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**Influence of Public Opinion on Investor Voting and  
Proxy Advisors**

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## **Influence of Public Opinion on Investor Voting and Proxy Advisors**

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July 2015

### **Abstract**

Institutional investors vote corporate proxies on behalf of underlying investors and beneficiaries. We show a strong relation between this voting and public opinion on corporate governance (as reflected in media coverage and surveys), with similarly strong results for voting by mutual funds. We also find that proxy advisors' recommendations are associated with public opinion. Our results suggest that institutional investors and proxy advisors pay attention to the changing opinions of their beneficiaries and shareholders, as reflected in their voting decisions, and that the proxy voting process serves as a channel for the public to influence corporate behavior.

JEL: G32; G34; G38;

Keywords: Public Opinion, Media, Proxy Advisors, Institutional Investors, Proxy Voting

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## **Influence of Public Opinion on Investor Voting and Proxy Advisors**

*“We rely on several sources of information to inform our voting. We do our own analysis based on information published by companies, look at research done by proxy advisors, and follow media coverage. Media coverage helps us keep in touch with a broad range of constituents’ views on corporate governance issues.”*

*Michelle Edkins, MD, Global Head, Corporate Governance and Responsible Investment,  
BlackRock*

### **1. Introduction**

Institutional investors have become the dominant shareholders in many firms with an ability to change a firm’s agenda through multiple approaches, including shareholder proxy votes. Proxy voting itself has evolved from having little apparent importance in affecting corporate behavior to becoming what many consider to be an important aspect of corporate governance. In other words, institutional investors, whether activist investors or not, have the voting power to influence corporate policy.

In this paper, we examine the extent to which this voting power becomes influenced by public opinion. This issue is important because proxy voting serves as a channel through which the public can communicate with management, and potentially influence corporate behavior. In particular, media coverage of corporate actions can capture the attention of those who make recommendations and vote: proxy advisors and shareholders. Because many large institutional investors are stewards of capital for the wider public, they will pay attention to public opinion as well as their own research in making their voting decisions. Further, small institutional investors need to rely on many sources of information in their voting decision, as they are more likely to lack the capacity to conduct their own extensive research.

Large institutional investors handle tens of thousands of proxy votes each year. For example, in their last public disclosure of this issue, BlackRock, with more than \$4.3 trillion under management, voted on 130,000 proposals, at more than 14,000 shareholder meetings in 85

markets worldwide. Further, they engaged with 1,400 firms in 2013 (BlackRock 2013 Annual Report). Because of these many shareholdings, in order to monitor firms and vote effectively, institutional investors gather information from multiple sources, including research conducted by sell-side analysts, proxy advisory firms, and their own in-house analysts. Further, as indicated in the quote above by Ms. Edkins of BlackRock, media coverage serves as an important external source of information regarding their portfolio firms. Hence, we would expect media coverage to help calibrate the views of institutional investors on corporate governance issues relative to general public opinion, or even help them learn about the views of other institutional investors.

To provide evidence on our thesis, we examine the relation between public opinion and shareholder voting, in a period in which public opinion of corporate behavior was particularly intense – the financial crisis and its immediate aftermath. We also use a period preceding the financial crisis in order to have a benchmark for comparison. Our sample period is thus 2004 to 2010. We start by examining the changes in investor voting patterns in shareholder proposals over this period. A focus on shareholder-sponsored proposals rather than management-sponsored proposals allows us to examine shareholder voting on the more contentious proposals that are typically opposed by management. Our results indicate that shareholder proposals gain more support over the sample period with a spike in the first proxy season after the financial crisis (2009). Similarly, institutional investors became increasingly less likely to follow management's recommendations for voting on shareholder proposals, as they voted with management's recommendations 72.1% of the time in 2004 and 61.9% of the time in 2010. These changes in support are not driven by recommendations of the major proxy advisory firm, Institutional Shareholder Services (ISS). Strikingly, we find that while investors voted with ISS's recommendation 68.3% of the time in 2004, by 2010 the percentage in agreement with ISS was down to 48.7%. This pattern is specifically driven by those cases in which investors do not follow ISS's recommendation to oppose a proposal. We find a similar change in the voting pattern of mutual funds. Thus, shareholders are less likely to follow the recommendations of

either management or the proxy advisory firm. One explanation for this change in behavior is that shareholders are forming their own views due to changes in public opinion.

To better understand the role of public opinion in shaping the proxy voting process, we examine trends in shareholder voting along with changes in the underlying influences. Our measure of public opinion captures the magnitude and tone of media coverage on corporate governance issues. To narrow this coverage to a manageable number of news stories, we focus on the media coverage of executive compensation both at the aggregate level and at the firm level. We also use an alternative measure of public opinion gathered through Gallup surveys.

Our primary contribution is that we provide evidence that public sentiment on corporate governance issues is associated with voting on shareholder proposals and in particular, with mutual fund voting. Further, we find evidence that proxy advisors' recommendations similarly are related to public opinion.

Our paper adds to the literature on the role of media in financial markets as a collector, aggregator, and disseminator of information (e.g., Dyck, Volchkova and Zingales, (2008); Solomon, Soltes, and Sosyura (2014)). Previous research argues that media coverage improves investment decisions by reducing the cost of information acquisition (Grossman and Stiglitz (1980) and Verrecchia (1982)), and by increasing investors' awareness of financial assets (Merton (1987)), faster incorporation of information (DellaVigna and Pollet (2009)), and lower information asymmetry between investors and firms (Tetlock (2010)). Our specific contribution to this strand of the literature is to examine the relation between public opinion and voting decisions at both the firm and fund level across time. Public opinion provides institutional voters with power because there is much more than just a single institutional investor behind the vote: the vote reflects wider public sentiment. In that sense, aggregate public opinion can play the role of the activist investor envisioned by Levit and Malenko (2011) to aid in changes caused by the nonbinding vote on shareholder proxies.<sup>1</sup> More closely related to our paper, Cvijanovic,

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<sup>1</sup> For a discussion of media influence, see Chan (2003), Dougal, Engelberg, Garcia, and Parsons (2012), Engelberg and Parsons (2011), and Liu and McConnell (2013), and Tetlock (2007)).

Dasgupta, and Zachariadis (2014), working in the context of lawsuits, conclude that investor attention plays a role in corporate governance via its effect on institutional investors.

We contribute to the literature on shareholder proxy voting and voting by institutional investors through a broader examination of the voting.<sup>2</sup> Cai, Garner and Walkling (2009) report that ownership by index funds or quasi-indexers exhibit the same pro-management bias as the broker votes studied in Bethel and Gillan (2002). However, Appel, Gormley, and Keim (2015) find passive ownership to be associated with more support for shareholder proposals. Many of the studies on mutual fund voting, such as that by Morgan, Poulsen, Wolf and Yang (2011), have limited the number of firms and the number of funds; we consider proposals at all 3,000 of the Russell companies, and in our analysis of mutual fund voting, we include 475 fund families and 13,313 individual funds. Thus, we examine a broad array of firms and mutual fund families.

We also contribute to the studies on the influence of proxy advisory firms that consistently find a correlation between these firms' recommendations and voting by institutional investors.<sup>3</sup> However, Iliev and Lowry (2014) find that mutual funds vary greatly in their reliance on these recommendations. We show that contrary to what many researchers and commentators believe, investor voting has become more independent of ISS recommendations, but only in proposals where ISS recommends a vote against the proposal. Over our sample and particularly during the financial crisis period and its immediate aftermath, the support by ISS has increased for shareholder proposals.

## **2. Shareholder Involvement, Voting, and Public Opinion**

Shareholder proxy proposals are only advisory to the board's deliberations. Thus, in concept, a firm's board and management can ignore the voting outcome, even if the proposal receives a majority positive vote. Moreover, in some cases, shareholder proposals do not receive

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<sup>2</sup>For reviews of this literature, see Gillan and Starks (2007) and Cotter, Palmiter and Thomas (2010).

<sup>3</sup> See Bethel and Gillan (2002), Cai, Garner, and Walkling (2009), Daines, Gow and Larcker (2010), Alexander, Chen, Seppi, and Spatt (2010), Ertimur, Ferri and Oesch (2013), and Larcker, McCall and Ormazabal (2014), and Malenko and Shen (2015).

majority votes because management has the ability to affect the voting outcome. For example, management can influence the participation in the vote and the voting outcome through the efforts of hired proxy solicitors (Pound, 1988; Gillan and Starks, 2007).

However, passage of the proposal may not be the submitter's original intention. The proposal itself provides investors with a way to communicate with management and other shareholders. Therefore, the intent of the proposal submitter can be to bring public attention to the issue in order to create sufficient influence to reach an objective of change at the firm. That is, given the increasing attention on shareholder proposals by the media and investors, it is often not necessary for the proposal to win a majority vote to have an influence. Further proof of this motivation lies in the fact that shareholder proposals are often withdrawn because the shareholder reaches an agreement with management.

Because of these issues, shareholders can expect that a significant vote in favor of a shareholder proposal (or against a management proposal) is a signal that management should consider making changes. For instance, in a recent survey, ISS found that their institutional investor clients expected to see the board or management make changes if a say-on-pay proposal receives greater than 30% negative vote. This finding again suggests that it is not the passage of the proposal that is important, but the ability of a group of shareholders to communicate with the board and management.<sup>4</sup>

In addition, the existence of proposals and the subsequent voting outcomes have engendered regulatory responses in which Congress changed laws or the SEC changed rules governing corporate behavior. Such changes can be costly for firms in terms of new constraints or compliance costs. An example would be the Dodd-Frank legal requirements regarding say-on-pay proxy proposals, which followed some years of shareholder proposals being submitted in proxy statements.

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<sup>4</sup> However, ISS did not find that managers expected such a low threshold. The managers who responded to the survey indicated that they expected to make changes if a say-on-pay proposal received more than a 40% negative vote.



Both voting by institutional investors and the recommendations of proxy advisory firms should be influenced by the economic and social climate of public opinion. In fact, this influence can be seen in the fact that ISS annually gathers feedback on their proxy policies from institutional investors, corporate issuers, and the wider corporate governance community in advance of the proxy season. For example, the ISS Corporate Governance Policy Updates and Process 2014 dated November 11, 2013, states: “ISS also conducts surveys, convenes roundtable discussions, and posts draft policies for review and comment.” Thus, as public opinion changes so do the recommendations issued by ISS. In our analyses, we disentangle the direct relation between media coverage and investor voting from the indirect influence of the media through the proxy advisor’s recommendations.

On an individual firm level, changes in the submission of shareholder proposals and the subsequent shareholder voting on those proposals can have negative effects on investors’ perceptions of, and willingness to hold, the firm’s shares, which can increase the firm’s cost of capital. Similarly, lenders might also be less willing to provide capital if those investors view management as being difficult. Thus, it is not just the vote itself, but the power of the vote and what it implies: institutional investor and regulatory muscle.

### **3. Changes in Proxy Proposals and Voting**

#### *3.1 Proposal Characteristics*

We obtain data from several different sources. From ISS we obtain proxy proposal voting records for firms in the Russell 3000 Index for our period of interest, January 2004 through November 2010. The information in these records includes the date of the meeting, a description of the proposal, whether the proposal is sponsored by management or shareholders, and voting recommendations from management and ISS. The records also provide the number of shares outstanding, the number of shares voted for/against/abstain, requirements for the proposal to pass, and the final voting outcome. We note that in theory, the number of shares voted could

include votes by both retail and institutional shareholders, but in reality reflect mostly institutional voting because participation by retail investors tends to be fairly low.<sup>5</sup>

We classify shareholder proposals into four categories: Board, e.g., requires director fees to be paid in stock, requires director nominee qualifications, and establishes term limits for directors; Corporate Governance, e.g., supermajority voting, preemptive rights, and poison pills; Executive and Director Compensation, e.g., limit executive compensation, put repricing of stock options to shareholder vote, and limit/prohibit executive stock-based awards; and Other, e.g., proposals dealing with social health, and environmental issues. We exclude from our analysis any management-sponsored proposal related to board/director elections, any proposal defined as “preferred/bondholder” or “routine business.”<sup>6</sup>

Table 1 provides descriptive statistics for the 18,438 proposals in our sample, of which 14,448 (78.4%) are sponsored by management and 3,990 (21.7%) by shareholders.<sup>7</sup> The year with the largest number of proposals occurs in 2009, following the financial crisis. A major part of the increase in proposals in that year deals with issues related to board mechanisms such as majority voting, the separation of the board chair from the CEO, and the right to call a meeting. The participation rate, which we define as the number of shares voted as a percentage of the shares outstanding, varies within a range of 78% to 81% for management proposals and 70% to 75% for shareholder proposals. The high rates of voting participation are not unexpected, given the dominance of institutional investors as shareholders in the equity markets and their fiduciary responsibility to exercise their vote.

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<sup>5</sup> The SEC held a Proxy Voting Roundtable on February 12, 2015 that explored ways to increase retail participation in the proxy process.

<sup>6</sup> Board proposals include issues such as board size, classified/staggered board, authority to appoint committees, term limits and proxy access; capitalization proposals deal with issues such as authorizing issuance of new stock, stock split and share repurchase; merger proposals address reorganization and mergers; compensation proposals relate to executive, director and employee compensation involving option plans, repricing of options, restricted stock, bonus, and loans; anti-takeover proposals deal with amendments to articles, charter, bylaws, written consent, supermajority voting and special meetings.

<sup>7</sup> Because our data ends in November 2010, the coverage for that year is not complete. However, since the vast majority of firms have their annual meetings in the first half of the year, this coverage limit does not reduce our 2010 observations significantly.

### 3.2 Changes in Support Rate for Proposals

Table 2 reports the time-series frequencies of the major categories of proposals. Panel A shows that of the 3,990 proposals that are sponsored by shareholders during our sample period, 62% (2,558) address issues on the firm's compensation, board, and corporate governance. The remaining 38% are in the *OTHER* category that includes proposals related to social, environmental, and health issues. Panel B of Table 2 shows that the majority of the management-sponsored proposals pertain to compensation issues. Additional proposals concern issues related to capitalization, board, anti-takeover amendments, and reorganization/mergers. The striking reduction in the proposals related to mergers and acquisitions (M&As) during our sample period is primarily due to the fact that the financial crisis resulted in reduced M&A activity, hence a reduction in related management-sponsored proposals. As mentioned earlier, we do not include routine and director election proposals in the analysis.

Table 2 also shows the mean support rate by year for proposals sponsored by shareholders and management. We calculate the support rate as the ratio of *FOR* votes to the total votes or outstanding shares, depending on the voting criterion for the proposal. Total votes may include only *FOR* and *AGAINST* votes or also *ABSTAIN* votes. The mean support rate for shareholder proposals increases from 23.6% in 2004 to 37.0% in 2009 before dropping to 31.8% in 2010. The average support rate for shareholder proposals is 29.4%. This rate contrasts with the average support rate for management proposals of 83.4%. Following the financial crisis, shareholder proposals in 2009 obtain the highest support rate, 37%. On average, only 16.9% of shareholder proposals pass, i.e., receive favorable votes of greater than 50%. Again, we contrast this rate with the pass rate for management-sponsored proposals: 97.4% of all management-sponsored proposals pass.

The proxy season in 2008 was already over by the time the financial crisis was in full force. Therefore, the response to the financial crisis is captured primarily in the 2009 proxy season. Table 2 shows a clear spike in support of shareholder proposals in that year, in which 25.9% of the shareholder proposals passed, the highest pass rate in our sample period. In fact, the

largest numbers of both shareholder and management proposals occur in 2009, with a large increase in board and compensation proposals sponsored by shareholders. There is also evidence of less support for management in 2009 with a lower mean pass rate for board and anti-takeover proposals sponsored by management. Thus, these results for 2009 suggest that in response to the financial crisis there was more support for shareholder proposals and less support for management proposals. The effects of the financial crisis on the 2009 proxy season are underscored by the trend reversal in 2010, when management proposals had their highest pass rate, 98.2%, and the pass rate for shareholder proposals dropped to 16.0%.

### *3.3 Influence of Management and Proxy Advisor Recommendations*

Every year, ISS Governance Services makes available its overall proxy voting guidelines on specific proxy issues. In addition, ISS develops recommendations on the proxy proposals for individual firms.<sup>8</sup> Hence, for each firm in our sample, we are able to obtain the recommendation of management and ISS for each proposal on the ballot. In Table 2, the last two rows of each panel show the percentage of votes that conform to these recommendations and how they change over the sample period. We find that in the earlier years of our sample, investor voting on shareholder-sponsored proposals tends to be closely associated with the recommendations of both management and the proxy advisor; however, each association wanes over time as shareholders apparently make decisions more independently from either management or proxy advisor recommendations. After the financial crisis, investors become even less likely to follow the recommendations of either management or ISS when they vote on shareholder-sponsored proposals.

Table 2 and Figure 1a both show little change in voting on management proposals over the sample period. In contrast, for shareholder proposals, the percentage of votes following management's recommendation declines, as does the percentage of votes following ISS's recommendation. The changes are striking. The percentage of votes on shareholder proposals

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<sup>8</sup> ISS also provides custom-based recommendations and analyses to individual clients based on the clients' proxy policies and procedures. These recommendations are confidential.

following management's (ISS's) recommendations on shareholder-sponsored proposals decreases from 72.1% (68.3%) in 2004 to 61.9% (48.7%) in 2010. In Figure 1b, we split voting with ISS based on whether ISS supports or opposes a proposal. The figure shows that investor voting independently of ISS is driven primarily by both shareholder and management proposals opposed by ISS, not by voting on the proposals that ISS supports. We find that 61.7% of all votes followed ISS's negative recommendation in 2004; this percentage decreases every year falling to 40.9% by 2010. However, this trend does not exist for the proposals that ISS supports. Interestingly, although over the sample period ISS increasingly opposes management's recommendations on shareholder proposals, shareholders have been less willing to support ISS's negative recommendations. That is, investors have become more independent of both ISS and management recommendations.

There are two potential explanations for these independent voting results by shareholders: Either investors have become more sophisticated about proxy voting, with many institutional investors conducting their own analysis; and/or other proxy advisory firms e.g., Glass Lewis, Egan-Jones, and Proxy Governance, are providing independent analyses with differing recommendations for some proposals (for example, see Li (2015)).

Examining the proportion of proposals that ISS opposes each year compared to those they support shows that ISS itself has become increasingly supportive of shareholder-sponsored proposals, and that the proportion of their *AGAINST* to *FOR* recommendation declined from 156.4% in 2004 to 30.5% in 2010. That is, over the sample period, ISS becomes relatively more favorable to shareholder proposals. Table 2 and Figure 2 show that in contrast to the increasing support of ISS for shareholder proposals, its support rate for management-sponsored proposals does not vary significantly over the sample period. The proportion of *AGAINST* to *FOR* recommendation for management proposals varies from 18.3% in 2004 to 20.6% in 2010.

There are several possible explanations for ISS's increasing support for shareholder proposals. First, the types of proposals being submitted by shareholders might have changed over the sample period, in which case, the newer proposals might have become more acceptable to

ISS. Second, the shareholder proposal sponsors might have become more sophisticated about the wording of proposals, hence garnering support from ISS. Finally, public opinion about corporate governance issues might have changed, and this change could be reflected in the proxy advisor's recommendations.

### *3.4 Public Opinion*

As discussed earlier, we hypothesize that an explanation for the changes in investor voting behavior and proxy advisory firm recommendations stems from the influence of public opinion. To examine this hypothesis, we develop four proxies for public opinion. Three of these proxies capture public opinion and general dissatisfaction with executives at a broad economy-wide level; the fourth measure is firm-specific.

We derive the first measure, *CONFIDENCE*, from the annual Gallup Poll Survey of confidence in different institutions of American society. We use the percentage of confidence in banks, which reflects broad opinion about the financial sector in general, and also to some extent reflects confidence in corporations in general. The Gallup Poll Survey asks individuals how much confidence they have in different types of institutions including banks.<sup>9</sup> The choice of possible responses is a great deal, quite a lot, some, or very little. We combine the percentage of the top two responses: "great deal" and "quite a lot". Figure 3 shows that during our sample period the highest confidence in banks occurred in 2004 when 53% had high confidence in banks. Not surprisingly, given the financial crisis and the ill-will that was engendered toward financial institutions, the lowest confidence level of 22% occurred in 2009.

The second measure of public opinion we develop is based on media coverage of executive compensation. We focus on the media coverage of executive compensation because it is a general corporate governance proxy with a long history of being a public concern. (See, e.g.,

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<sup>9</sup> The institutions in the survey are the church or organized religion, the military, the U.S. Supreme Court, banks, public schools, newspapers, Congress, television news, organized labor, the presidency, police, medical system, criminal justice system, big business, small business, and health maintenance organizations.

Murphy, 2013.) The measure *MEDIA* is the natural logarithm of the monthly number of articles from major news and business publications from the Factiva news database that contain at least one of the following keywords: "CEO compensation," "CEO salary," "CEO pay," "executive compensation," "executive salary," and "executive pay," in singular and plural. In total, we find 31,802 articles that mention these keywords. Figure 4 shows that the number of compensation-related articles changed substantially over the sample period with the largest changes occurring during and immediately after the financial crisis. The third measure, *MEDIA-NEGATIVE*, is the natural logarithm of the percentage of words in the collected (compensation-related) articles that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). This measure captures the public's negative sentiment towards management and boards.

Our fourth measure of public opinion, *MEDIA-FIRM*, is a proxy for public opinion at the firm level. In addition to the keywords used for *MEDIA*, to pick up media coverage on a specific company, we also include different versions of a firm's name. We measure *MEDIA-FIRM* as the percentage of the number of articles related to compensation about a particular firm in a given month, normalized by the total number of articles related to compensation on this firm over the sample period. On average, firms in our sample are mentioned in about two articles per month. Further, as shown in Figure 5, there appears to be increased media coverage on compensation around the major proxy voting month of April, partly because firms must disclose executive and director compensation in their proxy statements that then gets picked up by the media. Figures 4 and 5 show that both media count in the aggregate and at the firm-level peaks in 2009, apparently in response to the financial crisis. Further, news stories about compensation are more likely to reflect a negative rather than a positive sentiment.

### 3.5 Firm Characteristics

We obtain firm characteristics from Compustat and CRSP. We use several firm-specific control variables, as of the last fiscal year end before the proxy voting, in our analysis: natural logarithm of total assets in U.S. dollars (*SIZE*), debt to assets (*DEBT*), cash holdings to assets

(*CASH*), capital expenditure to assets (*CAPEX*), return on assets (*ROA*), and annual stock return minus the value-weighted stock market return (*EXCESS RET*). We winsorize all the specific firm-level accounting variables except *SIZE* at the upper and lower 1% levels.

We also include the firm-level corporate governance index *GOV41* as in Aggarwal, Erel, Ferreira, and Matos (2011). *GOV41* assigns a value of one to each of 41 governance attributes if the company meets minimally acceptable governance guidelines on that attribute, and zero otherwise.

Table 3 reports summary statistics on the firms with proxy proposals, divided by proposal type, i.e., shareholder- or management-sponsored. We note that the median firm in the sample with shareholder proposals is more than ten times larger than is the median firm with management proposals. Shareholders tend to target larger firms. In addition, firms with shareholder proposals have higher median returns on assets, higher median debt, higher relative capital expenditures, and higher median governance, but lower cash and lower excess returns. Wilcoxon rank-sum tests show that these differences in medians are significant at the 1% level.

## **4. Voting Behavior of Investors and Public Opinion**

### *4.1 Voting and the Role of Public Opinion*

There has been much public debate about corporate scandals and, more fundamentally, corporate governance issues. This debate was precipitated primarily by the financial scandals at corporations such as Enron and WorldCom, as well as the mutual fund trading scandals of 2003. More recently, debate was intensified by the financial crisis of 2008. As anecdotal evidence and Figure 3 suggest, these scandals and crises appear to have shaken investor confidence in financial institutions and corporate management.

We examine the impact of public opinion on voting patterns in shareholder-sponsored proposals by including three different broad measures of public sentiment toward corporate management as independent variables: *CONFIDENCE*, the percentage of confidence in banks from the annual Gallup Poll Survey; *MEDIA*, which is a measure of the public concern on



executive compensation; and *MEDIA-NEGATIVE*, which is the percentage of negative words in the articles related to compensation. *CONFIDENCE* is from the fiscal year just prior to the shareholder proxy vote. We measure *MEDIA* and *MEDIA-NEGATIVE* during the month preceding the vote. The dependent variable is the support rate for the proposal, that is, the percentage of votes cast in favor of the proposal.

In Table 4, Columns 1-9 report the results on the proposal support rate. To ensure sufficient observations for specific proposals, we restrict the sample to those shareholder-sponsored proposals with at least 65 observations (the median count for director and executive compensation-related proposals) during the sample period. The results are similar when we use the full sample of proposals. The primary independent variable in the columns is *CONFIDENCE* (in columns 1-3), *MEDIA* (in columns 4-6), and *MEDIA-NEGATIVE* (in columns 7-9). In the first column, the coefficient of *CONFIDENCE*, which controls for industry fixed effects, is -0.309, significant at the 1% level. The negative coefficient implies that there is more support for shareholder-sponsored proposals when confidence in the banking system is low. Another possible explanation for this result is that over the sample period, the type of proposals on the ballot changed (and became better) as the confidence in banks and management declined. However, in Column 2, we include proposal fixed effects and find that the coefficient remains negative and significant. We get similar results when we include firm fixed effects in Column 3, which suggests that the significant effect of media continues even after controlling for proposal types and firm fixed effects. All regressions include firm-level controls: *SIZE*, *DEBT*, *CASH*, *CAPEX*, and *ROA*, *EXCESS RET*, and the *GOV41* index. Standard errors are corrected for clustering of observations at the firm level.

In Columns 4-6 of Table 4, where we use the general media coverage of executive compensation, *MEDIA*, we find that the coefficients are positive and significant at the 1% level. The positive coefficient implies that more compensation-related media coverage is associated with more support for shareholder purposes. Compensation-related media coverage tends to be negative, and critical of compensation practices. We repeat the analysis by using the degree of

negativity in the compensation articles. *MEDIA-NEGATIVE* serves as the proxy for public opinion. We report the results in Columns 7-9 of Table 4. Again, we see that more negative media coverage is associated with more support for shareholder proposals. Thus, we find that when there is more coverage of executive compensation issues in the media, particularly negative discussion, it is associated with more support for shareholder proposals, hence less support for management.

Votes that support shareholder proposals are, in effect, votes against management, because it is rare for management to support shareholder proposals. There is some indication that support for shareholder proposals is lower in larger firms, as indicated by the negative coefficient of the *SIZE* variable. In untabulated results, we repeat the above analysis after controlling for the sponsor of the proposal. We group sponsors into the categories of individuals, religious, labor unions, pensions/endowments, and others. We find our public opinion variables continue to be significant and similar in magnitude.

Our results are not only statistically significant, they are also economically significant. For example, for a change in the *CONFIDENCE* index of 30 percentage points, which is the magnitude of the change from 2004 to 2010 shown in Figure 3, the coefficient in Column 2 implies a change of 4.4 percentage points in the support rate. This is economically significant, corresponding to nearly a 15% change in the mean support rate of 29.4% for shareholder-proposals in our sample period of 2004-2010.

The economically significant effects of media coverage associated with shareholder proposals can be contrasted with the lack of any effects associated with management proposals. Specifically, the results in Table 5 show that the association between media coverage and management-sponsored proposals is not, for the most part, significant (especially when we include proposal and firm fixed effects).

In Table 6, we report the results of an analysis that focuses on the shareholder proposals that address compensation issues. Consistent with our hypothesis that media coverage is related to investor voting, compared to the sample that includes all proposals, we find an even stronger

association between the media coverage proxies and voting for compensation proposals. These results hold across different proxies for media coverage and across separate controls for industry and firm fixed effects. In unreported results, we also examine non-compensation proposals only, and find that the coefficients of the media variables are smaller.

#### *4.2 Voting and Firm-Level Media Coverage*

In the previous tables we have reported on examinations of firm-level voting based on news articles in general. We next examine the relation between shareholder voting on proxy proposals and media coverage of compensation issues at the individual firm level. The dependent variable in these regressions is the support rate and the percentage of votes cast in favor of a firm's shareholder proposal on compensation. The primary independent variable of interest is the firm level proxy for public opinion, *MEDIA-FIRM*, which is the monthly number of news articles related to compensation on a particular firm normalized by that firm's media coverage over the sample period. Column 1 reports results with only industry and year-month fixed effects. Column 2 also includes proposal fixed effects.<sup>10</sup>

Table 7 shows that whether we control for industry and time fixed effects or for industry, time and proposal fixed effects, the support rate for shareholder proposals is increasing in the relative amount of firm-level media coverage. In addition, the coefficients on firm size (*SIZE*) and leverage (*DEBT*) are both negative and significant, indicating less support for shareholder proposals in larger firms and firms with higher leverage. Overall, our results show evidence of a strong relation between investor voting and public opinion on compensation issues both broadly, and at the firm level, supporting the hypothesis that public opinion influences shareholder voting. Media coverage about compensation is either neutral or is more likely to be negative than

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<sup>10</sup> We do not include firm fixed effects in these tests because the variation in the public opinion proxy is at the firm level. On the other hand, we can include time fixed effects because the firm-level media count, unlike the main hypothesis variables in the previous tables, does not take the same value for all firms in a given year-month.

positive, typically discussing excess compensation. Our results show that this media coverage is associated with less support for management.

## **5. The Recommendation of the Proxy Advisor and Public Opinion**

ISS has an extensive proxy policy formulation process that includes conducting an annual policy survey of both their proxy voting clients (institutional investors) and firms' management and other market participants. ISS also receives additional reactions and comments through industry roundtables and contemporaneous feedback during the proxy season. Each year, ISS distributes revised draft policies to interested parties for their comments, which ISS then considers before adopting the final updated policy. ISS states that they try to incorporate the views of both the corporate governance community and the market in formulating their policies. If public opinion reflects the views of the market, then this sentiment should be reflected in ISS's final recommendations.

In Table 8 we report the results of tests for an association between public opinion and the ISS recommendation on a shareholder proposal. The dependent variable is a dummy equal to one if ISS recommends voting for the proposal or a zero if ISS recommends voting against the proposal. The explanatory variables include our three proxies for public opinion with firm characteristics as control variables. In Columns 1-3, public opinion is measured by *CONFIDENCE*, in Columns 4-6 by *MEDIA*, and in Columns 7-9 by negative media coverage *MEDIA-NEGATIVE*. As in our previous regressions, we use industry, firm, and proposal fixed effects for our analysis.

The coefficient of *CONFIDENCE* is negative and significant at the 1% level in all three estimations. The results imply that low confidence in the banking system, which again could be interpreted as low confidence in corporations in general, is associated with ISS becoming more supportive of shareholder proposals. These results are also consistent with the results for *MEDIA* in Columns 4-6 and the results for *MEDIA-NEGATIVE* in Columns 7-9. In each estimation the coefficients are positive and significant, supporting the hypothesis that more media coverage on

executive compensation issues is associated with ISS being more supportive of shareholder-sponsored proposals. Since more support for shareholder proposals necessarily implies less support for management, these results are consistent with our earlier discussion of increasing ISS support for shareholder proposals over the sample period. In unreported results, we find that the association between firm-level media coverage (*MEDIA-FIRM*) and ISS's recommendation is weaker. This result is not surprising. We would expect the association to be stronger between the proxy advisor's recommendation and the broader proxies of public opinion because ISS obtains feedback from market participants on its benchmark policies, and not on its recommendations for proposals at individual firms.

Given the process by which ISS formulates its recommendations, it could be that the relation we find between the ISS recommendation and media coverage drives the relation between shareholder voting and media coverage. To address this issue, we use the residuals from the estimations reported in Table 8 in which ISS's recommendation is the dependent variable. We then specify models in which we use these residuals as an explanatory variable and the proposal voting support as the dependent variable and include either industry and proposal fixed effects or firm fixed effects. We report the results from these specifications in Table 9. Columns 1-2 report the results for *CONFIDENCE*, Columns 3-4 for *MEDIA*, and Columns 5-6 for *MEDIA-NEGATIVE*. In each case the coefficient of the public opinion variable is significant even after we orthogonalize the influence of ISS. The coefficient of the residuals is also significant. These results indicate that public opinion is related to voting, and is not simply capturing the influence of public opinion on the proxy firm's recommendation.

We again find weaker results when we conduct the same analysis using firm-level media coverage. Columns 7-8 of Table 9 show that the coefficient of *MEDIA-FIRM* is significant only at the 5% level.

## 6. Voting by Mutual Funds

If public opinion is an important contributor to the changes in voting on shareholder proposals, then we would expect to find it particularly important in the voting behavior of a group of institutional investors most likely to be influenced by public opinion. Given that mutual funds have direct dealings with a large number of retail investors and that they are required to disclose their proxy votes, they make an ideal sample on which to further test our hypotheses.

Fund management companies typically have an oversight process, with the fund's board involved in monitoring the funds' proxy voting. The 2003 passage of Rule 206(4)-6 of the Securities and Exchange Commission (SEC) requires funds to adopt and implement proxy voting policies and procedures, and make voting records available to investors.<sup>11</sup> Funds must file Form N-PX, which identifies specific proposals on which the fund has voted their portfolio securities and discloses how the fund voted on each, i.e., whether they voted for, against, or abstained. Proxy voting records for the 12-month period ending June 30 have to be filed by no later than August 31 of each year. According to the SEC, "This disclosure enables fund shareholders to monitor their funds' involvement in the governance activities of portfolio companies."<sup>12</sup>

Our sample includes voting by 13,313 individual funds that are part of 475 mutual fund families during the sample period. Table 10 shows a total of 4,283,930 mutual fund votes, of which 1,844,636 are votes on shareholder proposals and 2,439,294 are votes on management proposals. The largest number of votes cast is in 2009, driven by large increases in board and compensation proposals in that year.

Table 10 shows that consistent with our earlier analysis of voting by all shareholders for shareholder-sponsored proposals, mutual funds have also become less likely to follow the

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<sup>11</sup> These policies include information on issues such as corporate governance matters (including changes in the state of incorporation, mergers and other corporate restructurings, and anti-takeover provisions, i.e., staggered boards, poison pills, and supermajority provisions); changes to capital structure (including increases and decreases of capital and preferred stock issuance); stock option plans and other management compensation issues; and social and corporate responsibility issues. See <http://www.sec.gov/rules/final/33-8188.htm>

<sup>12</sup> <http://www.sec.gov/answers/mfinfo.htm>

recommendations of management or the proxy advisor. Funds voted in agreement with management's recommendations 73.6% of the time in 2004, but by 2010 the support had decreased to 53.9%. Although funds have been marginally more likely to follow the recommendations of ISS than that of management, over the sample period, funds also become less likely to follow the recommendations of ISS. In 2004 they voted with ISS 78.6% of the time, but by 2010 the number had dropped to 59.2%. The results also suggest that particularly during the financial crisis, mutual funds were even more likely to vote differently from the recommendations of management or ISS on shareholder proxy proposals. These results contrast with the results for management-sponsored proposals in which we find no consistent pattern of changes in mutual fund voting with management or the proxy advisor. However, we note that many of the management proposals are noncontroversial, so it is not surprising to observe such high support rates.

We test our hypotheses on the association of mutual fund voting with public opinion by regressing a favorable mutual fund vote on a shareholder proposal against our four measures of public opinion, *CONFIDENCE*, *MEDIA*, *MEDIA-NEGATIVE*, and *MEDIA-FIRM*. For the controls in these tests, we merge the mutual fund NP-X voting data with the CRSP mutual fund data by using a matching algorithm based on fund name and then matching by hand. The sample includes types of shareholder-sponsored proposals with at least 65 observations (the median count for director and executive compensation-related proposals) over the sample period.<sup>13</sup> The dependent variable is a dummy equal to one if the mutual fund voted in favor of the proposal, and zero otherwise. For each of the three proxies of public opinion, we report results with and without proposal fixed effects. The explanatory variables also consist of fund and firm characteristics, including the Aggrawal, Erel, Ferreira and Matos (2012) governance index. (Due to space limitations we do not report the coefficients for the firm characteristics.) Each

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<sup>13</sup> The median number of proposals during this time period is 149 for Board proposals, 98 for Corporate Governance proposals, and 67 for Others. Again, results are qualitatively similar without this restriction.

estimation includes industry, fund, and proposal fixed effects. Standard errors are corrected for clustering of observations at the fund level.

We report the result of the analysis of the relation between voting by mutual funds on shareholder proposals and the role of public opinion in Table 11. The coefficient of *CONFIDENCE* is negative and significant, suggesting that mutual fund support for shareholder-sponsored proposals increases when public confidence in banks drops. The implication is that if the public, including investors, have a low opinion of the banking system (and presumably corporations in general), then this low opinion is reflected in their voting behavior of the mutual fund management companies. These results also hold for the aggregate measures of media coverage used in Columns 2 and 3. More total media coverage (*MEDIA*) and negative media coverage (*MEDIA-NEGATIVE*) on executive compensation are associated with higher mutual fund voting support for shareholder proposals. The table also indicates that mutual fund votes are related to fund characteristics. In particular, the coefficient on *INDEX* is negative and significant in all six estimations, suggesting that index funds are less likely to vote against management and less likely to support shareholder-sponsored proposals.<sup>14</sup> This result could arise from passivity of index funds, which would contrast with some of the conclusions of Appel, Gormley and Keim (2015) who conclude that index funds are shareholder activists.

Finally, in results not shown, we find that the recommendation of the proxy advisory firm has a strong association with how funds vote. If ISS recommends voting for the proposal, then the proposal is more likely to receive the support of mutual funds. However, as noted earlier, this correlation does not necessarily mean causation. Even after including the ISS recommendation, the role of public opinion continues to be significant.

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<sup>14</sup> Our findings remain the same when we include the two fund-firm relationship variables used by Iliev and Lowry (2014), investment as a percentage of fund's assets and investment as a percentage of firm's shares. Because these controls are available for only a subset of our sample and since they do not significantly affect the coefficient of our main hypothesis variable, we exclude them from our main tables.



## **7. Conclusions**

In this paper we examine the association between public opinion on corporate governance issues and proxy voting. To do so, we first examine changes in voting patterns on proxy proposals in general and by mutual funds in particular. We find that on average, shareholders, especially institutional investors, participate in proxy voting at high rates, and that their support for shareholder proposals has been increasing over the sample period. This finding suggests that these proposals are becoming a more important part of the governance process. We also find that in their voting on shareholder proposals, investors have become more independent of both management and the proxy advisory firm. Moreover, the greatest difference between investor voting choice and the proxy advisory firm recommendation occurs when ISS recommends that investors vote against a shareholder proposal. Investors are inclined in many cases to vote for these proposals despite the ISS recommendation. Similar voting patterns hold when we restrict the analysis to mutual fund votes.

In our tests on the relation between public opinion on governance issues and voting by institutional investors on shareholder proposals, we find that public sentiment on corporate governance issues, as reflected in media coverage and surveys, is associated with investor voting. We find that this result holds for overall voting and also when we restrict the analysis to mutual fund voting. Given that institutional investors are often stewards of capital for the wider public, our results suggest that they pay attention to public opinion in making their voting decisions. We conclude that institutional investors consider their clients and shareholders' opinions and preferences on corporate governance issues that are put to a vote.

We also find that the proxy advisor's recommendations are related to public opinion. Such a relation would be expected because ISS has an extensive proxy policy formulation process that includes incorporating feedback from an annual survey of institutional investors, issuers, and other market participants. If public opinion reflects the views of the market, then it is not surprising that we find that ISS's recommendations are related to public opinion. We show that

the association between public opinion and voting is not simply being driven by the proxy advisor. The results we find for shareholder proposals are striking in comparison to management proposals. Not only has there been little change in the support rate for management-sponsored proposals, we also do not find a significant relation between voting on management-sponsored proposals and media coverage.

Our results are consistent with the hypothesis that the proxy voting process serves as a channel for the public to influence corporate behavior. Given the ongoing debate on issues such as shareholder activism, proxy access, and the role of proxy advisors in shareholder voting decisions, our results are particularly important in informing market practices and the policy discussion.

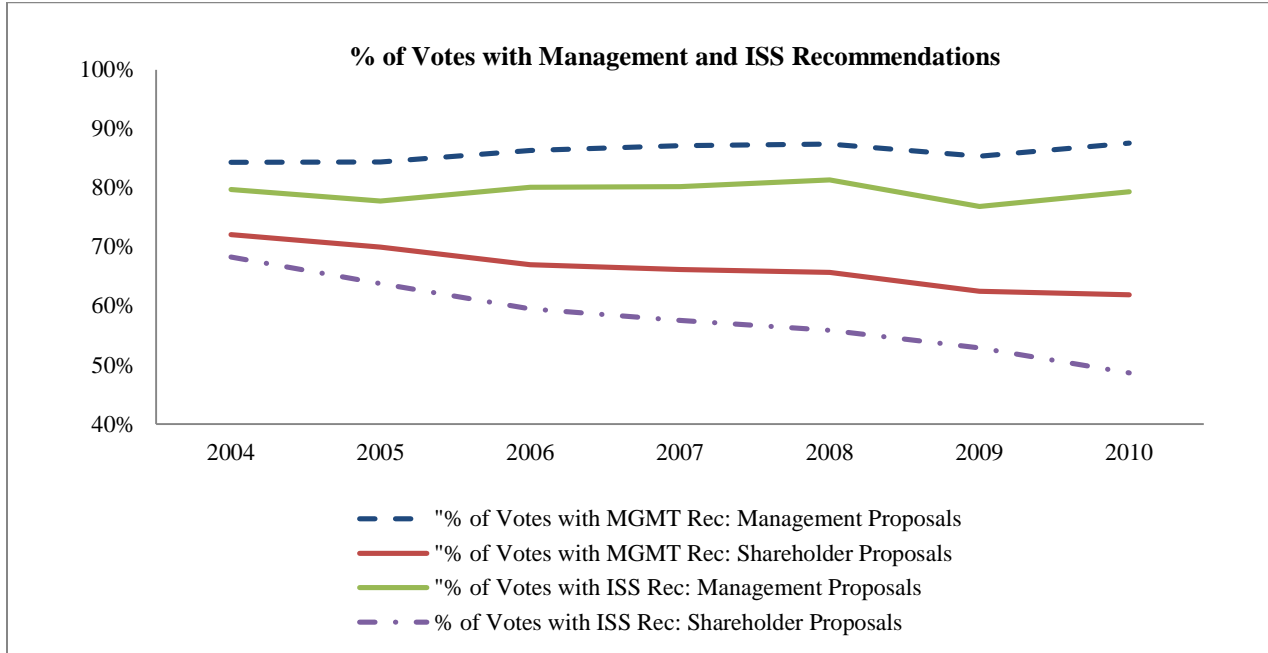
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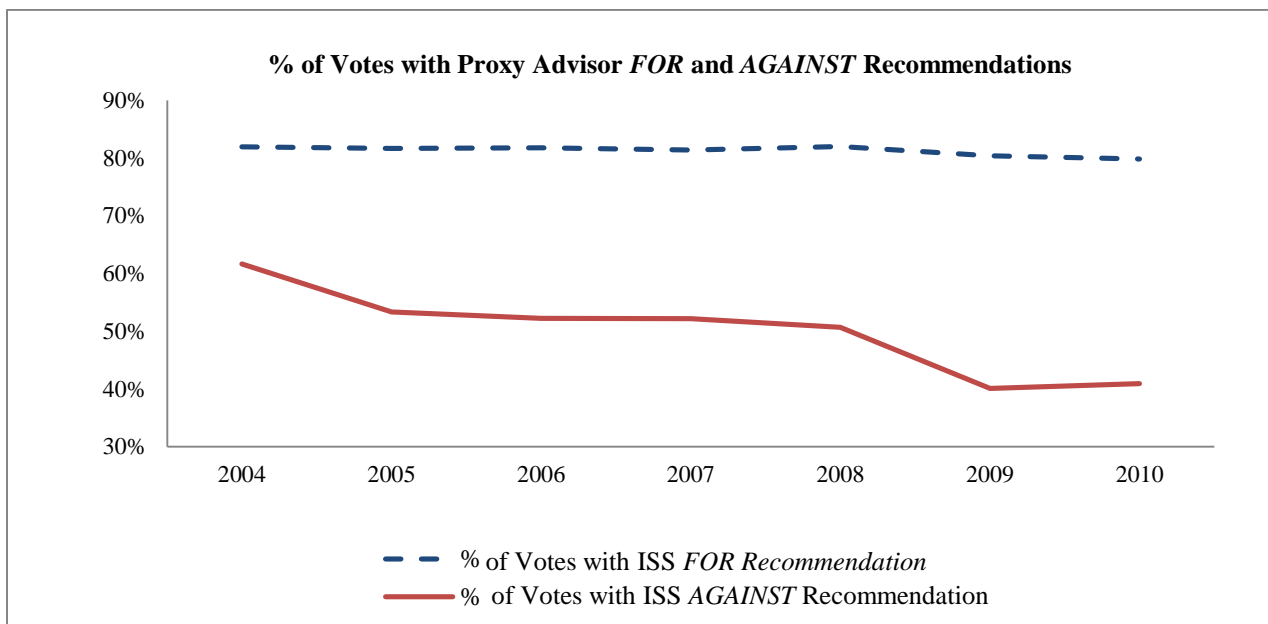
**Figure 1a**  
**Voting with Management and Proxy Advisors**

The figure shows the total percentage of votes cast in agreement with the recommendations of management or the proxy advisory firm, ISS, for the period January 2004 to November 2010. Percentages are shown separately for shareholder and management-sponsored proposals.



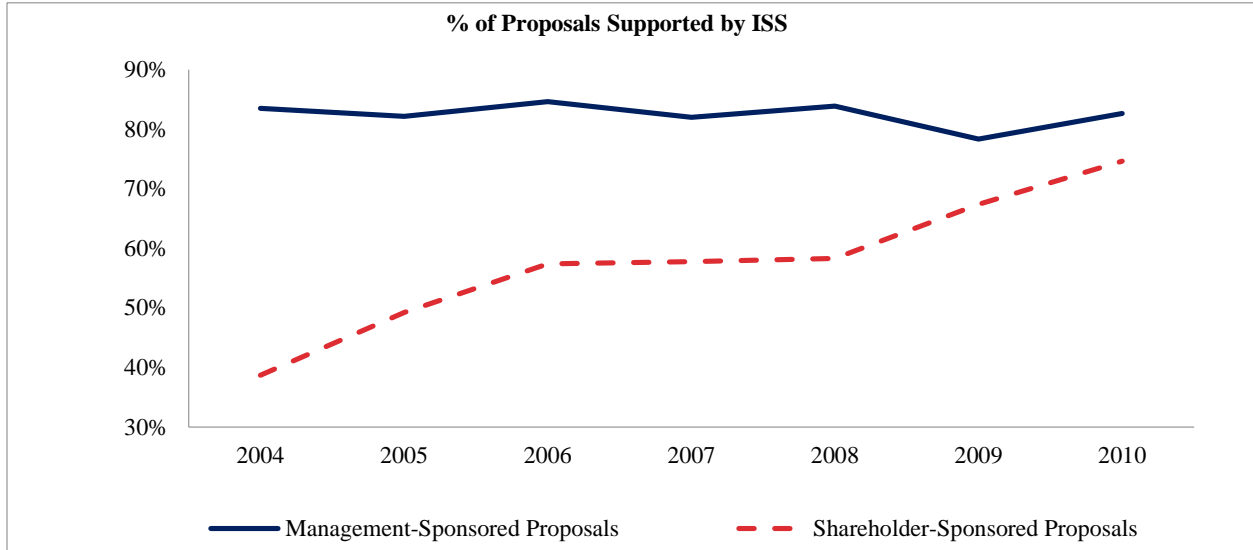
**Figure 1b**  
**Voting with Proxy Advisor's FOR and AGAINST Recommendations**

The figure shows the total percentage of votes on all proposals that are in agreement with ISS's FOR and AGAINST recommendations from January 2004 to November 2010.



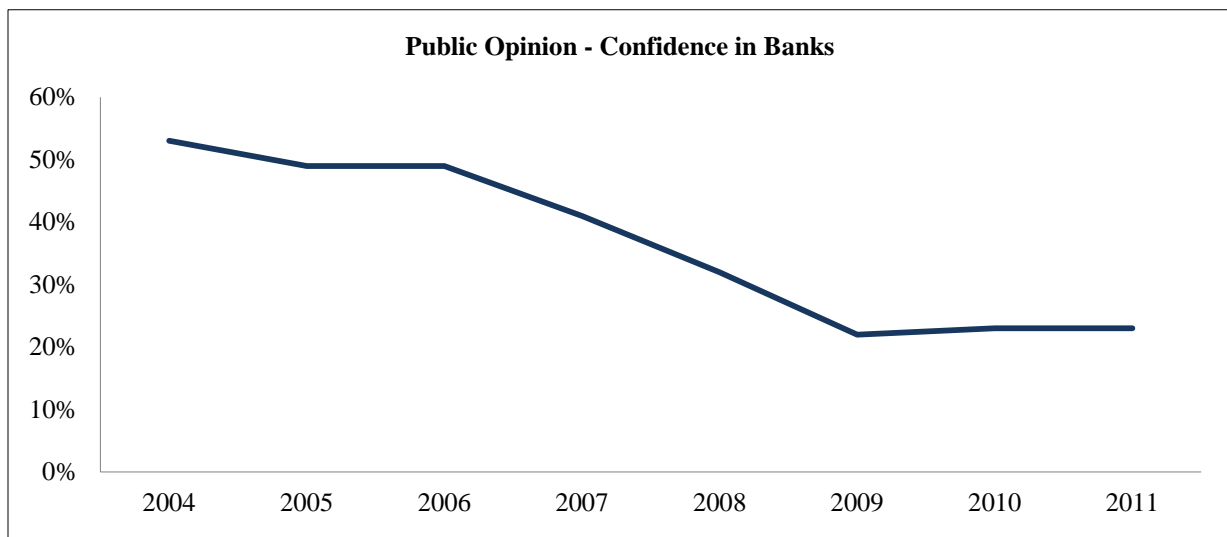
**Figure 2**  
**Trend in ISS's Recommendations**

The figure shows the percentage of proposals that ISS supports and recommends voting in favor of for the period January 2004 to November 2010. Percentages are shown separately for shareholder-sponsored and management-sponsored proposals.



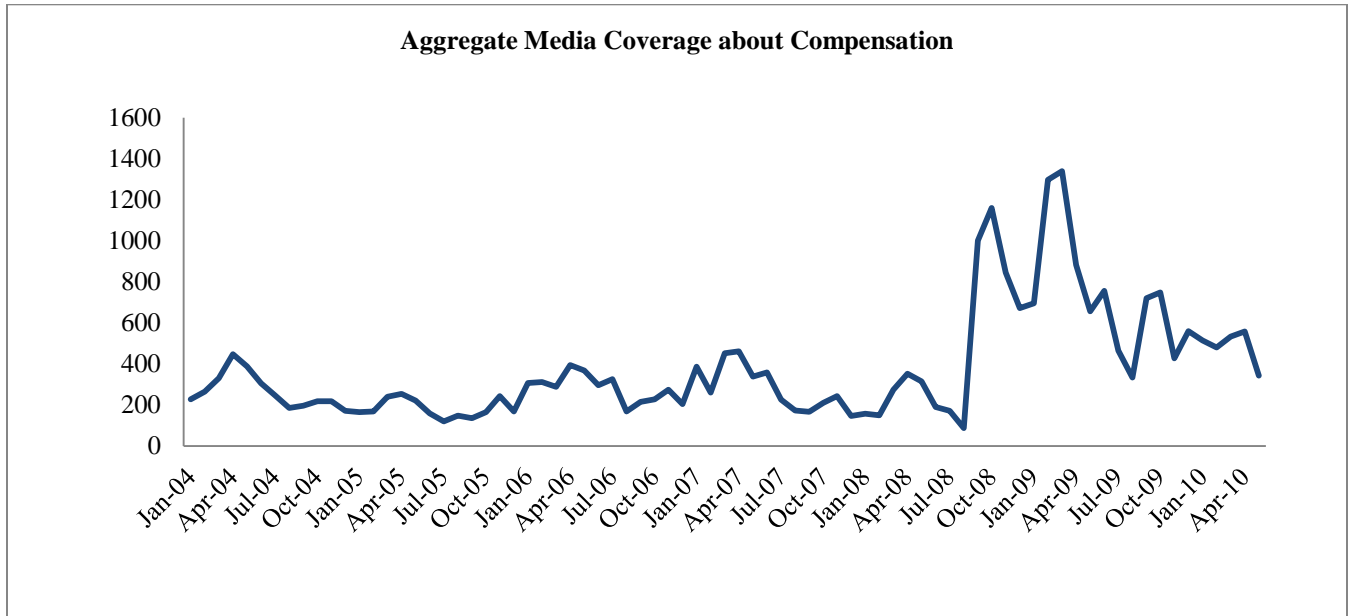
**Figure 3**  
**Changes in Public Opinion**

We measure public opinion yearly as the percentage confidence in banks from the Gallup Poll Survey of confidence in institutions. This survey asks Americans how much confidence they have in different institutions, of which banks is one. The possible responses are a great deal, quite a lot, some, or very little. We combine the percentage of “great deal” and “quite a lot” responses for banks.



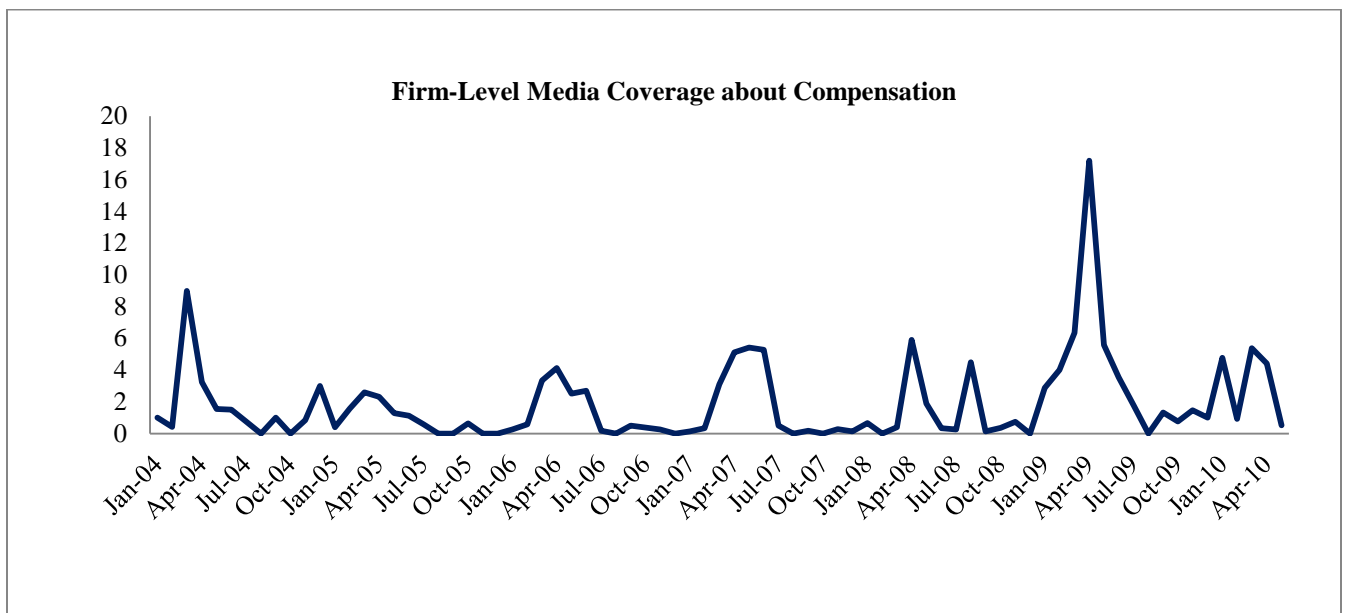
**Figure 4**  
**Aggregate Media Coverage about Compensation**

The figure shows the number of articles per month that include references to executive compensation. The results are based on searching major news and business publications on Factiva. Our keywords are CEO compensation/salary/pay or executive compensation/salary/pay.



**Figure 5**  
**Firm-Level Media Coverage about Compensation**

The figure shows the number of articles per month that comprise references to executive compensation at a particular firm. Our results are based on searching major news and business publications on Factiva. Our keywords are CEO compensation/salary/pay or executive compensation/salary/pay.



**Table 1**  
**Number of Proxy Proposals by Year**

The sample comprises 18,438 proxy proposals made during the period January 2004-November 2010. Each proposal is sponsored either by shareholders (SH) or by management (MGMT). We exclude from our sample any management-sponsored proposal related to board/director elections, and any proposal defined as “preferred/bondholder” or “routine business.” We also drop any proposals for which there is no management recommendation. We also report the percentage of shareholder-sponsored proposals and the participation rates for both shareholder and management-sponsored proposals.

Year	# of Firms	# of Proposals	# of SH Sponsored	# of MGMT Sponsored	% SH Proposals	Participation Rate for SH-Sponsored	Participation Rate for MGMT-Sponsored
2004	1,638	2,926	605	2,321	20.7%	75.4%	81.2%
2005	1,456	2,534	504	2,030	19.9%	74.0%	78.1%
2006	1,474	2,599	556	2,043	21.4%	74.9%	78.0%
2007	1,323	2,469	604	1,865	24.5%	74.8%	79.1%
2008	1,389	2,539	559	1,980	22.0%	73.6%	78.8%
2009	1,625	3,074	653	2,421	21.2%	70.2%	77.6%
2010	1,290	2,297	509	1,788	22.2%	74.1%	78.7%
Total	10,195	18,438	3,990	14,448			



**Table 2**  
**Type of Proposals by Year**

Panel A shows shareholder-sponsored proposals each year in four primary categories: board, corporate governance, compensation and others. Proposals in the “others” category include proposals related to social issues, human rights and general economic issues. Panel B shows management-sponsored proposals each year in five primary categories: board, capitalization, reorganization/merger, compensation, and anti-takeover. Support rate is the ratio of *FOR* votes to the total votes or outstanding shares, depending on the proposal type. The table also shows the ratio of *AGAINST* to *FOR* recommendations, by year for shareholder- and management-sponsored proposals. In the last two rows of each panel we report the percentage of votes in agreement with the recommendations of management or the proxy advisory firm, ISS. A recommendation *FOR* a shareholder proposal implies that ISS is making a recommendation against management’s recommendation.

<b>Panel A: Shareholder-Sponsored Proposals</b>								
	2004	2005	2006	2007	2008	2009	2010	Total
Board	63	96	141	124	141	244	136	945
Corp Governance	118	84	106	92	66	92	84	642
Compensation	159	120	96	181	146	144	125	971
Others	265	204	213	207	206	173	164	1,432
Total	605	504	556	604	559	653	509	3,990
<hr/>								
% Support Rate	23.62	25.43	28.78	28.41	29.28	37.00	31.75	29.38
% Pass Rate	15.48	14.08	15.43	14.50	15.05	25.89	16.03	16.89
ISS % Against/For	156.41	101.61	73.67	70.77	60.74	33.18	30.53	67.94
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% Voting with Mgmt	72.09	69.98	66.98	66.21	65.70	62.50	61.89	66.40
% Voting with ISS	68.29	63.81	59.50	57.59	55.88	52.93	48.70	58.12
<hr/>								
<b>Panel B: Management-Sponsored Proposals</b>								
	2004	2005	2006	2007	2008	2009	2010	Total
Board	126	126	121	160	214	225	133	1,105
Capitalization	293	243	258	221	244	286	196	1,741
Reorg/Merger	178	73	108	130	75	40	56	660
Compensation	1,634	1,531	1,445	1,226	1,333	1,734	1,252	10,155
Anti-Takeover	90	57	111	128	114	136	151	787
Total	2,321	2,030	2,043	1,865	1,980	2,421	1,788	14,448
<hr/>								
% Support Rate	81.62	82.07	83.66	83.70	85.46	83.41	85.47	83.36
% Pass Rate	97.22	97.23	97.93	97.21	97.63	96.78	98.25	97.44
ISS % Against/For	18.27	20.68	17.87	20.80	17.16	24.35	20.57	19.97
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% Voting with Mgmt	84.37	84.39	86.34	87.18	87.45	85.35	87.61	86.04
% Voting with ISS	79.72	77.81	80.11	80.24	81.39	76.87	79.39	79.27

**Table 3**  
**Firm Characteristics by Proposal Type**

The table provides descriptive statistics for firms with shareholder- and management-sponsored proposals. We report the median values for total assets, return on assets (*ROA*), capital expenditure to total assets (*CAPEX*), cash and short-term assets to total assets (*CASH*), and debt to total assets (*DEBT*). We define excess return (*EXCESS RET*) as the annual stock return minus the value-weighted market return. These firm-specific variables are as of the last fiscal year end before the proxy voting. *GOV41* is the percentage of the 41 governance attributes that a firm meets. An index value of one means that a firm has adopted all 41 governance provisions. \*\*\* represents statistical significance at the 1% level, using the Wilcoxon rank-sum test for the difference in medians.

	<b>Shareholder- Sponsored (1)</b>	<b>Management- Sponsored (2)</b>	<b>Difference (1) – (2)</b>
<i>TOTAL ASSETS (MM)</i>	\$12,680	\$1,238	\$11,442***
<i>ROA</i>	8.13%	6.75%	1.38%***
<i>CAPEX</i>	3.53%	2.63%	0.91%***
<i>CASH</i>	4.88%	6.29%	-1.41%***
<i>DEBT</i>	24.73%	18.49%	6.24%***
<i>EXCESS RET</i>	-4.69%	-2.40%	2.29%***
<i>GOV41</i>	0.68	0.63	0.05***

**Table 4**  
**Public Opinion and Voting on Shareholder-Sponsored Proposals**

The table shows estimates from panel regressions of the voting support rate on measures of public opinion, for all shareholder-sponsored proposals, during the period January 2004 to November 2010. The dependent variable is the support rate, i.e., the percent of votes cast in favor of the proposal. We measure public opinion by using three proxies from the month or year preceding the vote. *CONFIDENCE* is the percentage of confidence in banks, which we obtain from the annual Gallup Poll Survey of confidence in institutions. *MEDIA* is the natural log of the number of articles related to compensation, based on a monthly search of major news and business publications on Factiva. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural. *MEDIA-NEGATIVE* is the monthly percentage of words in the articles related to compensation (*MEDIA*) that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). Errors are clustered at the firm level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>CONFIDENCE</i>	-0.309*** (-5.73)	-0.145*** (-3.12)	-0.251*** (-4.26)						
<i>MEDIA</i>				0.054*** (3.74)	0.026** (1.98)	0.042*** (3.71)			
<i>MEDIA-NEGATIVE</i>							0.057*** (3.80)	0.026* (1.92)	0.039*** (3.35)
<i>SIZE</i>	-0.034*** (-6.44)	-0.020*** (-4.75)	0.009 (0.28)	-0.035*** (-6.64)	-0.021*** (-4.84)	0.028 (0.93)	-0.035*** (-6.61)	-0.021*** (-4.82)	0.030 (1.01)
<i>ROA</i>	-0.189 (-1.45)	-0.124 (-1.26)	0.515*** (3.34)	-0.199 (-1.59)	-0.128 (-1.35)	0.442*** (3.15)	-0.199 (-1.58)	-0.128 (-1.35)	0.444*** (3.12)
<i>CAPEX</i>	0.261 (0.93)	0.305 (1.47)	-0.086 (-0.22)	0.254 (0.95)	0.299 (1.48)	-0.207 (-0.53)	0.257 (0.96)	0.303 (1.50)	-0.188 (-0.48)
<i>CASH</i>	-0.128 (-1.09)	-0.059 (-0.60)	0.070 (0.43)	-0.089 (-0.78)	-0.041 (-0.42)	0.140 (0.86)	-0.093 (-0.81)	-0.042 (-0.44)	0.143 (0.86)
<i>DEBT</i>	-0.043 (-0.87)	-0.067* (-1.66)	0.102 (0.89)	-0.041 (-0.83)	-0.066 (-1.63)	0.098 (0.81)	-0.040 (-0.80)	-0.065 (-1.61)	0.101 (0.83)
<i>EXCESS RET</i>	-0.008 (-0.40)	0.007 (0.49)	0.025 (1.59)	-0.009 (-0.43)	0.007 (0.44)	0.021 (1.33)	-0.008 (-0.40)	0.007 (0.48)	0.023 (1.42)
<i>GOV41</i>	0.279*** (3.07)	0.129* (1.87)	0.183 (1.62)	0.329*** (3.60)	0.150** (2.17)	0.264** (2.33)	0.337*** (3.77)	0.155** (2.29)	0.286** (2.55)
<i>Constant</i>	0.514*** (6.17)	0.454*** (6.31)	0.149 (0.45)	0.048 (0.55)	0.231*** (2.86)	-0.451 (-1.54)	0.249*** (3.61)	0.330*** (5.45)	-0.313 (-1.07)
Fixed Effects	Industry	Industry & Proposal	Firm	Industry	Industry & Proposal	Firm	Industry	Industry & Proposal	Firm
Observations	2237	2237	2237	2237	2237	2237	2237	2237	2237
Adj. R <sup>2</sup>	0.103	0.332	0.357	0.099	0.331	0.356	0.098	0.331	0.355

**Table 5**  
**Public Opinion and Voting on Management-Sponsored Proposals**

The table shows estimates from panel regressions of the voting support rate on measures of public opinion, for all management-sponsored proposals, for the period January 2004 to November 2010. The dependent variable is the support rate, i.e., the percentage of votes cast in favor of the proposal. We measure public opinion by using three proxies from the month or year preceding the vote. *CONFIDENCE* is the percentage of confidence in banks, which we obtain from the annual Gallup Poll Survey of confidence in institutions. *MEDIA* is the natural log of the number of articles related to compensation, based on monthly search of major news and business publications on Factiva. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural. *MEDIA-NEGATIVE* is the monthly percentage of words in the articles related to compensation (*MEDIA*) that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). Errors are clustered at the firm level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>CONFIDENCE</i>	-0.071*** (-4.43)	-0.063*** (-4.02)	-0.002 (-0.09)						
<i>MEDIA</i>				0.007** (2.11)	0.004 (1.22)	-0.003 (-0.66)			
<i>MEDIA-NEGATIVE</i>							0.005 (1.33)	0.002 (0.47)	-0.007 (-1.35)
<i>SIZE</i>	0.034* (1.66)	0.030 (1.49)	0.110*** (2.89)	0.052*** (2.72)	0.049*** (2.59)	0.118*** (3.40)	0.055*** (2.91)	0.051*** (2.76)	0.123*** (3.59)
<i>ROA</i>	0.007*** (5.11)	0.006*** (4.82)	0.010 (1.27)	0.006*** (4.96)	0.006*** (4.67)	0.011 (1.45)	0.006*** (4.95)	0.006*** (4.66)	0.012 (1.58)
<i>CAPEX</i>	0.015 (0.91)	0.011 (0.70)	-0.004 (-0.10)	0.010 (0.64)	0.007 (0.41)	-0.006 (-0.17)	0.010 (0.59)	0.006 (0.36)	-0.009 (-0.23)
<i>CASH</i>	-0.014 (-0.37)	-0.005 (-0.13)	0.053 (0.64)	-0.020 (-0.51)	-0.009 (-0.23)	0.056 (0.67)	-0.018 (-0.46)	-0.007 (-0.18)	0.059 (0.71)
<i>DEBT</i>	-0.048** (-2.53)	-0.047** (-2.47)	-0.032 (-0.93)	-0.046** (-2.42)	-0.045** (-2.36)	-0.030 (-0.87)	-0.046** (-2.42)	-0.045** (-2.36)	-0.027 (-0.81)
<i>EXCESS RET</i>	-0.005 (-0.61)	-0.003 (-0.30)	0.006 (0.24)	-0.006 (-0.63)	-0.003 (-0.30)	0.007 (0.29)	-0.006 (-0.62)	-0.003 (-0.29)	0.008 (0.34)
<i>GOV41</i>	-0.001 (-0.39)	-0.000 (-0.10)	-0.002 (-0.36)	-0.001 (-0.40)	-0.000 (-0.07)	-0.002 (-0.30)	-0.001 (-0.37)	-0.000 (-0.04)	-0.001 (-0.24)
<i>Constant</i>	0.808*** (28.97)	0.806*** (28.53)	0.691*** (10.42)	0.726*** (23.17)	0.744*** (23.59)	0.695*** (12.97)	0.756*** (28.54)	0.763*** (28.47)	0.679*** (12.78)
Fixed Effects	Industry	Industry & Proposal	Firm	Industry	Industry & Proposal	Firm	Industry	Industry & Proposal	Firm
Observations	9648	9648	9648	9648	9648	9648	9648	9648	9648
Adj. R <sup>2</sup>	0.021	0.032	0.165	0.020	0.030	0.165	0.019	0.030	0.165

**Table 6**  
**Public Opinion and Voting on Shareholder Compensation Proposals**

The table shows estimates from panel regressions of the voting support rate on measures of public opinion, for shareholder-sponsored compensation proposals, for the period January 2004 to November 2010. The dependent variable is the support rate, i.e., the percentage of votes cast in favor of the proposal. We measure public opinion by using three proxies from the month or year preceding the vote. *CONFIDENCE* is the percentage of confidence in banks, which we obtain from the annual Gallup Poll Survey of confidence in institutions. *MEDIA* is the natural log of the number of articles related to compensation based on monthly search of major news and business publications on Factiva. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural. *MEDIA-NEGATIVE* is the monthly percentage of words in the articles related to compensation (*MEDIA*) that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). Errors are clustered at the firm level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
<i>CONFIDENCE</i>	-0.618*** (-7.89)	-0.417*** (-2.87)				
<i>MEDIA</i>			0.077*** (5.30)	0.061*** (3.12)		
<i>MEDIA-NEGATIVE</i>					0.085*** (5.50)	0.062*** (2.94)
<i>SIZE</i>	-0.023*** (-3.58)	0.118** (2.37)	-0.021*** (-3.29)	0.153*** (3.50)	-0.021*** (-3.33)	0.156*** (3.58)
<i>ROA</i>	0.027 (0.37)	0.590* (1.73)	-0.068 (-0.80)	0.454 (1.43)	-0.051 (-0.60)	0.471 (1.51)
<i>CAPEX</i>	0.097 (0.53)	0.204 (0.30)	0.216 (0.98)	-0.119 (-0.17)	0.216 (0.99)	-0.146 (-0.21)
<i>CASH</i>	-0.124 (-1.43)	-0.112 (-0.34)	-0.050 (-0.53)	0.070 (0.21)	-0.058 (-0.62)	0.061 (0.18)
<i>DEBT</i>	-0.105* (-1.94)	0.036 (0.15)	-0.089 (-1.58)	0.021 (0.08)	-0.088 (-1.57)	0.021 (0.08)
<i>EXCESS RET</i>	-0.006 (-0.29)	0.015 (0.47)	-0.009 (-0.41)	0.009 (0.27)	-0.009 (-0.41)	0.009 (0.25)
<i>GOV41</i>	0.406*** (4.65)	0.336 (1.10)	0.560*** (6.39)	0.485 (1.62)	0.572*** (6.50)	0.504* (1.67)
<i>Constant</i>	0.402*** (3.86)	-1.014** (-2.16)	-0.453*** (-3.57)	-2.012*** (-4.73)	-0.167 (-1.60)	-1.813*** (-4.42)
Fixed Effects	Industry	Firm	Industry	Firm	Industry	Firm
Observations	526	526	526	526	526	526
Adj. R <sup>2</sup>	0.243	0.432	0.170	0.421	0.171	0.419

**Table 7**  
**Firm-Level Media Coverage and Voting**

The table shows estimates from panel regressions of the voting support rate on measures of public opinion, for all shareholder-sponsored proposals, for the period January 2004 to November 2010. The dependent variable is the support rate, i.e., the percentage of votes cast in favor of the proposal. We measure firm-level media coverage, *MEDIA-FIRM*, as the percentage of the number of articles related to compensation on a specific firm in the month preceding the vote, normalized by the total number of articles related to compensation on this firm over the sample time period. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural, and various forms of the firm’s name. Errors are clustered at the firm level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)
<i>MEDIA-FIRM</i>	0.322*** (2.99)	0.269*** (3.77)
<i>SIZE</i>	-0.030*** (-6.25)	-0.019*** (-4.85)
<i>ROA</i>	-0.173** (-2.14)	-0.095 (-1.58)
<i>CAPEX</i>	-0.074 (-0.40)	0.022 (0.15)
<i>CASH</i>	-0.144 (-1.40)	-0.060 (-0.68)
<i>DEBT</i>	-0.093** (-2.14)	-0.110*** (-3.09)
<i>EXCESS RET</i>	-0.002 (-0.15)	0.011 (0.82)
<i>GOV41</i>	0.066 (0.75)	-0.005 (-0.06)
<i>Constant</i>	0.621*** (2.61)	0.622*** (4.13)
Fixed Effects	Industry, Year-Month	Industry, Year-Month & Proposal
Observations	2,137	2,137
Adj. R <sup>2</sup>	0.379	0.447

**Table 8**  
**Proxy Advisory Recommendation and Media Coverage**

The table shows estimates from panel regressions of recommendations by ISS on measures of public opinion, for all shareholder-sponsored proposals, during the period January 2004 to November 2010. The dependent variable is a dummy variable that equals one if ISS recommends voting for the proposal. We measure public opinion by using three proxies from the month or year preceding the vote. *CONFIDENCE* is the percentage of confidence in banks, which we obtain from the annual Gallup Poll Survey of confidence in institutions. *MEDIA* is the natural log of the number of articles related to compensation based on monthly search of major news and business publications on Factiva. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural. *MEDIA-NEGATIVE* is the monthly percentage of words in the articles related to compensation (*MEDIA*) that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). Errors are clustered at the firm level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>CONFIDENCE</i>	-0.926*** (-7.13)	-0.686*** (-5.25)	-0.918*** (-6.09)						
<i>MEDIA</i>				0.113*** (3.73)	0.073** (2.32)	0.125*** (4.45)			
<i>MEDIA-NEGATIVE</i>							0.100*** (3.21)	0.056* (1.69)	0.114*** (3.87)
<i>SIZE</i>	-0.000 (-0.04)	0.017* (1.69)	0.029 (0.37)	-0.003 (-0.33)	0.016 (1.52)	0.104 (1.46)	-0.004 (-0.35)	0.016 (1.51)	0.111 (1.55)
<i>ROA</i>	0.232 (1.31)	0.330 (1.63)	1.176*** (3.16)	0.161 (0.88)	0.278 (1.33)	0.895** (2.57)	0.155 (0.84)	0.270 (1.29)	0.902** (2.56)
<i>CAPEX</i>	-0.503 (-1.42)	-0.398 (-0.97)	0.386 (0.42)	-0.426 (-1.07)	-0.327 (-0.75)	0.050 (0.05)	-0.390 (-0.99)	-0.289 (-0.67)	0.108 (0.11)
<i>CASH</i>	0.044 (0.24)	0.124 (0.64)	0.496 (1.31)	0.161 (0.87)	0.216 (1.13)	0.747* (1.93)	0.157 (0.84)	0.216 (1.13)	0.756* (1.92)
<i>DEBT</i>	0.209** (2.36)	0.175* (1.96)	0.632** (2.04)	0.213** (2.38)	0.179** (2.01)	0.644* (1.91)	0.218** (2.44)	0.184** (2.07)	0.655* (1.91)
<i>EXCESS RET</i>	0.033 (0.88)	0.053 (1.39)	0.021 (0.53)	0.032 (0.90)	0.055 (1.50)	0.014 (0.33)	0.036 (0.99)	0.059 (1.58)	0.017 (0.41)
<i>GOV4I</i>	0.169 (1.05)	-0.088 (-0.54)	0.868*** (3.24)	0.393** (2.37)	0.077 (0.46)	1.226*** (4.66)	0.430*** (2.61)	0.109 (0.66)	1.294*** (4.93)
<i>Constant</i>	0.666*** (3.71)	0.642*** (3.17)	-0.175 (-0.22)	-0.497** (-2.56)	-0.163 (-0.76)	-2.312*** (-3.26)	-0.061 (-0.40)	0.128 (0.74)	-1.907*** (-2.70)
Fixed Effects	Industry	Industry & Proposal	Firm	Industry	Industry & Proposal	Firm	Industry	Industry & Proposal	Firm
Observations	2290	2290	2290	2290	2290	2290	2290	2290	2290
Adj. R <sup>2</sup>	0.071	0.178	0.225	0.049	0.165	0.215	0.045	0.163	0.213

**Table 9**

### Proxy Advisor Recommendation, Media Coverage, and Voting

The table shows estimates from panel regressions of the voting support rate on measures of public opinion, for all shareholder-sponsored proposals, from January 2004 to November 2010. The dependent variable is the support rate, percent of votes cast in favor of the proposal. Public opinion is measured using three proxies from the month or year preceding the vote. *CONFIDENCE* is the percentage confidence in banks from the annual Gallup Poll Survey of confidence in institutions. *MEDIA* is the natural log of the number of articles related to compensation based on a monthly search of major news and business publications on Factiva. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural. *MEDIA-NEGATIVE* is the monthly percentage of words in the articles related to compensation (*MEDIA*) that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). We measure firm-level media coverage, *MEDIA-FIRM*, as the percentage of the number of articles related to compensation on a specific firm in the month preceding the vote, normalized by the total number of articles related to compensation on this firm over the sample time period. We use the same keywords as for *MEDIA*, plus various forms of the firm name. ISS recommendation itself is influenced by public opinion. Therefore, we estimate four regression models with our three public opinion variables as the explanatory variable, and name the residuals from the models, *ISS\_Residuals*. The coefficients of firm-level control variables are not reported below for brevity. Errors are clustered at the firm level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>CONFIDENCE</i>	-0.201*** (-5.11)	-0.273*** (-6.25)						
<i>MEDIA</i>			0.040*** (3.09)	0.043*** (4.37)				
<i>MEDIA-NEGATIVE</i>					0.040*** (3.03)	0.039*** (4.12)		
<i>MEDIA-FIRM</i>							0.314** (2.25)	0.271** (2.53)
<i>ISS_Residuals</i>	0.211*** (13.61)	0.290*** (22.69)						
<i>ISS_Residuals</i>			0.209*** (13.89)	0.288*** (23.00)				
<i>ISS_Residuals</i>					0.210*** (13.98)	0.289*** (23.05)		
<i>ISS_Residuals</i>							0.271*** (18.68)	0.219*** (14.06)
Fixed Effects	Industry & Proposal	Firm	Industry & Proposal	Firm	Industry & Proposal	Firm	Industry & Year	Industry, Year & Proposal
Observations	2237	2237	2237	2237	2237	2237	2137	2137
Adj. R <sup>2</sup>	0.487	0.641	0.488	0.641	0.488	0.641	0.414	0.502



**Table 10**  
**Voting by Mutual Funds**

The table shows measures of voting for mutual fund families and individual funds for each year of the sample period, January 2004 to November 2010. For shareholder- and management-sponsored proposals, the table shows the number of families, funds, proposals voted, the percentage of funds that voted with management, and the percentage that voted with the proxy advisory firm ISS's recommendation. Funds only need to disclose how they voted but not the number of shares voted.

Year	Shareholder Proposals				Management Proposals	
	# of Fund Families	# of Funds Voting	% of Funds Voting with MGMT	% of Funds Voting with Proxy Advisor	% of Funds Voting with MGMT	% of Funds Voting with Proxy Advisor
2004	110	3,585	73.6%	78.6%	80.2%	84.8%
2005	291	5,335	69.1%	72.6%	81.3%	85.5%
2006	259	5,989	60.1%	69.7%	83.2%	87.2%
2007	265	4,950	59.8%	68.3%	85.7%	88.8%
2008	282	5,445	61.0%	64.0%	85.7%	88.8%
2009	275	5,120	52.0%	61.9%	82.1%	85.9%
2010	219	3,624	53.9%	59.2%	86.3%	88.2%

**Table 11**  
**Voting by Mutual Funds and Public Opinion**

The table shows estimates from panel regressions of mutual fund voting on measures of public opinion, for all shareholder-sponsored proposals, during the period January 2004 to November 2010. The dependent variable is a dummy equal to one if the mutual fund voted for the proposal. We measure public opinion by using three proxies from the month or year preceding the vote. *CONFIDENCE* is the percentage of confidence in banks, which we obtain from the annual Gallup Poll Survey of confidence in institutions. *MEDIA* is the natural log of the number of articles related to compensation, based on a monthly search of major news and business publications on Factiva. The keywords we search comprise “CEO compensation/salary/pay” or “executive compensation/salary/pay” in singular and plural. *MEDIA-NEGATIVE* is the monthly percentage of words in the articles related to compensation (*MEDIA*) that match the negative words proposed by Kuhnen and Niessen (2012) or Loughran and McDonald (2011). Mutual fund characteristics included are *FUNDSIZE*, which we measure as log of total assets under management. *EXPRATIO* is the expense ratio, *TURNOVER* is fund turnover, *INSTITUTION* is a dummy if the mutual fund has institutional business, and *INDEX* is a dummy equal to one if the fund is an index fund. In addition, we include, but do not show, firm-level controls (size, ROA, capital expenditure to total assets, cash and short-term assets to total assets, debt to total assets and excess return). Standard errors are corrected for clustering of observations at the fund level. \*, \*\*, \*\*\* represents statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
<i>CONFIDENCE</i>	-0.228*** (-6.38)		
<i>MEDIA</i>		0.037*** (8.73)	
<i>MEDIA-NEGATIVE</i>			0.035*** (6.92)
<i>FUNDSIZE</i>	-0.004 (-0.77)	-0.003 (-0.63)	-0.004 (-0.66)
<i>EXPRATIO</i>	-1.288 (-1.32)	-1.727* (-1.75)	-1.730 (-1.75)
<i>TURNOVER</i>	0.004 (0.70)	0.008 (1.26)	0.008 (1.28)
<i>INSTITUTION</i>	0.013* (1.87)	0.012 (1.64)	0.012 (1.65)
<i>INDEX</i>	-0.057*** (-4.83)	-0.046*** (-4.24)	-0.044*** (-4.02)
<i>GOV41</i>	-0.261*** (-20.81)	-0.249*** (-18.63)	-0.252*** (-19.07)
<i>Constant</i>	0.903*** (24.18)	0.568*** (10.74)	0.725*** (16.56)
Fixed Effects	Industry, Fund & Proposal	Industry, Fund & Proposal	Industry, Fund & Proposal
Observations	413133	413133	413133
Adj. R <sup>2</sup>	0.368	0.368	0.368