Do Pension-Related Business Ties Influence Mutual Fund Proxy Voting? Evidence from Shareholder Proposals on Executive Compensation

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Abstract

We examine the relation between mutual fund votes on shareholder executive compensation proposals and pension-related business ties between fund families and the firms. In unconditional tests, we find that fund families support management when they have pension ties to the firm. We find no relation when we stratify by fund family in conditional tests, which suggests that fund families with pension ties vote with management at both client and non-client firms. We confirm this result in an analysis of non-client firms. Overall, our results suggest that pension-related business ties influence fund families to vote with management at all firms.

JEL classification: G30; G23

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I. Introduction

The ability to propose governance reforms in corporate proxy votes allows shareholders to mitigate agency problems in publicly held firms. Mutual funds play a critical role in proxy votes and they use their voting power to protect the interests of fund investors. According to reports in the popular press, however, potential conflicts of interest related to the management of firm retirement plans lead mutual funds to nearly always oppose shareholder proposals, particularly when proposals concern executive compensation.[1] Conversely, the economic costs of reputation loss or possible lawsuits against the fund family may offset any short-term benefits of such voting. In view of these charges in the popular press and the associated economic tradeoffs, we seek to answer the following empirical question: Do pension-related business ties influence mutual fund votes on shareholder-sponsored executive compensation proposals?

The empirical evidence on whether pension-related business ties between mutual funds and firms create conflicts of interest is limited. Davis and Kim (2007) find that fund families with the most pension-related business ties tend to vote with management in the aggregate, but do not document an influence at the firm-proposal level. These results lead these authors to surmise that "A mutual fund company with heavy business ties may adopt voting policies and guidelines that lead to fewer votes against management across all portfolio firms, thereby reducing the risk of alienating the management of client firms" (page 569).[2] Although this

[1] See "Do Mutual Funds Back CEO Pay?—Study Finds Firms Failed to Use Voting Power in Favor of Linking Compensation to Performance" (*The Wall Street Journal*, March 28, 2006).

[2] See also Cohen and Schmidt (2009), who find that fund families receive large inflows when they are trustees of retirement plans, which is a substantial benefit in addition to the direct fees that the fund families receive. Moreover, these authors find that fund families overweight in their portfolios the stocks of firms for whom they are pension trustees, which suggests the possibility of a quid pro quo arrangement.

interpretation suggests a fund-family fixed effect, the data in Davis and Kim (2007) are limited to institutions with pension business and do not allow for a rigorous test of such influence.

We examine the association between pension-related business ties and fund-family votes on 340 shareholder-sponsored executive compensation proposals over the period January, 2004–June, 2006. We believe that executive compensation proposals provide a sharply delineated test of conflicts of interest, since such proposals directly influence the economic welfare of the executives who determine which institutions manage their pension funds. Our analysis of nearly 18,000 votes cast by 143 fund families, 67 with pension-related business ties and 76 without ties, documents a strong relation between the likelihood that a fund family votes against shareholder proposals on compensation and pension-related business ties. Consistent with a conflict of interest, such result is prevalent only when Institutional Shareholder Services (ISS) recommends passage of a proposal. Inclusion of fund-family fixed effects and analysis of voting behavior by fund families with pension ties at non-client firms, reveals that fund families tend to vote with management at all firms, possibly to maintain reputation and to minimize the potential for lawsuits.

Our results extend the findings of Davis and Kim (2007) to the firm proposal level and confirm their intuition that fund families with business ties vote with management at all firms. As such, our findings contribute to understanding institutional investor voting behavior (see also Gillan and Starks, 2000; Parrino, Sias, and Starks, 2003). Our findings also complement the evidence set forth in Cohen and Schmidt (2009), who find that trustees of pension funds receive increased fund flows from clients and overweight client firms in the portfolio, which suggests the potential for an implicit quid pro quo arrangement. Our results, along with those of Davis and Kim (2007), indicate that such influence extends beyond portfolio choice and affects how fund

families vote on shareholder proposals. Brickley, Lease, and Smith (1988, 1994) find that "pressure-resistant" institutions such as mutual funds are more likely to vote against management on anti-takeover amendments. Our findings imply that fund families with pension-related ties are less insulated from management pressures than are fund families without ties.

The remainder of this paper is organized as follows. Section II presents a discussion of the economic influences on fund-family voting, along with our main hypotheses. Section III describes our sample and data. Section IV presents the main results of our analysis. Finally, Section V describes our conclusions.

II. Conceptual Development and Hypotheses

Brickley et al. (1988, 1994) investigate institutional voting on proposals initiated by management for adopting anti-takeover provisions. These authors argue that non-bank trusts, insurance companies, and commercial banks generally have current or potential business with corporations and are therefore more likely to be pressured by management to provide support on controversial issues. In contrast, public pension funds, mutual funds, and foundations are less influenced by management pressure and more readily oppose management on controversial issues. They conclude that pressure-resistant institutions, such as mutual funds, are more likely to oppose management than are pressure-sensitive institutions, such as banks, insurance companies, and trusts.

However, fund families that manage pension funds for corporate clients receive significant economic benefits in the form of direct fees, increased assets under management, and fund flows (Davis and Kim, 2007; Cohen and Schmidt, 2009). These financial gains provide an incentive to vote with management on proxy votes so as not to jeopardize these valuable

business relationships. When the Securities and Exchange Commission (SEC) voted to require mutual funds to disclose their votes on proxy proposals, SEC Chairman Harvey Pitt stated that conflicts of interest related to mutual fund management of pension funds was a key factor that led him to push for the disclosure rule.[3] Even with the increased disclosure, subsequent empirical evidence on proxy voting (Davis and Kim, 2007) and portfolio allocation (Cohen and Schmidt, 2009) suggests that conflicts of interest persist.

An alternative theoretical approach suggests that large shareholders have incentives to increase the value of their portfolios (which would attract greater fund flows and result in larger management fees) through shareholder activism (e.g., Shleifer and Vishny, 1986). Nevertheless, the literature suggests that most institutions, particularly mutual funds, frequently refrain from shareholder activism and "vote with their feet" by selling shares if they cannot support management (see Roe, 1990; Bhide, 1993; and Parrino, Sias and Starks, 2003). Thus, given the general tendency of mutual funds to support management and the additional incentives to appease management faced by mutual funds with pension-related ties, we expect mutual funds that manage pension funds to be more likely to oppose shareholder proposals on executive compensation at client firms.

The general tendency of mutual funds to support management can make it difficult to detect conflicts of interest in a cross-sectional test. Evidence suggests, however, that institutions frequently follow ISS voting recommendations and that ISS recommendations unfavorable to management decrease institutional support for management (Bethel and Gillan, 2002). The influence of ISS recommendations is not trivial. For instance, Bethel and Gillan find that an

[3] See "Mutual Funds Face Rule on Disclosure; SEC Vote on Proxies Rebuffs the Industry" (*The Washington Post*, January 24, 2003).

unfavorable ISS recommendation is associated with 13.6% to 20.6% fewer votes cast in favor of management. Similarly, Cai, Garner, and Walkling (2009) report that in director elections, directors who receive a negative ISS recommendation obtain 19% fewer votes. Because of their incentives to avoid alienating management, we expect that fund families with pension-related ties are less influenced by ISS recommendations than are fund families without pension-related ties. Thus, our second testable hypothesis is that the influence of pension-related ties on mutual fund voting will be most apparent when ISS recommends in favor of a proposal.

SEC regulations mandate disclosure of complete fund proxy voting records as of July 1, 2003. Given this increased transparency, fund families can develop a reputation of voting with management, which can harm their reputations with retail investors. Moreover, an obvious pattern of voting that reflects a conflict of interest could increase the likelihood of lawsuits from the SEC or activist state officials. These issues lead Davis and Kim (2007) to propose that fund families with pension-related business ties have an incentive to vote with management at client and non-client firms alike, to avoid the appearance of partiality.

Fund families could follow an alternative strategy of not voting or formally abstaining when a vote for management at a client firm could be construed to be contrary to shareholder objectives. However, mutual funds have a fiduciary responsibility to vote on behalf of and in the interests of their clients. A strategy of not voting, therefore, would not necessarily result in diminished reputational losses or lower the risk of lawsuits. Moreover, both “no votes” and formal abstentions must be disclosed under SEC regulations. In practice, both actions would have a similar connotation of voting against management and could jeopardize the relationship with management at client firms. Following a pro-management agenda across all client firms would appear to be a more plausible strategy.

Based on these arguments, we expect that mutual funds with pension-related business ties will likely support management at both client and non-client firms, as predicted by Davis and Kim (2007). Econometrically, such a policy suggests a fund-family fixed effect, which leads to a testable hypothesis: we expect no relation between support for shareholder proposals on compensation and pension-related business ties after controlling for fund-family fixed effects.

III. Sample and Data

A. Shareholder Proposals and Mutual Fund Voting Data

We obtain a sample of shareholder proposals on executive compensation, along with mutual fund voting data on these proposals from the ISS Voting Analytics database, which compiles voting records from SEC N-PX filings. The ISS database contains mutual fund voting records and aggregate votes on proposals. The proxy voting disclosure rule implemented by the SEC in January 2003 requires mutual funds to disclose their proxy voting records on portfolio shares annually by August 31 of each year, on Form N-PX. Form N-PX includes the name of the issuer of the portfolio security, the exchange ticker symbol and CUSIP number of the security, the shareholder meeting date, a brief description of the proposal, whether the matter was proposed by the issuer or by a shareholder, whether the fund voted, and how the fund voted.

We have access to ISS data on proxy votes from January 2004 through June 2006. In addition to voting records, ISS provides the ISS recommendation for the proposal, the total number of shares outstanding, the total number of shares voted for the proposal, and outcome of the proposal. Our sample comprises 340 shareholder-sponsored executive compensation–related proposals received by 171 firms over the sample period January, 2004–June 2006. We analyze nearly 18,000 votes by 143 fund families.

For each fund vote, we observe whether the fund votes for the proposal, against the proposal, or abstains from voting. The ISS database does not disclose how many shares each fund votes. In some proposals, a few funds do not provide votes; however, the reason(s) for refraining from voting is unclear. However, we observe such cases in less than 1% of the voting sample. Funds within a fund family usually vote in the same direction described in the proxy voting guidelines that fund families file with SEC.[4] We observe that over 90% of funds within the same family vote the same way on any particular proposal. In order to examine whether fund-family voting is influenced by pension-business ties, we analyze aggregate fund-family voting on a proposal. Following Davis and Kim (2007), we compute the percentage support by a fund family on a given proposal by dividing the total number of funds within the fund family that vote for a proposal by the total number of funds in the family that are eligible to vote on the proposal. We then create a dummy variable that equals 1 if the majority of the funds in a fund family support a proposal, and zero otherwise.

A.1. Description of Proposal Outcomes and Mutual Fund Voting Records

Table 1 presents descriptive statistics on the outcomes of shareholder proposals and how mutual funds vote on these proposals. Panel A sets forth the outcomes of shareholder proposals on executive compensation for the period January, 2004–June, 2006 and Panel B presents the outcome by proposal type. Panel C provides summary statistics of mutual fund voting records. Panels A and B are based on total shares outstanding that could vote, and the statistics in Panel C are based on actual votes registered by mutual funds, as reported by ISS. In Panels A and B, *%Success* indicates percentage of proposals that receive majority support. *%ISS Support* indicates percentage of proposals for which ISS provides a "For" recommendation. *%For*

[4] For details on voting policies of fund families see Rothberg and Lilien (2006), who examine proxy voting policies of the 10 largest fund families.

indicates percentage of total votes cast in favor of the proposal. *%Against* indicates percentage of total votes cast against the proposal. *%Abstain* indicates percentage of abstain votes. *%Did Not Vote* indicates percentage of shares that did not vote.

Panel A shows that over the course of our sample period, about 11.5% of the proposals receive majority approval. The success rate is highest in 2004, over 17.1%, compared to 7.08% and 7.41% in 2005 and 2006, respectively. The number of proposals declines from 146 in 2004 to 113 in 2005 and 81 in 2006. The data understate the total number of proposals in 2006 since the available ISS data cover only the first half of the year. However, since most firms' fiscal years correspond with the calendar year and annual meetings occur in the spring, the data for 2006 likely reflect the preponderance of shareholder proposals in that year.

The voting records for all shareholders show no clear trend. Support for proposals ranges from a low of 15.91% in 2005 to 18.39% in 2006. Votes against proposals range from 52.66% in 2006 to 54.48% in 2005. Although there are a larger number of proposals and a higher success rate in 2004, these data are influenced by proposals to expense options. A revision to Financial Accounting Standards Board (FASB) 123 in December 2004 requires that options be expensed and makes proposals to expense options irrelevant in later years. Approximately 27.5% to 28.5% of eligible shares do not vote on shareholder-sponsored compensation proposals. This percentage of shares not voted compares with approximately 27% of shares not voted in merger approvals (Burch, Morgan, and Wolf, 2004; Bethel, Hu, and Wang, 2008).

[Please insert Table 1 about here]

Panel B presents descriptive statistics on voting outcome by type of proposal. We categorize proposals into six types: (i) *Limit/Prohibit award to executives* are proposals that

limit/prohibit awards and/or compensation to executives; (ii) *Performance-based pay/indexed options* are proposals to tie executive compensation to firm performance and include performance-based equity and options awards, stock retention requirements, and claw-back of payments under restatements; (iii) *Proposals related to disclosure* includes proposals to increase transparency, such as reports on executive compensation, reports on pay disparity, and increased disclosure of executive compensation; (iv) *Expense stock options* are proposals related to stock options expensing; (v) *Proposals for shareholder vote on compensation* are proposals to require shareholder votes on compensation; and (vi) *Other compensation proposals* consist of undefined non-executive compensation proposals.

Proposals to limit awards to executives occur 140 times. Proposals to alter how pay is tied to performance occur 96 times. Thirty-five proposals are related to disclosure and 43 proposals concern options expensing. Proposals related to shareholder votes on compensation occur 24 times and there are two undefined non-executive compensation proposals. ISS supports expensing options 100% of the time, and endorses nearly 71% of the proposals that are related to shareholder votes on compensation. Proposals that directly affect performance-based pay and proposals related to disclosure receive ISS support 72% and 31% of the time, respectively. Of all the proposals, only those related to options expensing are successful more than half the time (67.4% success rate). All other proposal types rarely receive majority support. The requirement to submit compensation plans to a shareholder vote passes in 8.33% of proposals.

Panel C presents summary statistics on mutual fund voting records for shareholder proposals on executive compensation. We classify fund-family votes for a proposal based on how the majority of the funds in the fund family voted. *%For* indicates percentage of fund families that provide majority votes in favor of the proposals. *%Against* indicates percentage of

fund families that provide majority votes against the proposals. *%Abstain* indicates percentage of fund families in which the majority of funds abstain from voting on the proposal. A *Split Vote* indicates that an equal number of funds in the fund family supported and opposed the proposal.

Mutual funds support 29.26%, 27.16%, and 31.91% of proposals in 2004, 2005, and 2005, respectively. Opposition to proposals ranges from a low of 64.43% in 2006 to a high of 71.14% in 2005. Abstentions are rare and range from 0.40% to 1.21%. We do not directly compare the data in Panel C to the data in Panels A and B, since the statistics in Panels A and B are based on total shares outstanding that could vote, and the statistics in Panel C are based on actual votes registered by mutual funds as reported by ISS.

B. Pension-related Business Ties Data

We gather business ties data from Employee Retirement Income Security Act of 1974 (ERISA) Form 5500, filed with the Department of Labor and SEC 11-K filings. As noted by Cohen and Schmidt (2009), using both ERISA Form 5500 and SEC 11-K filings to identify pension ties creates a more complete sample of pension ties than using only one of the two sources. Form 5500 is required to be filed for a firm that sponsors an employee benefit plan that qualifies under sections 104 or 4065 of ERISA. Benefits provided by a firm's plan include pension and welfare benefits. Pension benefits include defined benefit pension plans, defined contribution pension plans, and other plans, such as a master plan and a prototype plan. Welfare benefits include health, life insurance, long-term disability, severance pay, etc.

For each firm in our sample, we review the Form 5500 filings for all pension plans and obtain the name of the trustee or service provider for each plan.[5] We classify fund families in our

[5] Mutual fund services include investment manager, actuarial, investment advisors, contract administrator, etc.

sample as having a pension-related business tie if they are a service provider in any of the plans offered by a firm. We are able to obtain ERISA 5500 filings for 166 of 171 sample firms for which there is a proposal. The number of firms with business ties obtained from Form 5500 filings with any sample fund families is 119 and the number of firms with no business ties is 47.

The SEC 11-K filing is an annual report by firms of employee stock purchase, savings, and similar plans and is required if participants can invest retirement savings in the firm's stock. For each sample firm, we obtain the names of the service provider and trustee from the 11-K filings. Similar to our approach for Form 5500, we identify pension-related business ties with a fund family if the fund family is a service provider in any of the plans offered by a firm. We obtain 11-K filings for 126 of 171 sample firms. Of these 126 firms, 92 have business ties with one or more sample fund families. We classify a firm and a fund family as having a business tie if the fund family is identified as a service provider or a trustee in either Form 5500 or in 11-K filings. Combining pension-related business ties from the two sources, 149 firms in our sample have at least one business tie to a mutual fund that votes on a shareholder-sponsored compensation proposal for the firm, and 22 firms have no pension-related ties.

Overall, our method and data allow us to gain additional insight into the relation between pension-related business ties and mutual fund proxy voting. First, our sample contains 143 fund families, 67 with pension-related business ties and 76 with no ties; this allows us to examine fund-family fixed effects. Second, we use Form 11-K and Form 5500 to identify pension ties, which creates a more complete sample of ties than would be possible from just one of the sources. Third, we control for ISS recommendations, which have been shown to be an important determinant of fund votes. Fourth, we focus on shareholder proposals that target executive

compensation, an issue that potentially reduces the welfare of those executives who influence which fund families receive pension business.

In Section B.1, we provide characteristics of fund families and firms with and without business ties. In Section B.2, we provide descriptive statistics on the nature of business ties of fund families with the most pension-related business.

B.1. Characteristics of Fund Families and Firms by Business Tie Status

Panel A of Table 2 compares the characteristics of fund families with one or more pension-related business ties to a firm in our sample to the characteristics of fund families with no such business ties. Sixty-seven fund families have pension-related business ties to firms and 76 fund families have no business ties. Firms that do not use mutual funds to implement their pension plans typically use other types of institutions (e.g., insurance companies) or manage the fund internally. On average, fund families with business ties have 32 funds, while fund families without business ties have 10 funds. Fund families with business ties have significantly greater assets under management than do fund families without business ties. The mean total assets under management for fund families with business ties is $38.4 billion, compared to $7.4 billion for fund families without business ties (*p*-value for the difference is less than 0.001). Thus, on average, fund families with business ties tend to be about five times larger than fund families without business ties.

[Please insert Table 2 about here]

We next segregate our sample into firms with at least one voting mutual fund with a pension-related tie and firms with no pension ties to a voting mutual fund. In Panel B of Table 2, we compare the vote outcome and firm characteristics by this classification. In our voting

sample, there are 149 firms with business ties to one or more fund families and 22 firms with no pension-related business ties to a fund family. The proposal success rate is 11.8% for firms with business ties as compared to 15.4% for firms without business ties (*p*-value for the difference is less than 0.001).

We estimate the means of the firm characteristics, performance, governance, and ownership variables based on firm-year observations. We obtain stock returns, shares outstanding, and market capitalization data from the *Center for Research in Security Prices* (CRSP) database. Firm characteristics data are from Compustat. Corporate Library Directorships Data provides relevant data on board structure and ownership for insiders and blockholders. Executive compensation data are obtained from the Standard & Poor's Execucomp database.

Firm market capitalization is the product of the fiscal year closing price and the total number of shares outstanding in the year of the proposal. *Market-to-book asset ratio* is the market capitalization of equity plus the book value of debt, divided by the sum of their book values. *Past 1-year market-adjusted return* is the buy-and-hold market adjusted abnormal return of the firm over the full year preceding the proposal meeting date. *Classified board* takes the value 1 if the firm has a classified board, 0 otherwise. *Outside director* is the percentage of non-executive directors on the board. *Insider holdings* is the percentage of outstanding shares held by managers and/or directors in the year of the proposal. *Blockholder* is the percentage of outstanding shares held by non-management 5% blockholders in the year of the proposal. *CEO is board chair* equals 1 if the CEO also serves as the chairman of the board and 0 otherwise, in the year of the proposal. *CEO tenure* is the number of years the CEO has served in the firm. *Past-year CEO total compensation ($Thou)* is the total compensation of the CEO in the year preceding the proposal, and includes salary, bonus, other annual compensation, total value of

restricted stock granted, total value of options granted (using Black–Scholes), long-term incentive payouts and all other compensation. *Past-year excess CEO total compensation* is the excess total compensation of the CEO in the year preceding the proposal. We follow Core, Guay, and Larcker (2008) to compute excess compensation as the difference between actual compensation and expected compensation based on a vector of explanatory variables.[6] *Percentage of equity-based CEO compensation* is the percentage of stock and options awards in the total compensation of the CEO. We use these firm characteristics, governance, and performance variables as control variables in our regression analysis to examine the relation between business ties and fund-family voting.

In Panel B of Table 2, we observe that firms with pension-related business ties to mutual funds that vote on proxy votes are larger ($46,658 million compared to $26,822 million, *p*-value equals 0.02), less likely to have staggered boards (41.2% compared to 76.2%, *p*-value is less than 0.001), more likely to have a CEO as the chair of the board (78.2% compared to 54.2%, *p*-value equals 0.03), and pay the CEO more compensation in the year preceding the proposal ($13.4 million compared to $9.1 million, *p*-value equals 0.07).

B.2. Description of Business-Tie Families

Table 3 describes fund families with most pension-related business ties with firms that receive shareholder-sponsored executive compensation proposals from 2004 to 2006. The table presents the percentage of business ties for each of the top-10 fund families with ties, along with the next 57 fund families with ties. *Number of proposals* is the total number of firm-proposals for which a fund family provides votes. *Number of ties* is the total number of firm-proposals for

[6] To estimate excess compensation, we regress total compensation on firm current- and prior-year market-adjusted buy and hold returns, current- and prior-year returns on assets, prior-year book-to-market asset ratio, prior-year sales, CEO tenure, S&P 500 dummy, and industry controls.

which a fund family has business ties with the firm. We estimate the *Percentage of proposals with ties* by dividing the *Number of ties* by the *Number of proposals* for the fund family. *Percentage of ties in sample* is computed by dividing the number of ties for a fund family by the total number of all ties for all business-ties fund families. *Cumulative percentage of ties in sample* provides the cumulative percentage of ties for the fund families.

[Please insert Table 3 about here]

Five fund families (Fidelity, Vanguard, T. Rowe Price, MetLife, and Prudential, in respective order of importance) account for 439 business ties, or 37.8% of all business ties in the sample. Ten fund families account for 663 ties, or 57% of the total number of ties in the sample. The top-five fund families account for nearly double the number of ties of the second five fund families and provide nearly as many ties as the next 57 fund families. Fidelity has the most pension-related business ties, with connections to firms on 138 proposals. Fidelity accounts for 11.9% of all ties in the sample and has ties with firms in 41.3% of the proposals on which Fidelity funds vote. Thirty-four fund families have fewer than 10 ties.

IV. Results

Mutual fund voting policy is controlled by fund boards in accordance with SEC regulations. As a practical matter, nearly all funds within a fund-family vote the same way on a given proposal. In our sample, over 90% of votes by fund families exhibit unanimity among the funds within the family.[7] In the analysis that follows, we define a fund family as supporting a proposal if a majority of the funds in the family vote in favor of the proposal. If a majority of the funds in the family vote against the proposal, we define the fund family as opposing the

[7] Possible reasons for the lack of strict unanimity could include the unique objectives of socially conscious investment funds or voting by sub-advisors who are contracted to manage particular funds.

proposal. We verify via robustness tests that our results remain unchanged if we use the percentage of funds within a family that support a proposal in lieu of the dichotomous designation.

A. Univariate Analysis of Fund-Family Votes

Table 4 presents the percentages of support among mutual funds for shareholder proposals on executive compensation, segregated according to whether the fund family has pension-related business ties with the firm. We use *p*-values from a non-parametric test for differences in proportions to test whether the voting behavior differs between the two groups. Panel A of Table 4 sets forth the percentage support for a given proposal for each fund family. Fund families without business ties support the proposal in 29.2% of their votes compared to 20.8% support among funds with business ties (significantly different; *p*-value less than 0.001). As hypothesized, this result is driven by those proposals where ISS, and hence larger numbers of fund families, support the proposal. When ISS recommends passage of a proposal, fund families without business ties vote for the proposal 60.3% of the time. Fund families with business ties provide 44.8% support for ISS-endorsed proposals. These levels of support differ at a *p*-value less than 0.001. We find no difference in the percentage of support across the two groups for proposals that receive an unfavorable recommendation from ISS.

[Please insert Table 4 about here]

As noted in Table 1, ISS supports passage of a proposal in all cases when the proposal calls for options expensing, and in a majority of proposals that mandate the use of performance-based pay or shareholder votes on compensation. ISS supports less than one-third of proposals to increase disclosure and almost never supports limitations on awards to executives. We expect to

observe larger differences in support between fund families with pension ties to the firm and those without ties to the firm when ISS endorses the proposal.

Panel B of Table 4 presents a comparison of voting behavior across several types of proposal. As expected, the relation between pension ties and fund-family support for the proposal is highest among proposals in which the majority is endorsed by ISS. For proposals related to expensing stock options, we find 55.5% support among fund families with business ties compared to 73.2% support for fund families without business ties (*p*-value less than 0.001). Fund families with pension ties support proposals related to performance-based pay 35.4% of the time, compared to 42.0% support by fund families without ties (*p*-value equals 0.02). Proposals related to disclosure show 10.3% support by fund families with business ties and 18.5% support by fund families without business ties (*p*-value equals 0.02). Proposals that call for shareholder votes on compensation receive 30.7% support by fund families with ties, compared to 40.1% support by fund families without ties (*p*-value equals 0.06). In contrast, proposals to limit or prohibit compensation awards to executives, which are rarely endorsed by ISS, receive only 6.4% support among fund families with pension-related ties to the firm, compared to 8.2% support among fund families without ties (*p*-value for the difference = 0.15).

B. Multivariate Analysis of Fund-Family Votes

Researchers (e.g., Smith and Watts, 1992; Mehran, 1995, Ryan and Wiggins, 2001) find that firm size, performance and growth opportunities, and governance characteristics influence optimal levels and composition of executive compensation. We posit that these attributes may also influence fund-family support for shareholder-sponsored compensation proposals. We also expect that reputational concerns and the desire to avoid potential lawsuits to result in a fund-family fixed effect where fund families with pension-related ties exhibit the same voting

behavior at client and non-client firms. In this subsection, we present results from a multivariate analysis that controls for relevant firm-specific variables and fund-family fixed effects.

1. Control Variables

We include the natural logarithm of the market capitalization of firm equity to control for firm size. Firm market-to-book asset ratio and the preceding one-year market adjusted stock return control for growth opportunities and performance, respectively. To control for incentive alignment and monitoring, we include a variable to indicate whether the firm has a classified board, the percentage of outside directors on the board, the percentage of shares owned by insiders, the percentage of shares owned by 5% blockholders, and a variable to indicate whether the CEO also chairs the board. We include the logarithm of (1 plus) CEO tenure as a measure of potential CEO entrenchment. Since the size and composition of compensation could affect how institutions vote on compensation proposals, we include in our regressions a measure of "excess" CEO compensation and the percentage of equity-based compensation in the CEO pay package for the preceding year. All control variables are constructed as described in the data section.

2. Probit and Conditional Logit Analysis of Fund-Family Voting

Table 5 presents our analysis of the relation between fund-family voting on shareholder-sponsored compensation proposals and business ties to firms that receive these proposals. The dependent variable is an indicator variable that takes the value 1 if a majority of the funds in the family vote in favor of the proposal, zero otherwise. The primary independent variable is an indicator variable that equals 1 if the fund family has a business tie with the firm, zero otherwise. We use a probit analysis to examine the unconditional probability that a fund family supports a proposal and a conditional logit analysis, stratified by fund family, to examine the probability that a fund family supports a proposal while controlling for fund-family fixed effects. If

pension-related ties influence how fund families vote, we expect a negative relation with the pension ties indicator variable in the probit analysis. If, as suggested by Davis and Kim (2007), fund families with ties support management at client and non-client firms, we expect no relation with pension ties in the conditional logit. We also segregate the sample by ISS recommendation, since many fund families follow the advice of third-party proxy advisors.

[Please insert Table 5 about here]

The first three columns of Table 5 present marginal effects from our probit analysis. For all proposals, the coefficient on the pension business tie indicator variable is -0.0690 (*p*-value of 0.05), which indicates that a pension business tie decreases the probability that a fund family supports a proposal by 6.90%. As expected, there is a strong positive relation between the likelihood that mutual funds vote for a proposal and the ISS recommendation (*p*-value less than 0.001). In fact, the influence of pension-related ties is observed only in votes where ISS supports the proposal. For proposals supported by ISS, a business tie reduces the probability that a fund-family votes for the proposal by 16.74% (*p*-value less than 0.001). When ISS opposes the proposal, most mutual funds follow this advice and we detect no relation with business ties. We also find that firm size, insider stock ownership, and amount of stock owned by blockholders all decrease the likelihood that the proposal receives support.

The second three columns of Table 5 present coefficients from our conditional logit analysis, stratified by fund family. Consistent with the prediction that fund families with business ties vote with management at both client and non-client firms, we find no relation with the pension-related business tie indicator variable after stratifying by fund family. This result confirms our expectation of a fund-family fixed effect as implied by the intuition in Davis and

Kim (2007). We find similar relations with the ISS indicator variable, firm size, insider ownership, and ownership by blockholders, as in the probit model.

3. Probit and Conditional Logit Analysis of Fund-Family Voting by Proposal Type

As argued above, we expect the influence of pension-related business ties to be strongest on proposals endorsed by ISS, namely proposals to expense options, put executive compensation to a shareholder vote, and require performance-based pay. It is also possible that fund-family voting policy could systematically differ by proposal type. Thus, we segregate our sample by type of proposal and estimate our probit and conditional logit models separately for each type of proposal.

[Please insert Table 6 about here]

Table 6 presents the estimates of our probit model for each type of proposal. As expected, we find negative relations with the pension business tie indicator variable for proposals to expense options (*p*-value less than 0.001), proposals to require a shareholder vote on executive compensation (*p*-value of 0.08), and proposals to require performance-based pay (*p*-value less than 0.001). Also as expected, we find no relation on proposals to increase disclosure or limit pay that receive little support from ISS and are opposed by a majority of fund families.

[Please insert Table 7 about here]

Table 7 presents estimates for our conditional logit model for each proposal type. Consistent with our prediction of a fund-family fixed effect, we do not in general document a relation between the probability of supporting a proposal and the pension business tie indicator. The one exception is for proposals to expense options, where we find a negative relation (*p*-value of 0.03) even after stratifying by fund family. FASB mandated options expensing as of

December 15, 2004. This mandate was widely anticipated following a similar decision by the International Accounting Standards Board in February of 2004, and generally opposed by the management of publicly held firms.[8] In our sample, all of the votes on options expensing occurred during 2004. A possible explanation for our finding is that fund families inferred that the pending action by FASB would render moot the outcome of these proposal votes and provide a safety net against subsequent lawsuits. In this case, fund families may have believed that they could support client management opposition to options expensing without fear of legal action.

4. Probit Analysis of Voting at Non-client Firms by Fund Families with Pension Ties

As an additional test of the hypothesis that fund families vote with management at both client and non-client firms, we remove all votes on proposals at firms where a fund family has a direct tie and analyze the relation between the level of a fund family's pension-related business and its votes on proposals at non-client firms. We use two measures of the level of a fund family's pension-related business. The first is the number of pension ties to firm-proposals in our sample. The second is the proportion of pension business ties in our sample, which we calculate as the number of pension ties divided by the number of firm proposals on which a fund family votes. For instance, Fidelity Investments votes on 334 proposals and has ties to 138 firm-proposals. The first measure for Fidelity is 138, and the second is 138 divided by 334 or 0.413.

[Please insert Table 8 about here]

We present the results of our analysis in Table 8. Supporting the notion that firms with business ties vote with management at non-client firms as well as at client firms, we find negative relations between the probability of supporting a proposal and both measures of pension

[8] See "Foreign Firms to Expense Options—New International Rule Pressures U.S. to Handle Stock Grants the Same Way" (*The Wall Street Journal*, February 19, 2004)

business ties (*p*-values less than 0.001). These results provide additional support for the intuition in Davis and Kim (2007) that fund families vote strategically to avoid damaging reputation or exposing themselves to potential lawsuits. As in our earlier analysis, we find a strong positive relation with ISS recommendations, and negative relations with firm size, the percentage of outside directors on the board, insider stock ownership, and blockholder ownership.

5. Robustness Tests

As shown in Table 2, fund families with pension-related business ties manage significantly more assets and have significantly more funds than do fund families with no pension-related business ties. We are unable to obtain complete data on stock holdings for all mutual funds in our sample. However, reduced-sample estimations that control for size of fund family yield results qualitatively and statistically similar to those reported in the tables. Including value of the holdings in the firm facing the proposal, the percentage of shares owned, or the prior year's fund flow to the fund family (when available) also does not affect our results. We also estimate tests in which we require a minimum of four funds from a fund family to vote on a proposal. Again, results are similar to those reported.

Although SEC guidelines require fund families to maintain voting guidelines for funds, we do observe some voting variation with fund families in slightly less than 10% of the votes. Our results hold if we replace our dichotomous variable by the percentage of funds that support a proposal and use a Tobit model or a fractional logit model. We also obtain similar results to those reported if we constrain the sample to non-unanimous fund-family votes and estimate an ordinary least squares model. Finally, we recognize the potential for influence by other fixed effects related to the year of the proposal or the firm that receives the proposal. Computational limitations do not allow us to estimate multiple strata in a conditional logit. However, we

estimate separate conditional logits stratified by year and by firm, respectively. We again obtain similar results to those reported. Our results also hold if we estimate a linear probability model with combinations of fixed effects based on fund family, proposal type, firm, and year.

V. Conclusion

Mutual funds have a fiduciary responsibility to act in the interests of their shareholders. Shareholder proposals provide one mechanism via which mutual funds can influence firm policies to benefit shareholders. However, mutual funds benefit when they receive pension fund business from firms, which creates a potential conflict of interest that creates an incentive for fund managers to support firm management and to vote against shareholder proposals. Rationally, fund families should trade off the economic benefit of self-interested voting against possible economic losses related to lower portfolio returns, damaged reputations, or potential lawsuits. Shareholder proposals that relate to executive compensation provide an excellent arena in which to examine the influence of pension-related business ties, since these proposals can directly affect the pay and benefits of managers with influence over which fund families receive pension business.

We find a strong negative relation at the firm proposal level between the likelihood that a mutual fund supports shareholder-sponsored compensation proposals and its pension-related business ties to the firm. Except for proposals to expense options, we document no relation between fund voting and pension ties when we use a conditional logit stratified by fund family to control for fund-family fixed effects. The evidence of a fund-family fixed effect suggests that fund families vote with management at both client and non-client firms, possibly to protect their reputations or to avoid the potential for lawsuits. We confirm this result in a direct examination of voting by fund families with pension-related business ties on proposals at non-client firms.

Taken together, our results indicate that pension-related business ties influence how fund families vote at all firms.

We do not presume that all shareholder proposals that relate to compensation should be implemented or that firms that receive such proposals have ineffective compensation policies. In the debate on the efficacy of executive compensation, however, activists and policy makers have long proposed that executive compensation and benefits packages be put to shareholder vote. Our results also shed some light on the usefulness of recently implemented disclosure policies to mitigate potential conflicts of interests in mutual funds. Although we cannot compare the influence of business ties after the implementation of the disclosure rule to the influence of business ties prior to implementation, our results confirm that conflicts of interest persist in the post-disclosure era.

There are costs and benefits to any principal–agent relationship, and it is not possible to write complete contracts or to monitor perfectly. Mutual funds have persisted for a long time, and thus would appear to be an equilibrium mechanism to facilitate efficient investment in a large portfolio of stocks by diffuse shareholders. We cannot directly conclude from our findings that shareholders are harmed by the tendency of mutual funds with pension-related business ties to support management on shareholder-sponsored executive compensation proposals. However, it appears that “management friendly” fund families get most pension fund management business. This finding suggests that agency problems are likely prevalent among firm managers who choose the pension fund manager as well as in the fund family.

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TABLE 1

Outcomes of Shareholder Proposals on Executive Compensation

Panel A provides the outcome of shareholder-sponsored executive compensation proposals for the years 2004–2006 and Panel B provides the outcome by type of proposal. Panel C provides summary statistics of mutual fund voting records. Panel A and Panel B are based on total shares outstanding that could vote, and the statistics in Panel C are based on actual votes registered by mutual funds as reported by ISS. In Panels A and B, *%Success* indicates percentage of proposals that are successful. *%ISS Support* indicates percentage of proposals ISS provides "For" recommendation. *% For* indicates percentage of total votes cast in favor of the proposal. *% Against* indicates percentage of total votes cast against the proposal. *% Abstain* indicates percentage of abstain votes. *%Did Not Vote* indicates percentage of shares that did not receive votes. In Panel B, proposals are categorized into six different types: (i) *Limit/Prohibit award to executives* are proposals that limit/prohibit awards and/or compensation to executives; (ii) *Performance-based pay/indexed options* are proposals to tie executive compensation to firm performance and include performance-based equity and options awards, stock retention requirements, and claw-back of payments under restatements; (iii) *Proposals related to disclosure* includes proposals to increase transparency, such as reports on executive compensation, reports on pay disparity, and increased disclosure of executive compensation; (iv) *Expense stock options* are proposals that are related to stock options expensing; (v) *Proposals for shareholder vote on compensation* include proposals to require shareholder votes on compensation; and (vi) *Other compensation proposals* include non-executive compensation proposals. Panel C provides fund-family voting records for shareholder-sponsored executive compensation proposals for the sample years 2004–2006. We classify fund-family votes for a proposal based on how the majority of the funds in the fund family voted. *% For* indicates percentage of fund families that provide majority votes in favor of the proposals. *% Against* indicates percentage of fund families that provide majority votes against the proposals. *% Abstain* indicates percentage of fund families that abstain from voting in majority. A *Split Vote* indicates that an equal number of funds in the fund family supported and opposed the proposal.

Panel A: Voting Outcome of Shareholder-Sponsored Executive Compensation Proposals

Year	Obs.	*% Success*	*% ISS Support*	*% For*	*% Against*	*% Abstain*	*% Did Not Vote*
2004	146	17.12	40.41	16.40	53.18	1.91	28.51
2005	113	7.08	41.59	15.91	54.48	1.59	28.02
2006	81	7.41	55.55	18.39	52.66	1.48	27.47
Total	340	11.47	44.41	16.71	53.49	1.69	28.11

Panel B: Voting Outcome of Shareholder-Sponsored Executive Compensation Proposals by Type of Proposal

	Obs.	*% ISS Support*	*% Success*	*% For*	*% Against*	*% Abstain*	*% Did Not Vote*
Limit/Prohibit award to executives	140	7.85	1.43	7.62	62.41	1.81	13.96
Performance-based pay/indexed options	96	71.87	6.25	21.11	49.32	1.43	13.09
Proposals related to disclosure	35	31.43	0	12.59	56.35	2.02	29.04
Expense stock options	43	100	67.44	38.76	31.99	1.96	27.29
Shareholder vote on compensation	24	70.83	8.33	19.51	51.84	1.14	27.51
Other compensation proposals	2	0	0	6.22	60.83	1.82	31.13

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TABLE 1(continued)
Outcomes of Shareholder Proposals on Executive Compensation

Panel C: Fund-family voting records

Year	Obs.	*% For*	*% Against*	*% Split*	*% Abstain*
2004	8,747	29.26	68.33	1.53	0.88
2005	6,915	27.16	71.14	1.30	0.40
2006	5,105	31.91	64.43	2.45	1.21
Total	20,767	29.21	68.31	1.68	0.80

TABLE 2

Characteristics of Fund Families and Firms with and without Pension Business Ties

Panel A compares fund-families with one or more pension business ties to fund-families with no pension business ties. For the two categories of fund families, Panel A reports: number of fund families, average number of funds, and mean total assets of fund family ($Mill). Panel B compares firms with one or more pension business ties to a voting fund family to firms with no pension business ties to a voting fund family. We estimate the mean of the firm characteristics, performance, governance, and ownership variables based on firm-year observations. *Proposal success rate* is the percentage of proposals that receive majority votes in favor of the proposal. *Firm market capitalization* is the product of the fiscal year closing price and the total number of shares outstanding in the year of the proposal. *Market-to-book asset ratio* is the market capitalization of equity plus the book value of debt, divided by the sum of their book values. *Past 1-year market-adjusted return* is the buy-and-hold, market-adjusted abnormal return of the firm over the one year prior to the proposal meeting date. *Classified board* is the percentage of firms that have classified boards. *Outside director* is the percentage of non-executive directors on the board. *Insider holdings* is the percentage of outstanding shares held by managers and/or directors in the year of the proposal. B*lockholder* is the percentage of outstanding shares held by non-management 5% blockholders in the year of the proposal. *CEO is board chair* is the percentage of firms where the CEO also serves as the chairman of the board. *CEO tenure* is the number of years the CEO has served in the firm. *Past-year CEO total compensation ($Thou)* is the total compensation of the CEO in the year preceding the proposal, and includes salary, bonus, other annual compensation, total value of restricted stock granted, total value of options granted (using Black–Scholes), long-term incentive payouts and all other compensation. *Past-year excess CEO total compensation* is the excess total compensation of the CEO in the year preceding the proposal. We follow Core, Guay, and Larcker (2008) to compute excess compensation as the difference between actual compensation and expected compensation based on a vector of explanatory variables. *CEO equity-based compensation (%)* is the percentage of stock and options awards in total compensation of CEO. Significance for differences in means is based on t-tests. Significance for differences in medians is based on non-parametric, two-sample Wilcoxon tests. Significance in proportions is based on non-parametric proportions tests.

	With pension business tie		Without pension business tie		p-value for difference	
	Mean	Median	Mean	Median	Mean	Median
Panel A: Fund Families with Pension Business Ties Compared to Fund Families without Pension Business Ties						
Number of fund-families	67		76			
Average number of funds	31.8	25	10.4	7	0.00	0.00
Mean total assets of fund family ($Mill)	38,401	15,112	7,433	2,782	0.00	0.00

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TABLE 2 (continued)
Characteristics of Fund Families and Firms with and without Pension Business Ties

	With pension business tie		Without pension business tie		p-value for difference	
	Mean	Median	Mean	Median	Mean	Median
Panel B: Firms with Pension Business Ties Compared to Firms without Pension Business Ties						
Number of Firms	149		22			
Proposal success rate (percentage of proposals)	11.8		15.4		0.00	
Firm market capitalization ($Mill)	46,658	17,832	26,822	13,089	0.02	0.04
Market-to-book asset ratio	1.95	1.56	2.19	1.38	0.51	0.22
Past 1-year market-adjusted return	7.3	-3.1	19.0	1.6	0.33	0.20
Classified board (% of firms)	41.2		76.2		0.00	
Outside director (% of board)	74.5	76.5	73.7	75.0	0.80	0.38
Insider holdings (% of shares outstanding)	4.9	1.6	5.0	2.7	0.95	0.36
Blockholder (% of shares outstanding)	13.7	9.3	14.9	12.3	0.68	0.22
CEO is board chair (% of firms)	78.2		54.2		0.03	
CEO tenure (number of years)	6.0	4	4.67	3	0.17	0.21
Past-year CEO total compensation ($Thou)	13,463	11,590	9,149	4,195	0.07	0.00
Past-year excess CEO total compensation	0.079	0.105	-0.249	-0.223	0.07	0.03
CEO equity-based compensation (%)	50.5	54.8	51.4	55.6	0.88	0.44

TABLE 3
Fund Families with the Most Pension-Related Business Ties

This table presents descriptive statistics on the amount of pension-related business ties between fund families and firms with shareholder-sponsored executive compensation proposals for the years 2004–2006. We define a fund family and a firm as having a pension-related business tie if the Form 11K or the Form 5500 indicates that the mutual fund acts as a trustee or record keeper for the pension plan or manages any of the pension plan's assets. Among the total sample of 143 fund families, 67 fund families have business ties with one or more firms that receive shareholder proposals on executive compensation for the sample period 2004–2006. The table presents the extent of business ties for each of the top-10 fund families with ties and the next 57 fund families with ties. *No. of proposals* is the total number of firm-proposals for which a fund family provides votes. *Number of ties* is the total number of firm proposals with which a fund family has business ties. *Percentage of proposals with ties* provides the percentage of voted proposals that a fund family has business with and is obtained by dividing the *Number of ties* by the *No. of proposals* on which a fund family votes. *Percentage of ties in sample* is computed by dividing the number of ties for a fund family by the total number of all ties for all business ties fund families. *Cumulative percentage of ties in sample* provides the cumulative percentage of ties for the fund families.

Fund Family	Number. of proposals	Number of ties	Percentage of proposals with ties	Percentage of ties in sample	Cumulative percentage of ties in sample
Fidelity Investments	334	138	41.3	11.9	11.9
Vanguard Group	311	97	31.2	8.3	20.2
T. Rowe Price	326	71	21.8	6.1	26.3
MetLife Funds	303	70	22.9	6.0	32.3
Prudential Financial	322	63	19.6	5.4	37.8
Morgan Stanley	334	54	16.2	4.6	42.4
J. P. Morgan Chase	209	50	22.8	4.3	46.7
Barclays Global Investors	237	46	19.4	4.0	50.6
ING Funds	335	43	12.8	3.7	54.3
Franklin Advisors	264	31	11.74	2.7	57.0
Next 57 families with ties	340	500	4.6	43.0	100

TABLE 4
Percentage Support for Proposals by Fund Families

This table presents percentage support by fund families on 340 shareholder proposals on executive compensation from 2004–2006. We define a mutual fund family as supporting a proposal if the majority of the funds within the fund family vote in favor of the proposal. The statistics are the proportion of proposals supported by the fund family. *Pension Business Tie* families are those that have business ties with any of the sample firms in a given year. Panel A reports the mean of percentage support for all shareholder-sponsored compensation proposals, segregated by ISS support. Panel B reports the mean of percentage support for six categories of shareholder proposals on executive compensation: (i) *Limit/Prohibit award to executives* are proposals that limit/prohibit awards and/or compensation to executives; (ii) *Performance-based pay/indexed options* are proposals to tie executive compensation to firm performance and include performance-based equity and options awards, stock retention requirements, and claw-back of payments under restatements; (iii) *Proposals related to disclosure* includes proposals to increase transparency, such as reports on executive compensation, reports on pay disparity, and increased disclosure of executive compensation; (iv) *Expense stock options* are proposals that are related to stock options expensing; (v) *Shareholder vote on compensation* includes proposals to require shareholder votes on compensation; and (vi) *Other compensation proposals* includes non-executive compensation proposals. The *p*-value is from a non-parametric test for equality of the proportions.

	Fund families with pension business ties (Obs. = 1,163)	Fund families with no pension business ties (Obs. = 19,816)	p-value for difference
Panel A: Percentage Support for Proposals by Fund Families			
All proposals	20.8	29.2	0.00
ISS favorable recommendation (Obs. = 9,125)	44.8	60.3	0.00
ISS unfavorable recommendation (Obs.= 11,854)	5.2	5.1	0.94
Panel B: Fund-Family Support for Proposals by Type of Proposal			
Expense stock options	55.5 (Obs. = 99)	73.2 (Obs. = 2,566)	0.00
Proposals related to disclosure	10.3 (Obs. = 136)	18.5 (Obs. =2,276)	0.02
Shareholder vote on compensation	30.7 (Obs. = 101)	40.1 (Obs. = 1,313)	0.06
Limit/Prohibit award to executives	6.4 (Obs. = 512)	8.2 (Obs. = 8,031)	0.15
Performance-based pay/indexed options	35.4 (Obs. = 308)	42.0 (Obs. = 5,482)	0.02
Other compensation proposals	0 (Obs. = 7)	2.7 (Obs. = 148)	0.66

TABLE 5

Probit and Conditional Logit Models of Fund-Family Voting by Business Ties and ISS Recommendation

The table presents an analysis of 17,976 fund-family votes on 340 shareholder proposals on executive compensation from 2004–2006. We present marginal effects for the *Unconditional Probit Analysis* for all proposals, proposals that receive ISS "For" recommendations and proposals that receive ISS "Against" recommendations. We present the estimates of *Conditional Logit Analysis* of fund-family votes, stratified by fund family to control for potential fund-family fixed effects for all proposals, ISS "For" recommendation proposals, and ISS "Against" recommendation proposals. The dependent variable equals 1 if the majority of funds in a fund family support a proposal and 0 otherwise. The independent variable *Pension business ties* takes the value 1 if the fund family has business ties with the firm in the year of the proposal and 0 otherwise. *ISS "For" recommendation* equals 1 if ISS provides favorable recommendation for the proposal and 0 otherwise. *Log(firm market capitalization)* is the natural logarithm of the product of the fiscal year closing price and the total number of shares outstanding in the year of the proposal. *Market-to-book asset ratio* is the market capitalization of equity plus the book value of debt, divided by the sum of their book values. *Past 1-year market-adjusted return* is the buy-and-hold, market-adjusted abnormal return of the firm over the one year prior to the proposal meeting date. *Classified board* takes value 1 if the firm has a classified board and 0 otherwise. *Outside director* is the percentage of non-executive directors on the board. *Insider holdings* is the percentage of outstanding shares held by managers and/or directors in the year of the proposal. *Blockholder* is the percentage of outstanding shares held by non-management 5% blockholders in the year of the proposal. *CEO is board chair* equals 1 if the CEO also serves as the chairman of the board and 0 otherwise in the year of the proposal. *CEO tenure* is the number of years CEO has served in the firm. *Past-year excess CEO total compensation* is the excess total compensation of CEO in the year preceding the proposal, where total compensation includes salary, bonus, other annual compensation, total value of restricted stock granted, total value of options granted (using Black–Scholes), long-term incentive payouts, and all other compensation. We follow Core, Guay, and Larcker (2008) and compute excess compensation as the difference between actual compensation and expected compensation based on a vector of explanatory variables. *Percentage of equity-based CEO compensation* is the percentage of stock and options awards in total CEO compensation. *p*-values, based on robust standard errors, are in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Probit Analysis			Conditional Logit Analysis		
	All Proposals	ISS "For" Recommendation	ISS "Against" Recommendation	All Proposals	ISS "For" Recommendation	ISS "Against" Recommendation
Pension business ties (1/0)	-0.0690**	-0.1674***	0.0025	-0.0980	0.1405	0.0301
	(0.05)	(0.00)	(0.79)	(0.42)	(0.33)	(0.88)
ISS "For" recommendation (1/0)	0.5353***	NA	NA	4.1873***	NA	NA
	(0.00)			(0.00)		
Log(firm market capitalization)	-0.0261***	-0.0333***	-0.0108***	-0.2168***	-0.2105***	-0.2986***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Market-to-book asset ratio	0.0058*	0.0080	0.0038	0.0415	0.0476	0.1191**
	(0.08)	(0.11)	(0.19)	(0.12)	(0.16)	(0.04)
Past 1-year market-adjusted return	0.0087	0.0161	-0.0029	0.0915*	0.1019*	-0.0636
	(0.27)	(0.19)	(0.65)	(0.09)	(0.10)	(0.75)
Classified board (1/0)	-0.0006	0.0031	-0.0001	0.0055	0.0206	-0.0256
	(0.95)	(0.81)	(0.99)	(0.93)	(0.79)	(0.82)
Outside director (% of board)	-0.0342	-0.0190	-0.0324**	-0.2390	0.0161	-0.8795**
	(0.31)	(0.68)	(0.05)	(0.32)	(0.95)	(0.03)

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TABLE 5(continued)

Probit and Conditional Logit Models of Fund-Family Voting by Business Ties and ISS Recommendation

	Probit Analysis			Conditional Logit Analysis		
	All Proposals	ISS "For" Recommendation	ISS "Against" Recommendation	All Proposals	ISS "For" Recommendation	ISS "Against" Recommendation
Insider holdings (% of shares outstanding)	-0.1486***	-0.2104***	-0.0558*	-1.1426***	-1.2385***	-1.5041
	(0.00)	(0.01)	(0.06)	(0.00)	(0.00)	(0.14)
Blockholder (% of shares outstanding)	-0.1022***	-0.1463***	-0.0321	-0.8103***	-0.8272***	-0.9720***
	(0.00)	(0.00)	(0.11)	(0.00)	(0.01)	(0.01)
CEO is board chair (1/0)	0.0002	0.0062	-0.0040	0.0278	0.0697	-0.1437
	(0.97)	(0.68)	(0.50)	(0.59)	(0.30)	(0.31)
Log(1+CEO tenure)	-0.0033	-0.0114	0.0016	-0.0433	-0.0999***	0.0773
	(0.46)	(0.11)	(0.52)	(0.22)	(0.01)	(0.30)
Past-year excess CEO total compensation	-0.0011	-0.0052	0.0032	-0.0190	-0.0429	0.1079
	(0.82)	(0.49)	(0.37)	(0.62)	(0.32)	(0.21)
Percentage of equity-based CEO compensation	-0.0021	-0.0005	-0.0060	-0.0413	-0.0533	-0.2133
	(0.86)	(0.99)	(0.53)	(0.68)	(0.69)	(0.36)
Pseudo R^2	0.3257	0.0104	0.0080	0.4415	0.0152	0.0185
Observations	17,976	7,592	10,384	17,733	6,785	5,487

TABLE 6

Probit Analysis of Fund-Family Voting by Business Ties Based on Proposal Type

This table presents an analysis of 17,976 fund-family votes on 340 shareholder proposals on executive compensation from 2004–2006. We present marginal effects for the *Probit Analysis* for five categories of proposals to control for possible differences based on proposal type: *Expense Options* are proposals that are related to stock options expensing; *Disclosure* includes proposals that are intended to increase transparency, such as: reports on executive compensation, reports on pay disparity and increased disclosure of executive compensation; *Shareholder Vote* includes proposals that require shareholder votes on compensation; *Limit Pay* are proposals that limit/prohibit awards and/or compensation to executives; *Performance-Based Pay* are proposals that tie executive compensation to firm performance, such as: performance-based equity and options awards, stock retention requirements, and claw-back of payments under restatements. The dependent variable equals 1 if the majority of the funds in a fund family support a proposal and 0 otherwise. The independent variable *Pension business ties* takes the value 1 if the fund family has business ties with the firm in the year of the proposal and 0 otherwise. *ISS "For" recommendation* equals 1 if ISS provides favorable recommendation for the proposal and 0 otherwise. *Log (firm market capitalization)* is the natural logarithm of the product of the fiscal year closing price and the total number of shares outstanding in the year of the proposal. *Market-to-book asset ratio* is the market capitalization of equity plus the book value of debt, divided by the sum of their book values. *Past 1-year market-adjusted return* is the buy-and-hold, market-adjusted abnormal return of the firm over the one-year period preceding the proposal meeting date. *Classified board* takes value 1 if the firm has a classified board and 0 otherwise. *Outside director* is the percentage of non-executive directors on the board. *Insider holdings* is the percentage of outstanding shares held by managers and/or directors in the year of the proposal. *Blockholder* is the percentage of outstanding shares held by non-management 5% blockholders in the year of the proposal. *CEO is board chair* equals 1 if the CEO also serves as the chairman of the board and 0 otherwise in the year of the proposal. *CEO tenure* is the number of years CEO has served in the firm. *Past-year excess CEO total compensation* is the excess total compensation of CEO in the year preceding the proposal, where total compensation includes salary, bonus, other annual compensation, total value of restricted stock granted, total value of options granted (using Black–Scholes), long-term incentive payouts, and all other compensation. We follow Core, Guay, and Larcker (2008) and compute excess compensation as the difference between actual compensation and expected compensation based on a vector of explanatory variables. *Percentage of equity-based CEO compensation* is the percentage of stock and options awards in total CEO compensation. *p*-values, based on robust standard errors, are in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Expense Options	Disclosure	Shareholder Vote	Limit Pay	Performance-Based Pay
Pension business ties (1/0)	-0.1768***	-0.0047	-0.0995*	-0.0100	-0.1204***
	(0.00)	(0.90)	(0.08)	(0.41)	(0.00)
ISS "For" recommendation (1/0)	NA	0.3932***	0.4495***	0.5501	0.4787***
		(0.00)	(0.00)	(0.00)	(0.00)
Log(firm market capitalization)	-0.0107	0.0053	-0.0489*	-0.0148	-0.0199***
	(0.34)	(0.64)	(0.09)	(0.00)	(0.01)
Market-to-book asset ratio	-0.0183**	-0.0301*	0.0608	-0.0054	-0.0039
	(0.04)	(0.09)	(0.22)	(0.12)	(0.63)
Past 1-year market-adjusted return	0.0245	-0.0935	-0.0814	0.0021	-0.0149
	(0.26)	(0.11)	(0.47)	(0.79)	(0.35)
Classified board (1/0)	0.0155	-0.0050	0.0367	-0.0014	-0.0224
	(0.56)	(0.84)	(0.70)	(0.83)	(0.19)
Outside director (% of board)	-0.0770	-0.0884	0.1870	-0.0174	-0.0007
	(0.38)	(0.40)	(0.35)	(0.42)	(0.99)

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TABLE 6 (continued)
Probit Analysis of Fund-Family Voting by Business Ties Based on Proposal Type

	Expense Options	Disclosure	Shareholder Vote	Limit Pay	Performance-Based Pay
Insider holdings (% of shares outstanding)	0.0193	-0.3242**	-0.0135	-0.1617	0.0208
	(0.93)	(0.02)	(0.95)	(0.00)	(0.86)
Blockholder (% of shares outstanding)	-0.0842	0.0475	-0.3652	-0.0387	-0.0364
	(0.54)	(0.59)	(0.32)	(0.16)	(0.54)
CEO is board chair (1/0)	-0.0238	-0.0672*	0.0164	-0.0045	0.0002
	(0.38)	(0.06)	(0.80)	(0.57)	(0.99)
Log(1+CEO tenure)	-0.0008	0.0152	0.0378	0.0045	-0.0037
	(0.95)	(0.28)	(0.17)	(0.20)	(0.69)
Past-year excess CEO total compensation	-0.0028	0.0255	0.0001	0.0067	-0.0039
	(0.82)	(0.20)	(1.00)	(0.13)	(0.74)
Percentage of equity-based CEO compensation	0.0747	0.0419	-0.0559	-0.0187	0.0537
	(0.19)	(0.43)	(0.65)	(0.15)	(0.18)
Pseudo R^2	0.0081	0.2717	0.1834	0.2440	0.1770
Observations	2,160	1,978	1,162	7,411	5,110

TABLE 7

Conditional Logit Analysis of Fund-Family Voting Based on Proposal Type

This table presents an analysis of 17,976 fund-family votes on 340 shareholder proposals on executive compensation from 2004–2006. The table presents the estimates of conditional logit models of fund-family votes, stratified by fund family to control for potential fund-family fixed effects, on shareholder-sponsored executive compensation proposals. We present estimates for five categories of proposals to control for possible differences based on proposal types: *Expense Options* are proposals that are related to stock options expensing; *Disclosure* includes proposals that are intended to increase transparency, such as: reports on executive compensation, reports on pay disparity, and increased disclosure of executive compensation; *Shareholder Vote* includes proposals that require shareholder vote on compensation; *Limit Pay* are proposals that limit/prohibit awards and/or compensation to executives; *Performance-Based Pay* are proposals that tie executive compensation to firm performance, such as: performance-based equity and options awards, stock retention requirements, and claw-back of payments under restatements. The dependent variable equals 1 if the majority of the funds in a fund family support a proposal and 0 otherwise. The independent variable *Pension business ties* equals 1 if the fund family has business ties with the firm in the year of the proposal and 0 otherwise. *ISS "For" recommendation* takes the value 1 if ISS provides favorable recommendation for the proposal and 0 otherwise. *Log (firm market capitalization)* is the natural logarithm of the product of fiscal year closing price and the total number of shares outstanding in the year of the proposal. *Market-to-book asset ratio* is the market capitalization of equity plus the book value of debt, divided by the sum of their book values. *Past 1-year market-adjusted return* is the buy-and-hold, market-adjusted abnormal return of the firm over one year preceding proposal meeting date. *Classified board* takes the value 1 if the firm has classified board and 0 otherwise. *Outside director* is the percentage of non-executive directors on the board. *Insider holdings* is the percentage of outstanding shares held by managers and/or directors in the year of the proposal. *Blockholder* is the percentage of outstanding shares held by non-management 5% blockholders in the year of the proposal. *CEO is board chair* equals 1 if the CEO also serves as chairman of the board and 0 otherwise in the year of the proposal. *CEO tenure* is the number of years CEO has served in the firm. *Past-year excess CEO total compensation* is the excess total compensation of CEO in the year preceding the proposal, where total compensation includes salary, bonus, other annual compensation, total value of restricted stock granted, total value of options granted (using Black–Scholes), long-term incentive payouts, and all other compensation. We follow Core, Guay, and Larcker (2008) and compute excess compensation as the difference between actual compensation and expected compensation based on a vector of explanatory variables. *Percentage of equity-based CEO compensation* is the percentage of stock and options awards in total CEO compensation. *p*-values, based on robust standard errors, are in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

	Expense Options	Disclosure	Shareholder Vote	Limit Pay	Performance-Based Pay
Pension Business ties (1/0)	-0.7939**	-0.0301	0.2713	-0.1859	-0.0945
	(0.03)	(0.96)	(0.49)	(0.50)	(0.66)
ISS "For" recommendation (1/0)		4.1170***	3.6155***	5.2685***	3.6052***
	N.A.	(0.00)	(0.00)	(0.00)	(0.00)
Log(firm market capitalization)	-0.1285	0.0227	-0.3780**	-0.3345***	-0.0995**
	(0.18)	(0.89)	(0.04)	(0.00)	(0.05)
Market-to-book asset ratio	-0.1729***	-0.4077**	0.4349	-0.1565***	-0.0350
	(0.01)	(0.05)	(0.22)	(0.01)	(0.47)
Past 1-year market-adjusted return	0.2502	-1.3610*	-1.1347*	0.0709	-0.0144
	(0.12)	(0.07)	(0.09)	(0.71)	(0.89)
Classified board (1/0)	0.2019	-0.1427	0.1272	-0.1276	-0.1098
	(0.34)	(0.62)	(0.85)	(0.31)	(0.35)
Outside director (% of board)	-0.5974	-0.9363	1.5527*	-0.2384	-0.1120
	(0.33)	(0.49)	(0.07)	(0.59)	(0.78)

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TABLE 7 (continued)
Conditional Logit Analysis of Fund-Family Voting Based on Proposal Type

	Expense Options	Disclosure	Shareholder Vote	Limit Pay	Performance-Based Pay
Insider holdings (% of shares outstanding)	0.5097	-4.1450**	0.2450	-2.8651***	0.1744
	(0.73)	(0.03)	(0.79)	(0.00)	(0.79)
Blockholder (% of shares outstanding)	-0.7177	0.9003	-1.7562	-0.9939*	-0.2785
	(0.35)	(0.38)	(0.44)	(0.07)	(0.43)
CEO is board chair (1/0)	-0.1831	-0.8269*	0.1241	-0.0935	0.0036
	(0.33)	(0.06)	(0.70)	(0.63)	(0.97)
Log(1+CEO tenure)	-0.0447	0.1880	0.3058	0.1349	-0.0481
	(0.62)	(0.21)	(0.04)	(0.11)	(0.43)
Past-year excess CEO total compensation	0.0030	0.2706	-0.1344	0.1879**	0.0106
	(0.97)	(0.25)	(0.51)	(0.05)	(0.90)
Percentage of equity-based CEO compensation	0.4937	0.5061	-0.1549	-0.6433***	0.3232
	(0.26)	(0.50)	(0.83)	(0.01)	(0.11)
Pseudo R^2	0.0241	0.5168	0.4015	0.4427	0.3223
Observations	1,236	1,391	966	6,468	4,783

TABLE 8

Probit Model of Voting by Fund Families with Pension Ties at Non-client Firms

This table presents an analysis of 16,999 votes by 143 fund families on shareholder-sponsored executive compensation proposals at firms where the fund family does not have pension business ties. The sample excludes all fund family-firm observations where there is a direct pension business tie. The dependent variable equals 1 if the majority of the funds in a fund family support the proposal and zero otherwise. We use the *Total number (Proportion) of pension business ties* as a proxy for the level of a fund family's business ties. *ISS "For" recommendation* equals 1 if ISS provides favorable recommendation for the proposal and 0 otherwise. *Log (firm market capitalization)* is the natural logarithm of the product of the fiscal year closing price and the total number of shares outstanding in the year of the proposal. *Market-to-book asset ratio* is the market capitalization of equity plus the book value of debt, divided by the sum of their book values. *Past 1-year market-adjusted return* is the buy-and-hold, market-adjusted abnormal return of the firm over the one year preceding the proposal meeting date. *Classified board* takes value 1 if the firm has classified board and 0 otherwise. *Outside director* is the percentage of non-executive directors in the board. *Insider holdings* is the percentage of outstanding shares held by managers and/or directors in the year of the proposal. *Blockholder* is the percentage of outstanding shares held by non-management 5% blockholders in the year of the proposal. *CEO is board chair* equals 1 if the CEO also serves as the chairman of the board and 0 otherwise in the year of the proposal. *CEO tenure* is the number of years CEO has served in the firm. *Past-year excess CEO total compensation* is the excess total compensation of CEO in the year preceding the proposal, where total compensation includes salary, bonus, other annual compensation, total value of restricted stock granted, total value of options granted (using Black–Scholes), long-term incentive payouts, and all other compensation. We follow Core, Guay, and Larcker (2008) and compute excess compensation as the difference between actual compensation and expected compensation. *Percentage of equity-based CEO compensation* is the percentage of stock and options awards in total CEO compensation. *p*-values, based on robust standard errors, are in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Total number of pension business ties	-0.0015***	
	(0.00)	
Proportion of pension business ties		-0.4425***
		(0.00)
ISS "For" recommendation (1/0)	0.5449***	0.5452***
	(0.00)	(0.00)
Log(firm market capitalization)	-0.0297***	-0.0295***
	(0.00)	(0.00)
Market-to-book asset ratio	0.0056*	0.0056*
	(0.09)	(0.09)
Past 1-year market-adjusted return	0.0098	0.0096
	(0.21)	(0.22)
Classified board (1/0)	-0.0026	-0.0029
	(0.73)	(0.71)
Outside director (% of board)	-0.0487*	-0.0478*
	(0.07)	(0.08)
Insider holdings (% of shares outstanding)	-0.1620***	-0.1622***
	(0.00)	(0.00)
Blockholder (% of shares outstanding)	-0.1096***	-0.1091***
	(0.00)	(0.00)
CEO is board chair (1/0)	0.0037	0.0036
	(0.68)	(0.69)
Log(1+CEO tenure)	-0.0017	-0.0015
	(0.67)	(0.72)
Past-year excess CEO total compensation	-0.0008	-0.0007
	(0.87)	(0.88)
Percentage of equity-based CEO compensation	-0.0026	0.0029
	(0.87)	(0.85)
R^2/Pseudo R^2	0.3352	0.3351