated without using information from mutual funds' actual votes, the presence of restrictions on shareholders' right to call special meetings increases voting support.

In the simple regressions reported in columns 1 and 2 that omit firm characteristics included in the regression on actual mutual fund votes, the expected fund vote variable, and total mutual fund votes (the interaction between expected votes and mutual fund holdings) are significantly positive. However, when the total mutual fund

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interpretation of the reported interaction term as identifying mutual funds' voting behavior.

<sup>55</sup> The reported regression omits the after dummy and its interaction with the holdings of other institutions and independent investment advisors because variance inflation factor tests indicate multicollinearity problems with

votes variable is interacted with the ‘after’ dummy (column 3), that interaction term is insignificant, as was the interaction term between fund holdings and the ‘after’ dummy in the previously reported regressions. Moreover, neither the simple interaction term of expected votes and fund holdings, nor the multiple interaction term with the ‘after’ dummy is significant when all firm characteristics are included in the regression (column 4).<sup>56</sup> Thus, we continue to find that mutual funds’ voting behavior was not affected by the disclosure rule: to repeat the analytical point, it is in the interaction term with the ‘after’ dummy that any effect of the rule change on mutual fund voting behavior will be identified.

## **5. Endogeneity and executive equity incentive compensation plan proposals**

One final endogeneity issue that could serve as a possible explanation for our main result that mutual funds seem to have increased their support for management-sponsored executive equity incentive compensation proposals is that having a proposal both before and after the rule change is a choice by either management or shareholders. For example, management may be more likely to sponsor a proposal in any given year if they expect the proposal to pass. Further, this may be related to – among other things – our main variable of interest, mutual fund holdings.

To investigate this for the management-sponsored executive equity incentive compensation proposals (our largest group of proposals and those with an “after” effect), we create a matched sample of firms that had only a before proposal but no after proposal. We first describe our matching procedure and any differences between our sample of original firms (with both before and after proposals) and our sample of matches (with only before proposals). Second, we will attempt to see if differences in firm characteristics, both before or after the rule change, are associated with having no proposal afterwards. If so, then those variables may partly explain our results, but if not, then endogeneity seems an unlikely explanation.

### **5.1 Match sample: construction and comparing matched firms to the original sample**

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their inclusion.

<sup>56</sup> The multiple interaction term is also insignificant in unreported regressions in which defenses are excluded as explanatory variables for samples of votes on proposals related to the specific defense, as described in the text at

We start with the universe of firms in the IRRC proxy voting database from 1994-2005 to identify matches for our sample firms. That universe is searched for firms with an executive equity incentive compensation proposal offered prior to the disclosure rule and no proposal in that group offered after the rule change.<sup>57</sup> From that pool of firms, we select a match for each sample firm by IRRC proposal code (and year if possible) and by size (market capitalization) and two-digit SIC code measured in the year of the before proposal. We first select the best match meeting those three criteria.<sup>58</sup> Because that procedure results in some sample firms being assigned to the same match firm, we identify alternative matches, using the same criteria (but typically selecting a firm less close in size), so that we have unique matches where necessary for analysis. If a match firm is assigned to two sample firms for which both the before and after years differ, then because the match observations will be taken from different years, that match is considered to be unique. We end up with a total of 254 usable matches (match firms with no missing information on the basic controls or institutional holdings). For a benchmark analysis, we compare the matches using the year in which the match firm's proposal was offered. In that analysis, the matches considered unique because sample firms' proposal years differed are not unique and are excluded. For that analysis there are only 200 usable matches.

Table 12 presents the difference between the original firms and the matched firms, for

- (i) 'before' proposals, using the actual proposal dates for both original and matched firms.
- (ii) 'before' proposals, using the dates for the original firms for both the original and the matched firms.
- (iii) 'after' proposal dates, which of course are only available for the original firms.

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note 47.

<sup>57</sup> In constructing the sample we found that the IRRC voting data were incomplete in the post-rule period (some firms followed before 2003 were not followed thereafter or their 2004 votes were not collected and the proposals did not show up in the database). We therefore hand checked for proposals submitted after the rule change to make sure that the matches were clean. Matches can have proposals offered after the rule change, as long as those proposals do not fall into any of the IRRC issue codes for executive equity incentive compensation plans.

<sup>58</sup> Given the three-pronged matching process, for 35 matches the difference in size is 100 percent. Fifteen sample firms are matched on one-digit SIC codes because there were no two-digit SIC code matches at all or none within 100 percent of the sample firm's size. When matching on IRRC proposal, if there is no firm with a same code proposal in the same year as the original firm's proposal (and whose size is within 100 percent of the original firm's size), we select the proposal offered in the closest year to the original firm's proposal, choosing a year after over a

The results comparing the characteristics for the before proposals indicate that on most dimensions, the groups of firms are very similar, even though the matching criteria were based on industry and firm size only. For some variables, it matters which dates are considered for the matched firms (own proposal or original sample firm's before proposal year). Those differences can generally be explained by noting that the proposal dates for the original firms before the rule change are generally later than those for the matched firms.<sup>59</sup> The main differences for the two groups before the vote disclosure rule's adoption are that the matched firms without an 'after' proposal seemed to have smaller size and lower institutional holdings. However, there was no discernable difference in mutual fund holdings.

Table 12 next reports the differences for these firm variables for the dates of the proposals of the original firms after the rule change, and the difference-in-difference of how each variable changed from the original firms' before proposal date.<sup>60</sup> For four variables, there is a significant difference change for the original firms versus the matched firms: firms without after proposals had significant lower growth in market capitalization, reduced their market betas, saw an increase in the holdings of independent investment advisors ('inst4') and a decrease in the holdings of mutual funds ('inst3'). Clearly, those variables that differ across groups (and especially those that changed differently after the vote disclosure rule change across groups) are the prime variables of interest in our consideration of whether endogeneity could explain our main result.

## 5.2 Exploring endogeneity

As a benchmark for whether our matching procedure will assist in identifying endogeneity in proposals offered after the rule change, we first examine whether there are differences in explanatory factors for the votes of the match firms' proposals and the original sample firms' 'before' proposals. In unreported regressions, we estimate

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year before, if there is a tie in distance.

<sup>59</sup> The mean before proposal year of the original firms is 2000.4 compared to 2000.0 for the match firms, which is significantly different at 5 percent (t-statistic of -2.0).

<sup>60</sup> Note that the difference-in-difference in column 4 in Table 12 is not equal to the difference of the values in columns 2 and 3 of the table. The reason is that for columns 2 and 3, the requirement is no missing information for either the before or the after dates, but for column 4 the requirement is no missing data for both dates. As a result, the samples are different.

the models reported in Table 4 (excluding the interaction terms between institutional ownership and the ‘after’ dummy), replacing the ‘after’ dummy with an ‘original’ dummy to indicate an original sample, rather than a match, firm. The original dummy is always insignificant. Because in these estimations, mutual fund holdings, turnover and prior stock returns decrease voting support, we also interact the ‘original’ dummy separately with mutual fund holdings and with turnover and prior stock returns, and then with both fund holdings and each of the other two variables. None of these interaction terms are significant. These results indicate that the effect on voting outcomes of firm characteristics is indistinguishable across the two groups of firms. This gives us confidence in the efficacy of using the matching process to examine endogeneity in post-rule proposals.

Table 13 presents the results for a logit regression estimating the likelihood of having no management-sponsored executive equity incentive compensation plan proposal after the rule change (i.e., the dependent variable equals 1 for match firms). Our sample consists of those original-firm – matched-firm pairs for which we have no missing information. We include the basic control variables plus the institutional holdings. For all variables, we include both the value before the rule change (at the date of the proposal of the original firm, for the relevant matched firm as well), and the change in that value to the date of the proposal after the rule change. Results are reported for two logit estimations, one including and the other excluding the two profitability measures.

The results indicate that across the two logit specifications, the main variable that is consistently and statistically significantly related to the likelihood of having no proposal after the rule change is the holdings by mutual funds. Specifically, both larger mutual fund holdings ‘before’ and a large increase in mutual fund holdings ‘after’ are associated with a greater chance of having a proposal after the rule change (the former is marginally significant with a p-value of 8 percent and the latter is clearly significant with a p-value of less than 3 percent). In addition, in the full model of column 2, three other variables’ ‘before’ levels are positively related to the likelihood of having an ‘after’ proposal: holdings by banks and insurance companies (‘inst12’), restrictions on shareholders’ ability to call special meetings, and net profit margin (the latter two being only marginally significant at 10 percent). However, for none of those three variables are changes from ‘before’ to ‘after’ significant.

This provides some evidence that, after the rule change, management seems more likely to sponsor executive equity incentive compensation plan proposals in relation to ownership composition. As we previously found that after the rule change mutual funds show greater support for these proposals, the increased likelihood of

having a proposal after the rule change for firms with greater mutual fund holdings and/or a greater increase in mutual fund holdings could explain part of our results.

However, this result would not be predicted by the overall association between mutual fund voting before the rule change, which (see panel A of Tables 4 and 11) indicated that, if anything, higher voting outcomes were associated with lower mutual fund holdings. Moreover, as previously reported, if we regress the voting outcome of the ‘before’ proposals of both original firms and matched firms jointly on their firm characteristics, we do not find any difference between the support of these proposals and the level of mutual fund holdings across the two groups.<sup>61</sup>

It is possible that management correctly anticipated the increased support of mutual funds after the rule change. On the other side, as Table 7 indicates, mutual fund support for management-sponsored executive equity incentive compensation plan proposals is still lower than that of the average shareholder. A related explanation could be that management was able to correctly anticipate which proposals would find increased support by mutual funds. For example, Table 9 suggests that for the ‘after’ proposals, mutual funds are more likely to support the proposal if the firm has a higher net profit margin (NPM is significantly positive at 7 percent). Firms with a higher net profit margin at the time of the ‘before’ proposal were also marginally significantly more likely to have an ‘after’ proposal in our sample.

## **6. Conclusion**

This paper investigates whether the SEC’s requirement of mutual fund proxy vote disclosure impacted the voting behavior of the funds and voting outcomes for a broad set of management- and shareholder- sponsored proxy proposals by comparing outcomes of similar proposals sponsored at the same firm both before and after the rule change. We do not find any evidence that the rule altered mutual funds’ behavior as predicted by the rule’s advocates and as perhaps feared by its opponents: support for management did not decline after the rule’s implementation. Moreover, we find some evidence that mutual funds’ support for management has increased after the disclosure of their votes, for management-sponsored proposals on executive equity incentive compensation plans. In addition, having greater ownership by mutual funds is associated with a higher likelihood of management

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<sup>61</sup> Results are not presented in tabular form to save space, but are available upon request.

sponsoring such a proposal after the rule change. For the subset of sample firms for which we have board ownership data, we further find that the funds' increased support for such proposals after the rule change is related to the magnitude of outside directors' shareholdings. For the other management and shareholder proposals in the sample, there is no evidence of any change by mutual funds post-disclosure.

Overall support for management has declined from a decade ago, when the bulk of prior research on shareholder proxy proposals was undertaken. The average support level for the shareholder proposals in our sample is much higher than that reported in the earlier literature, and that for management-sponsored proposals is lower, particularly for executive compensation plans. Institutional ownership has increased at the same time as support for management has been decreasing. We do not offer an explanation of the decline in support. But we can reject several alternatives. Besides rejecting the mutual fund vote disclosure rule as the cause of the decline in management support, we also do not find evidence that the decline is explained by an "Enron" effect. That is because the negative association between later sample years and voting outcomes is greater post-June 2003 (the effective implementation of the voting disclosure rule) than post-June 2002 (the corporate scandals initiated by Enron's collapse beginning in the fall of that year). In addition, the finding regarding executive equity incentive compensation plans is not a function of changes in compensation plan characteristics or the elimination of broker votes after June 30, 2003.

Finally, we find that takeover defenses do not have a uniform effect on voting outcomes. Some defenses reduce support for management in some voting contexts: poison pills lower support for management-sponsored compensation proposals, and restrictions on special meetings increase support for shareholder-sponsored proposals to remove takeover defenses. However, other defenses are associated with higher support for management. Moreover, these results are not consistent either within or across proposal types. In the regressions of management incentive compensation proposals, for instance, poison pills increase the voting support of mutual funds. Yet mutual funds are strong supporters of shareholder proposals to repeal defenses such as poison pills. These puzzling data suggest that investors may have a more nuanced view of the significance of takeover defenses when considering whether to support particular management initiatives, than that taken in the academic literature that conventionally characterizes defenses as entrenching and against shareholders' interests.

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**Table 1. Sample Construction**

The table presents the number of firms in the sample and the number of proposal pairs, which means proposals with the same IRRC codes both before and after the mutual fund vote disclosure rule's effective date (votes after June 30, 2003). Because some firms that have more than one matched proposal pair have either dual class stock, missing voting data, or missing accounting performance data, for some but not all proposals, the number of firms is not a sum.

<b>Sample</b>	<b>Number of Proposal Pairs</b>	<b>Number of Firms</b>
Total matched pairs	1,006	680
Pairs at firms with dual class stock	112	73
Pairs with proposal(s) missing voting outcomes	26	21
Pairs missing other data	15	13
Sample matched pairs	853	582

**Table 2. Types of Proposals and Voting Outcomes in Relation to the Mutual Fund Vote Disclosure Rule**

The table presents voting outcomes for our sample's proposals by type (management or shareholder-sponsored) and within type by group, detailing the IRRC codes comprising the groups, and the average percentage of the voting outcome for and against over the full time period as well as split at the rule's effective date, votes after June 30, 2003 (before and after), and the t-statistic for the difference in mean between the percentages for before and after calculated pairwise; \*\* means significant at less than 5 percent and \* means significant at 10 percent.

<b>Proposal Type</b>	<b># of proposal pairs</b>	<b>IRRC codes*</b>	<b>Votes for</b>	<b>Votes against</b>	<b>Votes for pre-7/1/2003</b>	<b>Votes for post-6/30/2003</b>	<b>T-stat difference in mean</b>
<i>All Management</i>	673	1100-1589	81.7	15.9	82.9	80.5	4.67**
Common stock issuance	68	1100-03	80.1	9.9	79.5	80.6	-0.67
Miscellaneous	10	1020, 1151, 1332	92.8	2.7	94.4	91.3	0.98
Remove defenses	3	1402, 1444	72.5	4.7	66.5	67.3	-1.39
Merger	1	1200	69	0.6	70.4	78.4	N/A
<i>All Compensation</i>	591	1500-1589	81.8	16.8	83.2	80.4	5.39**
Executive equity incentive plan	408	1500-09; 1530-39	77.6	20.9	78.9	76.2	3.91**
Outside director equity incentive plan	36	1510-19; 1540-49	83.5	15.3	86.3	80.7	3.12**
Employee stock purchase plan	77	1520-29	92.9	6.3	94.3	91.4	2.72**
Bonus plan	70	1560-64, 1580-82	93.2	5.7	93.9	92.4	1.73*
<i>All Shareholder</i>	180	2000-2906	42.8	56.9	40.1	45.5	-4.77**
Takeover defenses	90	2220, 2300-41	57.4	42.2	54.9	59.9	-3.7**
Executive compensation	57	2400-14	32.7	67.1	28.6	36.9	-3.83**
Board independence	18	2201-14	22.8	77	23.4	22.3	0.4
Director elections	1	2231	9	91	8.2	9.7	N/A
Miscellaneous	14	2002, 2030, 2131, 2342, 2417, 2901, 2906	18	81.8	15.6	20.5	-0.75

### **Table 3. Descriptive Statistics - Mean and standard deviation**

The table presents descriptive statistics of firm-level characteristics at firms that had a proposal pair before and after the mutual fund vote disclosure rule's effective date of June 30, 2003. For all characteristics, we report the mean and the standard deviation in parentheses. 'Return(-12)', 'Turnover (-12)' and 'Market return (-12)' are the average monthly return, the average monthly turnover (in percentages) and the average monthly value-weighted market return, respectively, in the 12 months before the proposal meeting date. 'Beta(-60)' is the firm's market beta estimated using the 60 monthly returns before the proposal meeting date. These variables are obtained from the University of Chicago Graduate School of Business Center for Research in Securities Prices database. 'ROA' is the return on assets and 'NPM' is the net profit margin from the annual Compustat file for the previous fiscal year. 'Institution pct' is the percentage of equity held by institutional investors. 'Banks,' 'Insurance cos,' 'Mutual funds', 'Ind investment advisors' and 'others' are the percentage held by those types of institutional investors, where 'Mutual funds' includes mutual funds and mutual fund investment advisors and 'Other institutions' includes university endowments, private and public pension and labor union funds. All institutional holdings are for the quarter before the proposal meeting date and are obtained from Thomson Financial Services. The 'GIM index' is an index of 24 charter and by-law provisions created by Paul Gompers, Joy Ishii and Andrew Metrick to measure the quality of a firm's governance and is obtained from the Investor Responsibility Research Center (IRRC) database. 'Classified board' is a dummy variable for the presence of a staggered board; 'Special meeting restr' is a dummy variable for restrictions on shareholders' ability to call special meetings; 'Written consent restr' is a dummy variable for restrictions on shareholder action by non-unanimous written consent; 'Poison pill' is a dummy variable for the presence of a poison pill, 'Blank check preferred' is a dummy variable for the ability to issue blank check preferred stock, and 'Confidential voting' is a dummy variable for confidential voting of proxies. These variables are handcollected from the firms' SEC filings. 'Pct bd independent' is the percentage of independent directors; 'Number directors' is the number of directors on the board, abbreviated as 'Numdir' in interaction terms in subsequent tables; 'Ind directors stock' and 'Inside directors stock' are the percentages of equity held by independent (non-employee and non-affiliated) and insider directors, respectively, and in subsequent tables are abbreviated as 'Indstk' and 'Insidestk' in interaction terms. These variables are obtained from the IRRC database. 'Total comp' and 'Ln(totalcomp)' are total compensation, and the natural logarithm of total compensation, respectively, of the chief executive officer (CEO), which includes cash salary, bonus and option value grants as calculated by the Black-Scholes option pricing model. 'Ln(abnormalcomp)' is the natural logarithm of the CEO's abnormal or excess total compensation, which is the residual of an annual regression of the log of total compensation on firm size and industry dummies, using the Execucomp database. 'Neweconomy' is a dummy variable indicating that the firm is a high tech ("new economy" sector) firm. 'Dilution prop' is the dilution caused to a firm's outstanding shares by a specific proposal on an executive equity incentive compensation plan; 'Total dilution' is the dilution due to all compensation plans outstanding at the time a proposal is presented and not just that due to the specific proposal being voted on; 'Repricing' is a dummy variable indicating that the proposed plan permits repricing of underwater options; 'Loans' is a dummy variable indicating that the proposed plan permits the extension of credit to executives to purchase stock or exercise options granted by the plan; 'restricted stock' is a dummy variable indicating that the plan permits awards of restricted stock; and 'Dilut less than 5%' is a dummy variable indicating that the dilution caused by the proposed plan (its 'dilution proportion') is less than 5 percent. These variables are obtained from the IRRC. The mean values are computed only for firms for which data are available at the time of both the before and after proposals, as those are the observations that are used in the regressions reported in the subsequent tables; + indicates that the variable was obtained only for management-sponsored executive equity incentive compensation plan proposals.

<b>Variable</b>	<b>Full sample</b>	<b>Managem ent proposals</b>	<b>Shareholder proposals</b>	<b>Pre-7/1/2003</b>	<b>Post- 6/30/2003</b>
Market cap (000s)	14738866 (38442687)	8647607 (21650885)	37513407 (67847286)	13336481 (37816888)	16141251 (39030244)
Return (-12)	0.0173 (.03)	0.0201 (.04)	0.007 (.03)	0.0089 (.04)	0.0257 (.03)
Turnover (-12)	1.7 (1.5)	1.8 (1.6)	1.3 (.86)	1.7 (1.6)	1.8 (1.3)
Beta (-60)	0.1534 (.11)	0.1516 (.10)	0.1599 (.13)	0.16 (.11)	0.1472 (.10)
Market return (-12)	0.008 (.02)	0.0088 (.01)	0.0052 (.02)	-0.0004 (.02)	0.0164 (.01)
ROA	0.0377 (.11)	0.0413 (.11)	0.0245 (.10)	0.0404 (.10)	0.0351 (.12)
NPM	0.0525 (.16)	0.0515 (.17)	0.0561 (.11)	0.0495 (.16)	0.0555 (.16)
Institution pct	0.7054 (.18)	0.7115 (.18)	0.6826 (.15)	0.6632 (.18)	0.7476 (.16)
Banks	.1109 (.05)	0.1039 (.05)	0.1368 (.07)	0.107 (.06)	0.1148 (.05)
Insurance cos	0.0484 (.03)	0.0481 (.03)	0.0497 (.03)	0.0501 (.04)	0.0467 (.03)
Mutual funds	0.1785 (.09)	0.179 (.09)	0.1765 (.08)	0.1752 (.09)	0.1818 (.09)
Ind investment advisors	0.2305 (.09)	0.2409 (.10)	0.1914 (.08)	0.2259 (.10)	0.235 (.09)
Other institutions	0.1372 (.07)	0.1396 (.08)	0.1282 (.05)	0.1050 (.06)	0.1694 (.07)
GIM index	9.5 (2.6)	9.5 (2.6)	9.8 (2.5)	9.4 (2.7)	9.7 (2.5)
Classified board	0.6231 (.49)	0.6152 (.49)	0.6528 (.48)	0.6295 (.48)	0.6166 (.49)
Special meeting restr.	0.5258 (.5)	0.4978 (.50)	0.6306 (.48)	0.4959 (.50)	0.5557 (.50)
Written consent restr.	0.493 (.5)	0.4695 (.50)	0.5806 (.49)	0.4783 (.50)	0.5076 (.50)
Poison pill	0.5733 (.5)	0.5958 (.49)	0.4889 (.50)	0.558 (.50)	0.5885 (.49)
Blankcheck preferred	0.9127 (.28)	0.9131 (.28)	0.9111 (.29)	0.9062 (.29)	0.9191 (.27)
Confidential voting	0.1794 (.38)	0.1226 (.33)	0.3917 (.49)	0.163 (.37)	0.1958 (.40)
Pct bd independent	0.6815 (.18)	0.6773 (.18)	0.7753 (.12)	0.6647 (.19)	0.6983 (.16)
Number directors	10 (2.7)	9.9 (2.7)	12.5 (2.7)	10.1 (2.9)	10 (2.6)
Ind directors stock	0.0044 (.02)	0.0046 (.02)	0 (0)	0.0046 (.02)	0.0041 (.02)
Inside directors stock	0.0502 (.11)	0.0523 (.11)	0.0026 (.01)	0.0528 (.11)	.0476 (.11)
Totalcomp. + (000s)	6133.9 (12921)			6113.1 (15961)	6154.7 (8923)
Ln (totalcomp) +	8.1 (1.2)			8.0 (1.1)	8.2 (1.3)
Ln(abnormalcomp)+	.11 (.95)			.11 (.79)	.11 (1.1)
Neweconomy +	.13 (.34)			.13 (.34)	.13 (.34)
Dilution prop +	4.7 (2.9)			4.74 (2.7)	4.67 (3.2)
Total dilution +	19.3 (13.7)			18.4 (8.0)	20.1 (17.6)
Repricing +	.21 (.41)			.35 (.48)	.07 (.26)
Loans +	.25 (.44)			.42 (.5)	.34 (.47)
Restricted stock +	.83 (.38)			.55 (.5)	.69 (.46)
Dilut less than 5% +	.65 (.48)			.67 (.47)	.62 (.49)

**Table 4. Regressions of Votes for Proposals before and after the Mutual Fund Vote Disclosure Rule: Management-sponsored Executive Equity Incentive Compensation Plan Proposals**

The table reports the pooled panel regression results for all management-sponsored executive equity incentive compensation plan proposals, for all firms with proposal pairs, thus one proposal before and one after the mutual fund vote disclosure rule's effective date (votes after June 30, 2003). For a description of the variables, see Table 3; 'Nonmutual inst' in panel B combines holdings of all institutions except for 'Mutual funds'; '\*after' indicates an interaction between the variable and an 'after' dummy variable indicating the proposal was adopted after the rule's effective date. Robust standard deviations are given between parentheses, \*\* means significant at less than 5 percent and \* means significant at 10 percent.

**Panel A. Regressions with firm controls and institutional ownership**

Variable	(1)	(2)	(3)	(4)	(5)
Constant	1.1 (.34)**	1.4 (.36)**	1.5 (.37)**	1.6 (.39)**	1.6 (.4)**
After	-.23 (.07)**	-.18 (.07)**	-.36 (.22)	-.13 (.08)	-.27 (.24)
Ln (Market cap)	.06 (.02)**	.06 (.02)**	.06 (.02)**	.04 (.03)	.05 (.03)*
Return (-12)	-1.12 (.87)	-.92 (.86)	-.89 (.85)	-.83 (.86)	-.68 (.86)
Beta(-60)	.13 (.29)	.18 (.3)	.18 (.3)	.21 (.3)	.22 (.3)
Market return (-12)	4.1 (2.3)*	3 (2.3)	2.8 (2.3)	2.2 (2.4)	1.8 (2.4)
Turnover(-12)	-.16 (.02)**	-.15 (.02)**	-.15 (.02)**	-.14 (.02)**	-.14 (.02)**
ROA	-.97 (.47)**	-.77 (.46)*	-.79 (.46)*	-.76 (.47)	-.85 (.46)*
NPM	.65 (.35)*	.62 (.34)*	.63 (.34)*	.62 (.35)*	.66 (.35)*
Confidential voting	-.16 (.09)*	-.15 (.09)*	-.15 (.09)*	-.14 (.1)	-.14 (.09)
Blank check preferred	-.14 (.11)	-.13 (.10)	-.13 (.10)	-.13 (.10)	-.13 (.1)
Classified board	.12 (.06)**	.10 (.06)	.10 (.06)*	.10 (.06)	.11 (.06)*
Special meeting restr.	-.04 (.06)	-.04 (.06)	-.04 (.06)	-.04 (.06)	-.03 (.06)
Written consent restr.	.003 (.06)	-.001 (.06)	-.002 (.06)	-.001 (.06)	.009 (.06)
Poison pill	-.24 (.06)**	-.20 (.06)**	-.20 (.06)**	-.20 (.06)**	-.20 (.06)**
Institutions pct		-.44 (.18)**	-.55 (.23)**		
Institutions pct*after			.25 (.3)		
Banks & insurance cos				-.10 (.51)	-.07 (.66)
Mutual funds				-.28 (.33)	-.84 (.44)*
Ind investment advisors				-.53 (.30)*	-.36 (.43)
Other institutions				-.89 (.52)*	-.93 (.76)
Banks& insurance*after					-.11 (.92)
Mutual funds*after					1.1 (.6)*
Ind invest advisors*after					-.27 (.56)
Other*after					.16 (.95)
R2	.1549	.1613	.1620	.1631	.1667
# of observations	816	816	816	816	816

**Table 4, Panel B. Regressions with board structure variables**

Variable	(1)	(2)	(3)	(4)	(5)
Constant	.65 (.85)	.57 (.84)	.54 (.81)	.61 (.82)	.54 (.78)
After	-.82 (.55)	-.63 (.55)			
Ln (Market cap)	.13 (.06)**	.13 (.06)**	.12 (.06)**	.12 (.06)**	.12 (.05)**
Return (-12)	-3.4 (1.7)**	-3.4 (1.7)**	-3.3 (1.7)**	-3.5 (1.7)**	-3.6 (1.6)**
Beta(-60)	.06 (.59)	.08 (.58)	.03 (.58)	.01 (.58)	-.06 (.58)
Market return (-12)	.22 (4.7)	-.38 (4.9)	2.5 (4.7)	1.7 (4.7)	2.0 (4.7)
Turnover(-12)	-.14 (.05)**	-.14 (.05)**	-.15 (.05)**	-.14 (.05)**	-.14 (.05)**
ROA	-1.1 (1.0)	-1.3 (1.0)	-1.4 (.99)	-1.2 (.99)	-1.2 (.96)
NPM	1.5 (.63)**	1.7 (.64)**	1.8 (.63)**	1.7 (.63)**	1.6 (.62)**
Confidential voting	-.32 (.17)*	-.34 (.16)**	-.30 (.16)*	-.30 (.16)*	-.30 (.16)*
Blank check preferred	-.04 (.18)	.02 (.17)	.07 (.17)	-.01 (.17)	-.02 (.17)
Classified board	.27 (.11)**	.25 (.11)**	.24 (.12)**	.23 (.12)**	.24 (.12)**
Special meeting restr.	-.21 (.11)*	-.2 (.11)*	-.23 (.11)**	-.21 (.11)*	-.21 (.10)**
Written consent restr.	-.05 (.11)	-.08 (.11)	-.06 (.11)	-.06 (.11)	-.06 (.11)
Poison pill	-.17 (.12)	-.13 (.12)	-.14 (.11)	-.15 (.12)	-.15 (.12)
Banks & insurance cos	-.2 (1.2)	-.11 (1.3)	.38 (1.1)	.33 (1.1)	
Mutual funds	-.52 (.71)	-.45 (.70)	-.45 (.70)	-.40 (.70)	-.37 (.67)
Ind investment advisors	-.41 (.89)	-.40 (.88)	-.27 (.81)	-.16 (.81)	
Other institutions	-1.7 (1.2)	-1.2 (1.3)	.30 (1.1)	-.33 (1.0)	
Banks& insurance*after	.86 (2.0)	.95 (2.1)	-.15 (1.4)	-.35 (1.3)	
Mutual funds*after	2.1 (1.1)*	1.4 (2.9)	1.0 (.86)	.95 (1.0)	.86 (1.0)
Ind invt advisors*after	-.02 (1.2 )	-.08 (1.2)	-1.0 (.93)	-.59 (.88)	
Other*after	2.4 (1.7)	1.6 (1.7)			
Ind directors stock	4.9 (2.7)*	.63 (2.9)	1.2 (3.1)	.97 (3.1)	.84 (3.1)
Inside directors stock	-.02 (.53)	.55 (.80)	.003 (.49)	-.06 (.48)	-.11 (.46)
Number directors	-.03 (.02)	-.03 (.02)	-.04 (.02)*	-.03 (.02)	-.03 (.02)
Pct bd independent	-.31 (.33)	-.45 (.43)	-.39 (.32)	-.33 (.32)	-.34 (.33)
Indstk*Mutfund*after		59.1 (24)**	117 (39)**	74 (38)**	76 (38)**
Insidestk*Mutfund*after		-11.6 (8.1)			
Pct bd ind*Mutfund* after		1.7 (3.6)			
Numdir*Mutfund*after		-.1 (.19)			
Indstk*Banks&insur*after			22 (43)		
Indstk*InvAdv*after			53 (25)**		
Indstk*Other*after			-128 (38)**		
Nonmutual institutions					-.11 (.55)
Nonmutual inst*after					-.33 (.39)
Indstk*Nonmutual inst*after				-8.3 (10.7)	-9.1 (10.7)
R2	.2118	.2468	.2423	.2219	.2195
# of observations	258	258	258	258	258

**Table 4, Panel C. Regressions with CEO compensation variables**

Variable	(1)	(2)	(3)	(4)
Constant	1.5 (.41)**	1.6 (.43)**	-.71 (.87)	-.64 (.86)
After		-.34 (.14)**		
Ln (Market cap)	.07 (.03)**	.05 (.03)*	.23 (.06)**	.24 (.06)**
Return (-12)	-1.5 (.94)	-1.3 (.95)	-5.2 (2.0)**	-5.4 (2)**
Beta(-60)	.47 (.31)	.47 (.31)	.15 (.62)	.17 (.63)
Market return (-12)	2.8 (2.5)	2.9 (2.5)	2.1 (5.3)	2.4 (5.3)
Turnover(-12)	-.13 (.03)**	-.13 (.03)**	-.19 (.04)**	-.2 (.04)**
ROA	-.50 (.49)	-.46 (.49)	-1.9 (1)*	-1.8 (1)*
NPM	.61 (.37)*	.60 (.37)	1.7 (.63)**	1.7 (.62)**
Confidential voting	-.17 (.09)*	-.18 (.09)*	-.5 (.17)**	-.5 (.17)**
Blank check preferred	-.19 (.11)*	-.2 (.11)*	-.2 (.22)	-.19 (.22)
Classified board	.04 (.07)	.04 (.07)	.23 (.12)*	.22 (.12)*
Special meeting restr.	.02 (.06)	.02 (.06)	-.12 (.11)	-.13 (.11)
Written consent restr.	-.01 (.06)	-.01 (.06)	-.11 (.11)	-.11 (.11)
Poison pill	-.16 (.07)**	-.16 (.07)**	-.16 (.13)	-.15 (.13)
Banks & insurance cos	-.18 (.53)	-.21 (.53)	-.92 (1.1)	-.91 (1.1)
Mutual funds	-.73 (.47)	-.72 (.47)	-.42 (.88)	.02 (.84)
Ind investment advisors	-.14 (.32)	-.14 (.32)	.003 (.66)	-.07 (.65)
Other institutions	-.79 (.54)	-.85 (.55)	.6 (1.1)	.69 (1.1)
Mutual funds*after	1.2 (.66)*	1.2 (.65)*	2.0 (1.3)	
Neweconomy	-.41 (.11)**	-.42 (.11)**	-.45 (.26)*	-.47 (.28)*
Neweconomy*after	.05 (.15)	.06 (.15)	-.12 (.35)	-.02 (.36)
Ln(total compensation)	-.04 (.03)		.08 (.06)	.06 (.06)
Ln(total comp)*after	-.04 (.02)**		-.06 (.03)*	-.04 (.03)
Ln(abnormal comp)		-.03 (.06)		
Ln(abnormal comp)*after		-.04 (.06)		
Indstk*ln(total comp)			.5 (.38)	.5 (.39)
Insidestk*ln(total comp)			-.07 (.11)	-.07 (.11)
Numdir*ln(total comp)			-.01 (.003)**	-.01 (.003)**
Pct bd ind*ln(total comp)			-.06 (.05)	-.07 (.05)
Indstk*Mutfund*after*ln(totcomp)			7.3 (2.8)**	7.8 (2.8)**
Numdir*Mutfund*after*ln(totcomp)				.01 (.01)
R2	.2106	.2091	.3615	.3567
# of observations	688	688	204	204

**Table 4, Panel D. Regressions with incentive compensation plan features**

Variable	(1)	(2)	(3)	(4)
Constant	2.9 (.77)**	1.9 (.69)**	2.2 (.67)**	1.9 (.70)**
After	-2 (.44)			
Ln (Market cap)	.03 (.04)	.07 (.04)*	.06 (.04)	.06 (.04)
Return (-12)	-.41 (1.5)	-.23 (1.4)	-.30 (1.3)	-.03 (1.3)
Beta(-60)	.29 (.42)	.22 (.40)	.22 (.40)	.21 (.40)
Market return (-12)	5.5 (4.1)	5.8 (3.6)	5.9 (3.4)	5.5 (3.5)
Turnover(-12)	-.08 (.03)**	-.11 (.03)**	-.09 (.03)**	-.08 (.03)**
ROA	-.37 (.56)	-.49 (.58)	-.35 (.55)	-.34 (.57)
NPM	.28 (.38)	.28 (.40)	.17 (.39)	.23 (.41)
Confidential voting	-.08 (.14)	-.14 (.13)	-.12 (.13)	-.11 (.13)
Blank check preferred	-.33 (.23)	-.24 (.21)	-.24 (.20)	-.21 (.20)
Classified board	.06 (.09)	.06 (.08)	.03 (.08)	.02 (.08)
Special meeting restr.	-.02 (.08)	.04 (.08)	.04 (.08)	.06 (.08)
Written consent restr.	-.01 (.08)	-.01 (.08)	.02 (.08)	.02 (.08)
Poison pill	-.05 (.09)	-.10 (.09)	-.10 (.09)	-.13 (.09)
Banks & insurance cos	-2.3 (.90)**	-1.9 (.88)**	-1.8 (.82)**	-1.9 (.85)**
Mutual funds	-.77 (.76)	-.78 (.70)	-.71 (.63)	-.95 (.66)
Ind investment advisors	-.19 (.61)	-.20 (.57)	-.21 (.54)	-.22 (.54)
Other institutions	-.5 (1.1)	-.74 (.70)	-.70 (.65)	-.68 (.69)
Banks& insurance*after	.07 (1.3)	-.68 (.96)	-.94 (.85)	-.74 (.92)
Mutual funds*after	.04 (.86)	.12 (.75)		.15 (.73)
Ind invt advisors*after	-.57 (.79)	-.59 (.65)	-.69 (.61)	-.68 (.62)
Other*after	.01 (.01)			
Total dilution	-.02 (.01)**		-.02 (.01)*	-.02 (.01)**
Dilution proportion	-.06 (.02)**	-.07 (.02)**	-.06 (.02)**	
Restricted stock	-.12 (.10)			
Repricing	-.37 (.12)**	-.47 (.12)**	-.44 (.12)**	-.42 (.11)**
Loans	-.15 (.09)			
Totaldilution*after		-.01 (.005)**		
Dilutionprop*after		.01 (.02)		
Repricing*after		.31 (.25)		
Mutfund*totaldilution*after			-.01 (.03)	
Mutfund*dilutionprop*after			-.002 (.11)	
Mutfund*repricing*after			.94 (1.3)	
Dilution less than 5%				.28 (.12)**
Dilution less than 5%*after				-.10 (.15)
R2	.3646	.3215	.3532	.3286
# of observations	310	342	342	342

**Table 5. Regressions of Votes for Proposals before and after Mutual Fund Vote Disclosure Rule: Other Management-sponsored Proposals**

The table reports the pooled panel regression results for all management-sponsored proposals on employee stock purchase plans (panel A), bonus compensation plans (panel B) and on the issuance or authorization of common stock (panel C), for all firms with proposal pairs, thus one proposal before and one after the mutual fund vote disclosure rule's effective date (votes after June 30, 2003). For a description of the variables, see Table 3; “\*aft” indicates an interaction between the variable and an ‘after’ dummy variable indicating the proposal was adopted after the rule's effective date. Robust standard deviations are given between parentheses, \*\* means significant at less than 5 percent and \* means significant at 10 percent.

**Panel A. Employee Stock Purchase Plans**

Variable	(1)	(2)	(3)	(4)	(5)
Constant	2.9 (.8)**	2.0 (.88)**	1.2 (.84)**	2.6 (1.1)**	1.5 (1.1)
After	-.45 (.21)**	-.59 (.23)**	1.4 (.79)*	-.46 (.23)**	1.9 (.93)**
Ln (Market cap)	.07 (.05)	.08 (.05)	.08 (.05)*	.04 (.06)	.05 (.06)
Return (-12)	1.7 (1.8)	1.2 (1.8)	.46 (1.8)	1.3 (1.9)	.17 (1.9)
Beta(-60)	-.47 (1.4)	-.63 (1.3)	-1.2 (1.2)	-.75 (1.4)	-1.3 (1.3)
Market return (-12)	-2 (8.9)	2.4 (9.7)	7.5 (9.4)	-.17 (9.7)	4.9 (9.6)
Turnover(-12)	-.02 (.04)	-.04 (.04)	-.05 (.04)	-.04 (.04)	-.04 (.04)
ROA	.6 (1.1)	.46 (1.1)	.98 (1.0)	.28 (1.1)	.89 (1.1)
NPM	-.39 (.63)	-.41 (.61)	-.63 (.58)	-.31 (.64)	-.58 (.60)
Confidential voting	-.64 (.3)**	-.7 (.3)**	-.7 (.3)**	-.69 (.32)**	-.67 (.32)**
Blank check preferred	-.37 (.22)	-.25 (.23)	-.26 (.22)	-.24 (.24)	-.25 (.23)
Classified board	.18 (.19)	.15 (.18)	.13 (.17)	.15 (.18)	.16 (.18)
Special meeting restr.	-.03 (.2)	.04 (.21)	.03 (.21)	.01 (.22)	-.02 (.22)
Written consent restr.	-.13 (.17)	-.11 (.17)	-.06 (.16)	-.10 (.16)	-.05 (.16)
Poison pill	-.39 (.18)**	-.41 (.19)**	-.43 (.18)**	-.40 (.18)**	-.42 (.18)**
Institutions pct		.94 (.62)	2.2 (.74)**		
Inst pct*after			-2.8 (1.1)**		
Banks & insurance cos				2.8 (1.8)	5.2 (2.2)**
Mutual funds				1.1 (.95)	2.1 (.1.3)
Ind investment advisors				.84 (1.2)	1.6 (1.8)
Other institutions				-.5 (1.3)	1.2 (1.6)
Banks& insurance*after					-7.0 (3.5)*
Mutual funds*after					-2.5 (1.8)
Ind invt advisors*after					-2.1 (2.1)
Other*after					-2.7 (2.2)
R2	.1588	.1720	.2105	.1847	.2275
# of observations	154	154	154	154	154

**Table 5. Panel B. Employee Bonus Plans**

<b>Variable</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
Constant	1.7 (.75)**	.83 (.78)	.77 (.84)	1.8 (.82)**	1.9 (.89)**
After	-.32 (.14)**	-.42 (.14)**	-.3 (.44)	-.18 (.15)	-.23 (.46)
Ln (Market cap)	.07 (.04)	.09 (.04)**	.09 (.04)**	.02 (.05)	.02 (.05)
Return (-12)	-.002 (1.8)	-.01 (1.6)	-.08 (1.6)	1.0 (1.6)	1.1 (1.8)
Beta(-60)	-.31 (.55)	-.23 (.53)	-.2 (.54)	-.11 (.53)	-.11 (.55)
Market return (-12)	7.6 (4.7)	9.9 (4.6)**	10.1 (4.5)**	6.7 (4.9)	6.3 (4.9)
Turnover(-12)	.01 (.06)	-.02 (.05)	-.02 (.05)	.02 (.05)	.02 (.05)
ROA	1.6 (1.1)	1.1 (1.1)	1.2 (1.1)	1.2 (1.0)	1.2 (1.1)
NPM	-1.9 (1.1)	-1.3 (1.1)	-1.4 (1.1)	-1.2 (1.0)	-1.2 (1.0)
Confidential voting	-.19 (.15)	-.17 (.14)	-.17 (.14)	-.2 (.14)	-.19 (.14)
Blank check preferred	.5 (.39)	.44 (.38)	.44 (.38)	.56 (.38)	.54 (.38)
Classified board	.04 (.12)	.08 (.12)	.08 (.12)	.02 (.11)	.01 (.11)
Special meeting restr.	.14 (.13)	.14 (.13)	.13 (.13)	.19 (.12)	.2 (.13)
Written consent restr.	-.18 (.13)	-.17 (.12)	-.17 (.12)	-.25 (.12)**	-.26 (.13)**
Poison pill	-.31 (.12)**	-.33 (.11)**	-.33 (.11)**	-.36 (.11)**	-.35 (.11)**
Institutions pct		.94 (.29)**	1.0 (.45)**		
Inst pct*after			-.19 (.6)		
Banks & insurance cos				1.1 (.87)	1.3 (1.0)
Mutual funds				2.2 (.51)**	1.7 (.76)**
Ind investment advisors				.9 (.45)**	.81 (.64)
Other institutions				-1.7 (.83)**	-1.5 (1.4)
Banks& insurance*after					-.79 (1.7)
Mutual funds*after					.87 (1.2)
Ind invt advisors*after					.37 (.9)
Other*after					-.35 (1.7)
R2	.1828	.2293	.2298	.2992	.3038
# of observations	140	140	140	140	140

**Table 5, Panel C. Common Stock Authorization and Issuance**

<b>Variable</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>
Constant	2.3 (.92)**	2.7 (1.)**	2.7 (.99)**	1.8 (1.0)*	2.0 (1.0)*
After	.13 (.15)	.2 (.15)	-.89 (.58)	.18 (.19)	-.76 (.68)
Ln (Market cap)	-.08 (.06)	-.08 (.06)	-.06 (.06)	.002 (.07)	.01 (.07)
Return (-12)	4.4 (2.5)*	5 (2.6)*	5.5 (2.6)**	3.4 (2.7)	4.4 (3.0)
Beta(-60)	.87 (.69)	.87 (.68)	.69 (.65)	.93 (.73)	.85 (.73)
Market return (-12)	-2.3 (5.8)	-3.8 (6.2)	-6.4 (7.0)	-4.1 (7.1)	-4.3 (8.8)
Turnover(-12)	.02 (.07)	.05 (.08)	.03 (.08)	.05 (.08)	.04 (.09)
ROA	-.70 (1.3)	-.52 (1.3)	-.5 (1.3)	-.87 (1.3)	-1.0 (1.2)
NPM	.55 (.59)	.49 (.58)	.49 (.57)	.42 (.62)	.48 (.66)
Confidential voting	-.05 (.2)	.02 (.21)	.02 (.2)	.1 (.21)	.07 (.21)
Blank check preferred	-.21 (.34)	-.17 (.34)	-.13 (.34)	-.19 (.34)	-.15 (.32)
Classified board	.16 (.16)	.14 (.16)	.15 (.16)	.12 (.16)	.17 (.16)
Special meeting restr.	.21 (.15)	.21 (.15)	.23 (.15)	.25 (.15)	.25 (.15)
Written consent restr.	.07 (.16)	.05 (.17)	.06 (.16)	.06 (.17)	.04 (.17)
Poison pill	-.05 (.14)	-.05 (.14)	-.04 (.14)	-.07 (.15)	-.07 (.14)
Institutions pct		-.57 (.54)	-1.1 (.66)*		
Inst pct*after			1.5 (.85)*		
Banks & insurance cos				-3.4 (1.5)**	-3.9 (1.8)**
Mutual funds				-.41 (.81)	-.6 (1.0)
Ind investment advisors				.51 (.95)	-.77 (1.5)
Other institutions				-1.4 (1.5)	-.22 (2.3)
Banks& insurance*after					2.2 (2.2)
Mutual funds*after					.56 (1.3)
Ind invt advisors*after					2.7 (2.0)
Other*after					-1.4 (2.8)
R2	.0736	.0839	.1064	.1265	.1555
# of observations	136	136	136	136	136

**Table 6. Regressions of Votes for Proposals before and after Mutual Fund Vote Disclosure Rule: Shareholder-sponsored Proposals**

The table reports the pooled panel regression results for all shareholder-sponsored proposals on takeover defenses (panel A) and executive compensation (panel B), for all firms with proposal pairs, thus one proposal before and one after the mutual fund vote disclosure rule's effective date (votes after June 30, 2003). For a description of the variables, see Table 3; '\*after' indicates an interaction between the variable and an 'after' dummy variable indicating the proposal was adopted after the rule's effective date. Robust standard deviations are given between parentheses, \*\* means significant at less than 5 percent and \* means significant at 10 percent.

**Panel A. Removal of Takeover Defenses**

Variable	(1)	(2)	(3)	(4)	(5)
Constant	2.4 (.75)**	1.9 (.71)**	2.0 (.72)**	.82 (.74)	.43 (.76)
After	.28 (.23)	.20 (.21)	.07 (.55)	-.002 (.22)	.15 (.54)
Ln (Market cap)	-.17 (.04)**	-.20 (.04)**	-.20 (.04)**	-.12 (.05)**	-.11 (.05)**
Return (-12)	-.84 (2.14)	-.91 (2.0)	-.90 (2.0)	-1.2 (1.9)	-.36 (2.1)
Beta(-60)	-1.3 (.40)**	-.92 (.38)**	-.92 (.38)**	-1.1 (.37)**	-1.0 (.39)**
Market return (-12)	.07 (6.2)	.33 (5.9)	.43 (6.0)	3.3 (5.9)	4.1 (6.4)
Turnover(-12)	.01 (.09)	-.13 (.09)	-.13 (.09)	-.19 (.09)**	-.17 (.09)*
ROA	-.67 (.88)	-.39 (.81)	-.39 (.81)	-.12 (.78)	.10 (.81)
NPM	.94 (.83)	1.3 (.85)	1.3 (.86)	.96 (.85)	.82 (.89)
Confidential voting	.18 (.12)	.28 (.11)**	.28 (.11)**	.22 (.11)**	.21 (.11)*
Blank check preferred	-.26 (.23)	-.46 (.25)*	-.46 (.25)*	-.37 (.25)	-.33 (.25)
Classified board	.42 (.13)**	.37 (.13)**	.37 (.13)**	.39 (.12)**	.40 (.12)**
Special meeting restr.	.48 (.12)**	.47 (.12)**	.47 (.12)**	.44 (.12)**	.43 (.12)**
Written consent restr.	.11 (.11)	.08 (.11)	.08 (.11)	.11 (.10)	.11 (.11)
Poison pill	.05 (.13)	.10 (.12)	.10 (.12)	.06 (.12)	.06 (.12)
Institutions pct		1.9 (.37)**	1.8 (.49)**		
Inst pct*after			.18 (.69)		
Banks & insurance cos				.57 (.56)	.86 (.64)
Mutual funds				1.4 (.71)**	1.1 (.89)
Ind investment advisors				2.0 (.70)**	1.3 (1.1)
Other institutions				4.7 (1.1)**	6.6 (1.7)**
Banks& insurance*after					-.8 (1.0)
Mutual funds*after					.56 (1.4)
Ind invt advisors*after					1.0 (1.4)
Other*after					-2.9 (2.0)
R2	.2877	.3789	.3792	.4197	.4294
# of observations	180	180	180	180	180

**Table 6, Panel B. Limitations on Executive Compensation**

Variable	(1)	(2)	(3)	(4)	(5)
Constant	1.2 (1.9)	-.91 (2.2)	-1.1 (2.2)	-2.0 (2.3)	-2.7 (2.5)
After	.65 (.3)**	.44 (.31)	.67 (.84)	.15 (.37)	1.2 (.9)
Ln (Market cap)	-.19 (.11)*	-.12 (.12)	-.12 (.12)	-.07 (.13)	-.05 (.13)
Return (-12)	.28 (3.2)	.14 (3.0)	.23 (3.1)	-.65 (3.2)	.60 (3.2)
Beta(-60)	.45 (.93)	.1 (1.0)	.07 (1.0)	.09 (.94)	-.02 (.9)
Market return (-12)	-9.3 (8.8)	-5.0 (8.8)	-5.0 (8.9)	1.0 (9.8)	2.3 (9.8)
Turnover(-12)	.25 (.11)**	.24 (.10)**	.24 (.10)**	.23 (.11)**	.22 (.10)**
ROA	-3.2 (2.1)	-4.1 (2.0)**	-4.1 (2.0)**	-4.0 (2.1)*	-3.8 (2.1)*
NPM	.34 (1.7)	.74 (1.6)	.73 (1.7)	.54 (1.7)	.53 (1.6)
Confidential voting	.16 (.27)	.11 (.27)	.11 (.27)	.10 (.28)	.05 (.29)
Blank check preferred	.03 (.41)	-.13 (.49)	-.12 (.49)	-.14 (.49)	-.20 (.48)
Classified board	.50 (.26)*	.51 (.27)*	.52 (.27)*	.44 (.30)	.42 (.31)
Special meeting restr.	.23 (.25)	.25 (.24)	.25 (.25)	.32 (.25)	.33 (.26)
Written consent restr.	-.25 (.26)	-.22 (.27)	-.23 (.27)	-.14 (.29)	-.15 (.3)
Poison pill	.16 (.23)	.21 (.21)	.21 (.21)	.2 (.22)	.22 (.22)
Institutions pct		1.9 (.83)**	2.1 (.92)**		
Inst pct*after			-.36 (1.3)		
Banks & insurance cos				1.2 (2.7)	4.0 (3.0)
Mutual funds				3.0 (2.0)	2.4 (2.1)
Ind investment advisors				-.17 (1.8)	-1.0 (2.5)
Other institutions				6.4 (2.4)**	9.9 (4.0)**
Banks& insurance*after					-6.0 (3.4)*
Mutual funds*after					2.4 (3.1)
Ind invt advisors*after					.65 (3.6)
Other*after					-5.3 (4.1)
R2	.3356	.3734	.3738	.4003	.4219
# of observations	114	114	114	114	114

**Table 7. Mutual Fund Voting and Ownership after the Vote Disclosure Rule**

The table reports the average percentage of mutual funds' actual votes, and the votes of all investors, in support of proposals submitted after the effective date of the mutual fund vote disclosure rule (June 30, 2003) by proposal type, for the firms for which we are able to obtain mutual fund data, and the t-statistic for the difference in mean between those votes calculated pairwise, \*\* means significant at less than 5 percent and \* means significant at 10 percent. The final two columns report, respectively, the average percentage of mutual funds (weighted by fund shares) holding stock in the firm at the time of the before proposal that also hold the firm's stock at the time of the after proposal, and the percentage of continued ownership for the mutual funds for which we have actual votes. Votes are collected for all equity mutual funds whose holding in the proposal firm's stock equals at least 0.75 percent of the fund's stock portfolio, or if that cutoff resulted in collecting votes for less than 1/3 of a proposal firm's holdings by mutual funds, then votes were collected for all equity mutual funds whose holdings in the firm were 0.25 percent of the fund's stock portfolio. Standard deviation of the percent continued ownership are between percentages.

<b>Proposal Type</b>	<b># of proposals</b>	<b>Mutual fund votes for</b>	<b>Votes for</b>	<b>T-statistic difference</b>	<b>Percent Continued ownership, all funds</b>	<b>Percent Continued ownership, funds with votes</b>
<b><i>Management proposals:</i></b>						
Common stock issuance	59	81.4	80.4	-0.4	.3532 (.23)	.1717 (.19)
Misc.	8	100	93	-1.7	.4339 (.25)	.1442 (.16)
Remove defenses	3	100	78.4	-3.5	.5958 (.11)	.2712 (.11)
Executive equity incentive plan	362	72.7	75.6	2.3**	.3532 (.23)	.1674 (.18)
Outside director equity incentive plan	32	75.9	80	1	.3623 (.26)	.1845 (.19)
Employee stock purchase plan	70	91.4	92	0.4	.3455 (.2)	.1561 (.16)
Bonus plan	63	93	92.3	-0.8	.3590 (.22)	.1617 (.16)
<b><i>Shareholder proposals:</i></b>						
Takeover defenses	90	84.7	59.9	-11.3**	.4558 (.26)	.1946 (.16)
Executive compensation	55	29.7	37.8	2.4**	.5296 (.24)	.1632 (.14)
Board independence	16	4.7	22.3	5.2**	.5889 (.28)	.1976 (.18)
Director elections	1	0	9.7	.	.7439 (.)	.4694 (.)
Misc.	14	9.4	20.5	3.5**	.4267 (.28)	.2065 (.18)

**Table 8. Mutual Fund Characteristics by Proposal Type**

This table provides information on the mutual fund characteristics of funds holding the firms with management-sponsored executive equity incentive compensation plan proposals (panel A) and shareholder-sponsored proposals on takeover defenses (panel B), and the holdings of the five largest fund families for the proposal firms, over the entire sample time period, and also for the individual mutual fund characteristics, the average values before and after the mutual fund vote disclosure rule's effective date (June 30, 2003) and the t-statistic for the difference in mean between the variables before and after calculated pairwise; \*\* means significant at less than 5 percent and \* means significant at 10 percent. Load is the sum of maximum front and rear loads.

**Panel A. Management Executive Incentive Compensation Plan Proposals (362 pairs)**

<b>Fund Characteristic</b>	<b>Average of funds</b>	<b>Standard deviation of funds</b>	<b>Average of funds for proposals pre-7/1/2003</b>	<b>Average of funds for proposals post-6/30/2003</b>	<b>T-statistic difference</b>
Expense ratio	0.01	.002	0.01	0.01	1.6
Turnover ratio	0.65	.25	0.7	0.59	8.1**
Load	0.02	.02	0.02	0.02	2.6**
Maximum Front load	0.02	.01	0.02	0.01	5.6**
Maximum Rear load	0.005	.02	0.006	0.005	0.9
Total Net Assets (millions)	9,120	8,426	7,304	10,937	-10.3**
<b>Fund Family Holdings</b>					
Fidelity fund family	.019	.029			
Vanguard fund family	.011	.014			
Capital research fund family	.009	.021			
T. Rowe Price fund family	.006	.015			
Putnam fund family	.004	.009			

**Panel B. Shareholder Proposals on Takeover Defenses (90 pairs)**

<b>Fund Characteristic</b>	<b>Average of funds</b>	<b>Standard deviation of funds</b>	<b>Average of funds for proposals pre-7/1/2003</b>	<b>Average of funds for proposals post-6/30/2003</b>	<b>T-statistic difference</b>
Expense ratio	0.01	.001	0.01	0.0096	3.7**
Turnover ratio	0.6	.22	0.65	0.55	4.2**
Load	0.03	.01	0.02	0.03	-3.1**
Maximum Front load	0.02	.01	0.02	0.02	-2.3**
Maximum Rear load	0.007	.003	0.007	0.008	-4.0**
Total Net Assets (millions)	12,036	8,963	8,121	15,951	-8.8**
<b>Fund Family Holdings</b>					
Fidelity family fund	.012	.02			
Vanguard family fund	.005	.008			
Capital Research family fund	.008	.024			
Dodge & Cox family fund	.004	.016			
Putnam family fund	.005	.01			

**Table 9. Predicting Mutual Fund Votes: Regressions of Fund Votes on Fund Characteristics**

The table reports the results of the regression of actual mutual fund votes for all management-sponsored executive equity incentive compensation plan proposals (column one) and for all shareholder-sponsored proposals on takeover defenses (column two), submitted after the mutual fund vote disclosure rule's effective date (votes after June 30, 2003), for which mutual fund characteristics were available, on fund characteristics (averaged for the proposal firms). For a description of the variables, see Tables 3 and 8; <sup>+</sup> indicates the variable value was adjusted by subtracting the sample annual mean. The dependent variable is the percent of mutual funds voting for the proposal. Robust standard deviations are given between parentheses, \*\* means significant at less than 5 percent and \* means significant at 10 percent.

Variable	Management proposals on executive equity incentive compensation plans	Shareholder proposals on takeover defenses
Expense ratio <sup>+</sup>	23.5 (14.5)	-42.9 (46.6)
Turnover ratio <sup>+</sup>	-.19 (.09)**	.20 (.20)
Ln(Total net assets) <sup>+</sup>	.02 (.03)	-.19 (.07)**
Load <sup>+</sup>	.01 (.23)	11 (4.9)**
Fidelity fund family	.09 (.53)	.97 (1.6)
Vanguard fund family	1.4 (1.3)	2.5 (2.5)
Capital Research fund family	1.3 (.65)**	.78 (.82)
T. Rowe Price fund family	1.7 (1.0)*	n.a.
Dodge & Cox fund family	n.a.	2.0 (1.1)*
Putnam fund family	-3.5 (1.4)**	-2.1 (2.4)
Return (-12)	1.3 (.54)**	.14 (1.3)
NPM	.32 (.17)*	.09 (.46)
ROA	-.29 (.21)	1.0 (.67)
Blank check preferred	-.08 (.05)	-.18 (.11)
Classified board	.02 (.03)	.08 (.08)
Special meeting restricted	-.01 (.03)	.17 (.07)**
Written consent restricted	-.03 (.03)	-.01(.07)
Poison pill	.02 (.03)	.01 (.05)
Confidential voting	-.01 (.05)	.03 (.06)
Constant	.75 (.06)**	.73 (.13)**
Regression F-statistic	2.06**	2.99**
R <sup>2</sup>	.0770	.3383
# of observations	362	90

**Table 10. Correlations between Predicted and Actual Mutual Fund Votes.**

The table provides the correlations between the average percentage of mutual fund votes for (“fund votes for”) and predicted mutual fund votes (“expected votes for”) from the regressions reported in table 9, where “funds votes for” are available only post July 1, 2003, for all management-sponsored executive equity incentive compensation plan proposals (row one) and for all shareholder-sponsored proposals on takeover defenses (row two) for which we have fund voting data; \*\* means significant at less than 5 percent and \* means significant at 10 percent.

Proposal Type	Fund votes for and Expected fund votes for
Management proposals on executive equity incentive compensation plans (362 proposals)	.2775**
Shareholder proposals on defensive tactics (90 proposals)	.5980**

**Table 11. Regressions of Votes for Using Expected Fund Votes**

The table reports the pooled panel regression results for all management-sponsored executive equity incentive compensation plan proposals (panel A) and for all shareholder-sponsored proposals on takeover defenses (panel B), for all firms with proposal pairs, thus one proposal before and one after the mutual fund vote disclosure rule's effective date (votes after June 30, 2003, using as a variable, expected votes of mutual funds as predicted in the regressions of actual fund votes on fund characteristics reported in table 10. For a description of the variables, see Tables 3 and 7; 'expected votes for' (also abbreviated as "exp votes") is the fitted value for fund votes from the regressions of actual mutual fund votes on mutual fund characteristics reported in Table 9; "\*aft" indicates an interaction between the variable and an 'after' dummy variable indicating the proposal was adopted after the rule's effective date. Robust standard deviations are given between parentheses, \*\* means significant at less than 5 percent and \* means significant at 10 percent.

**Panel A. Management-sponsored Executive Incentive Compensation Plan Proposals**

Variable	(1)	(2)	(3)	(4)	(5)
Constant	1.2 (.40)**	1.3 (.35)**	1.4 (.35)**	1.2 (.42)**	.54 (.89)
After	-.09 (.09)	-.09 (.09)	-.32 (.13)**		
Expected votes for	.30 (.35)				
Percent same	-.08 (.16)	-.06 (.16)	-.06 (.16)	-.07 (.17)	-.44 (.33)
Ln(Market cap)	.05 (.02)**	.06 (.02)**	.06 (.02)**	.07 (.03)**	.14 (.07)**
Beta (-60)	.13 (.33)	.11 (.33)	.10 (.33)	.12 (.33)	-.43 (.69)
Market return (-12)	-.77 (2.4)	-.34 (2.4)	-.65 (2.4)	.01 (2.5)	.17 (4.8)
Turnover (-12)	-.13 (.02)**	-.14 (.02)**	-.13 (.02)**	-.14 (.03)**	-.16 (.06)**
Return (-12)				-.78 (.90)	-3.3 (1.7)*
ROA				-.85 (.47)*	-1.5 (1.2)
NPM				.62 (.35)*	1.5 (.67)**
Confidential voting				-.15 (.09)	-.28 (.19)
Blank check preferred				-.15 (.12)	.13 (.20)
Classified board				.07 (.06)	.27 (.13)**
Special meeting restricted				-.02 (.06)	-.24 (.12)**
Written consent restricted				.03 (.06)	-.004 (.12)
Poison pill				-.18 (.06)**	-.13 (.13)
Banks & insurance companies	-.64 (.53)	-.62 (.53)	-.61 (.53)	-.19 (.66)	.18 (1.3)
Banks & insurance*after				-.82 (.74)	-.90 (1.3)
Mutual funds	-.70 (.33)**				
Exp.votes *mutual funds		-.78 (.43)*	-1.7 (.63)**	-1.5 (.64)**	-.17 (.90)
Exp.votes *mutual funds*after			1.7 (.80)**	1.6 (.79)**	.45 (1.6)
Independent investment advisors	-.52 (.30)*	-.53 (.30)*	-.48 (.30)	-.05 (.43)	-1.1 (.70)
Ind invt advisors*after				-.58 (.54)	
Other institutions	-1.1 (.52)**	-1.1 (.52)**	-1.1 (.52)**	-.72 (.82)	.65 (1.0)
Other*after				-.30 (.91)	
Inside directors stock					-.31 (.87)
Number directors					-.05 (.02)**
Pct board independent					-.42 (.35)
Independent directors stock					1.7 (3.0)
Indstk*MutFund*exp.votes*after					172.5 (61.8)**
Indstk*Bank&Ins*exp.votes*after					34.0 (65.3)
Indstk*IndinvAdv*exp.votes*after					74.9 (35.5)**
Indstk*Other*exp.votes*after					-197.0 (57.4)**
R2	.1450	.1430	.1485	.1704	.2265
# of observations	724	724	724	724	226

**Table 11, panel B. Shareholder Proposals on Takeover Defenses**

Variable	(1)	(2)	(3)	(4)
Constant	-2.4 (.87)**	-.51 (.83)	-.40 (.85)	.13 (.78)
After	-.18 (.24)	-.01 (.24)	-.17 (.35)	
Expected votes for	1.7 (.35)**			
Percent same	.43 (.28)	-.03 (.26)	-.05 (.26)	.21 (.25)
Ln(Market cap)	-.002 (.05)	-.03 (.05)	-.03 (.05)	-.09 (.05)**
Beta (-60)	-.41 (.38)	-.45 (.41)	-.44 (.41)	-.91 (.39)**
Market return (-12)	.96 (6.2)	.12 (6.2)	.65 (6.4)	4.9 (5.2)
Turnover (-12)	-.19 (.07)**	-.20 (.07)**	-.20 (.07)**	-.16 (.09)*
Return (-12)				-.23 (2.1)
ROA				.12 (.80)
NPM				.77 (.87)
Confidential voting				.19 (.11)*
Blank check preferred				-.28 (.25)
Classified board				.37 (.12)**
Special meeting restricted				.39 (.12)**
Written consent restricted				.11 (.11)
Poison pill				.06 (.12)
Banks & insurance cos	.67 (.61)	.69 (.65)	.71 (.66)	.93 (.62)
Banks & insurance*after				-.71 (.87)
Mutual funds	1.2 (.71)*			
Exp. votes *mutual funds		2.8 (.78)**	2.4 (1.0)**	.96 (1.0)
Exp.votes*mutual fund*after			1.0 (1.5)	1.4 (1.4)
Ind. investment advisors	3.1 (.74)**	2.7 (.76)**	2.6 (.77)**	1.3 (.99)
Ind invt advisors*after				1.0 (1.2)
Other institutions	4.9 (1.1)**	4.5 (1.1)**	4.5 (1.1)**	6.9 (1.7)**
Other*after				-3.2 (2.0)
R2	.3329	.2763	.2781	.4369
# of observations	180	180	180	180

**Table 12. - Differences between original firms and matches**

This table presents the difference between the original firms and the matched firms, (1) for ‘before’ proposals (proposals voted on before July 1, 2003), using the actual proposal dates for both original and matched firms in ‘Mean difference before (i)’, (2) for ‘before’ proposals, using the dates for the original firms for both the original and the matched firms in ‘Mean difference before (ii)’, (3) for ‘after’ proposal dates (proposals voted on after June 30, 2003), which of course are only available for the original firms in ‘Mean difference after’, and the difference-in-difference. The last column provides the number of matched pairs without any missing information for the difference-in-difference calculation; \*\*means significant at less than 5 percent and \* means significant at 10 percent.

	Mean diff. before (i)	Mean diff. before (ii)	Mean diff. after	Difference- in- difference	# matched pairs
Ln(Market cap)	0.1956 (1.26)	0.3005 (2.17)**	0.4019 (3.00)**	0.1483 (2.37)**	254
Return(-12)	-0.0036 (0.98)	0.0120 (0.99)	0.0011 (0.44)	-0.0023 (0.51)	254
Beta(-60)	-0.0089 (0.87)	-0.0036 (0.39)	0.0130 (1.65)	0.0177 (2.03)**	254
Market return(-12)	-0.0037 (2.51)**	0.0013 (0.05)	-0.0003 (0.41)	-0.0003 (0.16)	254
Turnover(-12)	0.2302 (1.59)	0.1748 (1.43)	0.3128 (3.10)**	0.1131 (1.29)	254
Confidential voting	0.0722 (2.04)**	0.0273 (0.94)	0.0382 (1.27)	0.0118 (0.91)	254
Blankcheck Preferred	-0.0298 (1.06)	0.0234 (0.88)	0.0267 (1.07)	0.0000 (0.00)	254
Classified board	-0.0298 (0.66)	0.0313 (0.72)	-0.0038 (0.09)	-0.0276 (1.40)	254
Special meeting restr	-0.0851 (1.89)*	0.0703 (1.61)	0.0496 (1.14)	-0.0236 (0.80)	254
Written consent restr	-0.0596 (1.31)	0.0039 (0.09)	0.0038 (0.09)	0.0039 (0.15)	254
Poison pill	-0.0170 (0.37)	-0.0078 (0.18)	0.0115 (0.27)	0.0236 (0.78)	254
ROA	0.0128 (1.73)*	0.0069 (0.93)	0.0069 (1.12)	-0.0005 (0.07)	236
NPM	0.0153 (1.298)	0.0302 (1.71)*	0.0134 (0.92)	-0.0163 (0.75)	236
Ind directors stock	-0.0052 (1.84)*	0.1929 (0.75)	0.0699 (0.38)	0.1513 (0.40)	78
Inside directors stock	0.0503 (1.69)	-1.6157 (1.22)	-1.7530 (1.69)	-0.6026 (0.63)	78
Banks & insurance cos	-0.0038 (0.60)	.01777 (3.64)**	.0169 (2.95)**	-0.0004 (0.08)	259
Mutual Funds	-0.0110 (1.23)	0.0138 (1.69)	0.0324 (4.14)**	0.0196 (2.61)**	259
Ind investment advisors	-0.0282 (3.13)**	0.0239 (2.76)**	0.0041 (0.49)	-0.0194 (2.67)**	259
Other institutions	-0.0134 (2.29)**	0.1023 (0.77)	0.0004 (0.07)	0.0037 (0.60)	259

**Table 13. Logits of having no mgmt-sponsored executive comp. proposal ‘after’**

This table presents the results for two logit estimations of the likelihood of having no management-sponsored executive-compensation proposals after the mutual fund vote disclosure rule change (after June 30, 2003), for the sample of original firms and their matches. All variables with an underscore ‘\_0’ are for the date of the original firm’s proposal before the rule change, and all variables starting with ‘d\_’ are the change of the value from that before date to the date of the original firm’s proposal after the rule change. \*\* means significant at less than 5 percent and \* means significant at 10 percent.

Variable	(1)	(2)
Ln(market cap)_0	-0.026 (0.093)	0.028 (0.10)
Return(-12)_0	0.069 (5.42)	-1.44 (5.63)
Beta(-60)_0	0.40 (1.28)	1.17 (1.39)
Market return(-12)_0	10.7 (14.7)	9.77 (15.4)
Turnover(-12)_0	-0.15 (0.098)	-0.12 (0.11)
Confidential voting_0	-0.25 (0.32)	-0.42 (0.33)
Blank check preferred_0	-0.44 (0.36)	-0.45 (0.38)
Classified board_0	-0.01 (0.22)	0.11 (0.24)
Special meeting restr_0	-0.33 (0.23)	-0.40 (0.24)*
Written consent restr_0	0.19 (0.23)	0.13 (0.24)
Poison pill_0	0.074 (0.24)	0.17 (0.25)
ROA_0		2.08 (2.40)
NPM_0		-2.24 (1.18)*
Banks & insurance cos_0	-6.53 (2.44)**	-5.35 (2.58)**
Mutual funds_0	-2.42 (1.39)*	-2.47 (1.47)*
Ind investment advisors_0	-0.22 (1.29)	0.18 (1.44)
Other institutions_0	2.08 (2.38)	3.16 (2.61)
d_ln(market cap)	-0.35 (0.18)*	-0.26 (0.21)
d_return(-12)	0.46 (4.29)	-1.023 (4.47)
d_beta(-60)	-2.54 (1.31)*	-2.13 (1.36)
d_market return(-12)	2.98 (12.7)	6.34 (13.3)
d_turnover(-12)	-0.18 (0.14)	-0.16 (0.14)
d_confidential voting	-0.23 (0.73)	-0.33 (0.72)
d_blank check preferred	0.27 (0.73)	0.37 (0.74)
d_classified board	0.59 (0.490)	0.68 (0.50)
d_special meeting restr	0.27 (0.33)	0.14 (0.34)
d_written consent restr	-0.16 (0.38)	-0.13 (0.39)
d_poison pill	-0.42 (0.34)	-0.53 (0.37)
d_ROA		0.037 (2.47)
d_NPM		-0.30 (0.91)
d_banks & insurance cos	-2.83 (2.36)	-1.28 (2.53)
d_mutual funds	-4.27 (1.48)**	-3.55 (1.60)**
d_ind investment advisors	1.80 (1.46)	2.72 (1.58)
d_other institutions	-0.64 (1.79)	0.16 (1.98)
Constant	2.31 (1.41)	0.86 (1.60)
# observations	496	446
Pseudo R2	0.0887	0.0829