PRELIMINARY EVIDENCE FROM MONITORING ACTIVITIES BY PENSION FUNDS AND INVESTMENT MANAGERS AND ATTITUDES TOWARDS SHAREHOLDER ACTIVISM BY PENSION FUNDS

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Abstract

There is widespread support for the proposition that pension funds can, should and do play an important role in monitoring management in the companies in which they invest. This article examines whether Irish occupational pension funds and investment managers use voting, engagement and intervention as monitoring strategies in relation to investee companies. Furthermore, the article examines whether there are significant differences in attitudes between the two groups across key themes relating to shareholder activism by occupational pension funds in order to identify whether potential agency problems may exist in relation to delegation and representation. The results of the research suggest low levels of monitoring by Irish occupational pension funds compared to investment managers which could be explained by delegation. Furthermore significant differences in perceptions were identified in relation to the perceived importance of "Anti-takeover measures", "Improving information flow to shareholders" and "Remuneration" to pension funds, when compared against the rankings for the impact of pension funds to each of these particular areas.

Keywords: corporate governance, pension funds, institutional shareholders, investment managers, agency problems

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Introduction

Following the exposure of corporate scandals and malfeasance in the late nineties and continuing into the millennium, it was not surprising that McKinsey (2002) found that 80% of the institutional investors surveyed would pay a premium for well-governed companies. Reliance on market forces, legal rules, and managerial holdings did not appear to be the solution to failings in the governance of public companies. Institutional monitoring, whether through voting, engagement or intervention, has been widely suggested as a supplemental form of governance to address the drawbacks of the Anglo-American corporate governance system (Diamond, 1984; Agrawal and Knoeber, 1996; Maug, 1998), Empirical evidence suggests, that in the US at least, institutional investors engage in low levels or limited monitoring activities (Black, 1998; Gillan and Starks (2001)). This may be due to inconclusive evidence relating to the link between institutional monitoring and performance but also the size and raw monetary value of institution's stake, firm specific factors and other legal and market factors including free riding conflicts of interest, and market perception (Coffee, 1991; Pound, 1993; Kahn and Winton, 1998; Edkins and Bush, 2002; Myners, 2004; Yaron, 2005; Black, 1998). Specifically, skill levels and experience have been highlighted as both barriers to engaging in monitoring activity and resulting impact (Coffee, 1991, Myners, 2004; Lipton and Rosenblum (1991)

While it has been suggested that pension funds may be the optimal monitors due to their legal structure, freedom from conflicts of interest, investment horizon and investment stake size, investment functions are often delegated to intermediaries such as investment managers (Coffee, 1991; Del Guercio and Hawkins, 1999). As such, pension funds may effectively disconnect their activism and therefore are not likely to monitor or publicise their activism efforts (Del Guercio and Hawkins, 1999). For example, Yaron (2005) suggests that the vehicle chosen for investing pension assets can often have a direct impact on access to the proxy and engagement options. Where investments are pooled, pension schemes do not have direct access to the proxy nor do they have rights as shareholders in the funds. Typically, all rights are exercised at the discretion of the manager. Unless the pension fund has specifically mandated, external managers may not monitor and rely on boilerplate clauses within investment agreement for justification thereby disenfranchising the pension fund from a significant shareholder right.

In this article, the main research questions of the study are as follows:

- Do Irish occupational pension funds and external fund managers employ institutional monitoring strategies in relation to the companies in which they have invested?
- Are there significant differences in attitudes between Irish occupational pension funds and external fund managers across key themes relating to shareholder activism by occupational pension funds?

The second research question is operationalised by examining whether attitudes to board reform, information flow to shareholders, anti-takeover measures, corporate social responsibility, barriers to shareholder activism and mandatory voting by pension funds varies between the two groups in order to identify whether potential agency problems may exist in relation to delegation and representation. To answer these questions, questionnaire-based research augmented with statistical analysed was undertaken.

In the following sections, we review different approaches, foci and activities related to institutional monitoring, outline the methodology used, present the main findings and conclusions as well as suggest avenues for further research.

Institutional Monitoring

Recently there has been a blurring in the distinction between "monitoring" and other related terms such "intervention", "active investing", "shareholder activism" and "relationship investing". Stapledon (1996) defines monitoring as "any form of involvement, direct or indirect, at firm level or industry-wide, by institutions in corporate governance." This implies that monitoring may (a) include direct action by an institution or through an intermediary and (b) be targeted at companies and/or industries.

Maug defines monitoring more broadly as:

> "…a comprehensive label for all value-enhancing activities; it comprises intervention in a company's affairs as well as information acquisition (e.g., in order to identify a potential target of intervention) and is used synonymously with "intervention" and "shareholder activism"."

Similarly Yaron has defined ""shareholder activism" or "active investing" as including both the practices of voting proxies and corporate engagement collectively. Yaron bases this on the definition of Gordon and Pound (1993) who define "active investing" as:

"…comprised of investment strategies in which the investor takes actions involving the target corporation, other than simply buying or selling securities, that are designed to increase the returns generated by this investment. Such actions typically involve exerting significant influence over corporate policy or control over the corporate entity in the hope of elevating the value of the firm. An active investing strategy is thus one in which the returns derived from a given investment are endogenous – subject to influence by the individual investor after the investment is made."

"Relationship investing", a specific form of monitoring, is defined by Hawley and Williams (1996) as:

> "monitoring in which an owner or groups of owners hold a significant block of equity in a particular firm, thereby establishing a long-term position and by virtue of their ownership block can exert leverage on management."

In order to enhance institutional voice, Black (1992) advocates that institutions reduce their portfolio size so that they hold between 5 and 10% of the stock in a particular company but no more than this. Black believes that this would facilitate greater communication and stronger influence without the threat of a single dominant shareholder.

Roe (1993) suggests that a structure of multiple intermediaries:

> "...can deter opportunism by monitoring one another, impel action in a way that a single blockholder might not, and facilitate power-sharing, not domination."

These definitions are consistent with Section 2509.94-2 of Title 29, Chapter 25 of the US Code of Federal Regulations which finds such monitoring activity, including the coordination of activity with other shareholders, appropriate for fiduciaries of pension plans.

Focus of Institutional Monitoring

The focus of institutional monitoring historically has been on three main activities – (i) protecting the market for corporate control, (ii) improving information flow, and (iii) reforming the board.

Institutional investors have attempted to protect the market for corporate control by limiting defensive tactics being introduced by portfolio companies. These tactics include poison pills, management control of agenda setting, director election, and all phases of proxy processes. Although campaigns have successfully reduced the impact of anti-takeover mechanisms (Gordon and Pound, 1991), common reform issues raised by shareholder activists include increasing confidential voting, curtailing the ability of the board to call off an election on a particular matter if it thinks it may lose, and reducing the impact of staggered elections (Romano, 2000; Gordon and Pound, 1991).

Non-executive directors inevitably cannot know as much about the firm as management. Most importantly, non-executive directors do not devote their entire professional efforts to a single company and therefore are not enmeshed in the day-to-day information flow of the company. This is compounded by management's control of the information that does reach the board. The result can be a board knowing too little, too late and, even if is willing and able to act to confront a growing problem or crisis, it is often unable to do so. This is obviously compounded in the case of shareholders who are even further removed from the information than non executive directors. In broad terms, some institutions have focussed on improving the quality and frequency of management-shareholder exchanges. Some commentators have called for the establishment of formal shareholder advisory committees representing the largest shareholders, typically institutional investors (Essen, 2000).

Historically, most corporate governance debates revolve around the board of directors and specifically the role of outside independent directors as a means for addressing the agency problem by acting as monitors of executive management (Gilson and Kraakman, 1991). Institutional investors have sought direct influence on the board of directors including the leadership, selection, structure, composition, compensation and operation of the board (Turnbull, 2000).

Institutional Monitoring Activities

Institutional monitoring activities can be broadly divided into three types: voting, engagement and intervention.

Voting

Principle E.3 of the Combined Code states that institutional shareholders have a responsibility to make considered use of their votes. The right to vote, which is attached to voting shares, is a basic prerogative of share ownership. Depending on availability, voting can take place at the meeting, by proxy, postal vote and increasingly by electronic voting. Some institutional investors may have a policy of trying to vote on all issues, which may be raised at an investee's annual general meeting ("agm").

A number of representative bodies have indicated the importance attached to institutional investors exercising their right to vote in an informed manner and providing greater transparency and access to information and participation, electronically or otherwise. The OECD places specific emphasis on the role of institutional investors. The general approach taken by the Principles is that the decision to exercise voting rights in an informed manner is related to both the costs and benefits of voting, so in many instances it is the incentive to vote which needs to be improved, in part through policy initiatives. The Principles do not oblige institutional investors acting in a fiduciary capacity to vote their shares, but they do call on them to disclose their voting policies. When these policies include active use of ownership rights, the Principles also recommend that institutional investors disclose how they implement these policies, including the resources they set aside for this purpose.

As discussed earlier, US tax-approved pension funds are mandated to vote their share under the Employee Retirement Income Security Act. This has attracted some controversy as it has been argued that it dilutes the value of the votes cast voluntarily and with thought by those investment managers, and by implication pension funds, who do see an economic value in stewardship. For example, shareholders who might not ordinarily vote may vote in favour of management, without due consideration, as a matter of compliance rather than considered and informed voting. Primary research undertaken for this thesis suggested that neither pension funds nor investment managers would support mandatory voting by Irish pension funds.

Institutional investors generally try and resolve any contentious issues with management prior to AGMs. However if this fails, institutional investors may abstain or vote against a resolution. In these instances, the company may be notified in advance.

A number of reasons are regularly cited for why pension funds should vote their shares. The NAPF summarises these reasons as follows: the fiduciary duty to vote; it provides signals to management of support or lack of support on major issues; it demonstrates that funds are exercising their shareholder responsibilities; it can help lower the cost of capital of companies which have a good governance regime; and it may forestall government attempts to make it compulsory. For example, Grundfest advocates that multiple monitors use "Just Vote No" campaigns directed against directors, as a whole and individually. While Grundfest acknowledges that these campaigns achieve only minority support, he argues that they are effective as public flags that something is wrong, and can be important first steps toward correcting perceived problems, usually by putting pressure on the board. Reasons cited for not voting include costs, misinterpreted signals by management as a no confidence vote on issues of lesser importance, lack of evidence that voting adds value, and accountability for voting agents.

The cumbersome and outdated nature of paper-based systems, lack of auditability or adequate confirmatory procedures, and communication problems between interested parties are just some of the issues and barriers to institutional voting identified by NAPF. The International Corporate Governance Network found that most institutional investors had great difficulties in exercising overseas proxies due to timing problems, insufficient information, language problems, blocking or depositing of shares, and voting procedures or methods. Lynn (2005) also notes that external managers may not vote shares due to the conclusion that the cost of voting the proxy outweighs any potential benefit to the client, that in the investment manager's judgement, the matter to be voted is neither material nor relevant to shareholders and the issuer of securities; or the value or amount of the securities to be voted is insignificant or undeterminable.

Engagement

"Engagement" can be defined as the range of discussions and meetings that shareholders have with companies to raise issues including strategy, board structure, performance, quality of management and other corporate governance issues (Edkins and Bush, 2002; ABI, 1991, Stapledon, 1996). Where institutional investors are concerned about specific investments or strategies, they will often arrange formal or informal meetings to discuss these issues. Alternatively, institutional investors may choose to present their views on corporate governance directly to investee companies or publish them without consultation with companies. It is common for companies to meet with their largest or most influential institutional investors on a one-to-one or group basis during the course of a year; the frequency of these meetings may be increased where the situation requires high supervision and control Shidvasani and Zenner (2004). This information may be fed back to the board in the planning process particularly where there are collective commonalities.

The OECD (2003) has called on countries to lift unnecessary regulatory barriers to a continuing dialogue between investors and companies. At the same time, recognising that such close relations can degenerate into abuses, particularly in situations where there are inherent conflicts of interest, the OECD recommends that general disclosure of information to the market should remain the practice. Any additional information released by a company to institutional investors should be aimed at helping them understand the background to such published information.

In addition, institutional investors may participate in and support representative bodies to set and promote specific corporate government policies as well as monitor companies (Stapledon, 2006). These representative bodies actively publish guidelines, research, and reports on specific items but also lobby stakeholders to adhere to these guidelines. Institutional investors can also use public lobbying directly by either commenting on the circumstance of a particular company, which is rare, or publishing their intention to vote or abstain from voting on a particular issue. This may involve shareholder proposals, media campaigns or in extreme cases, litigation (Yaron, 2005).

Intervention

The UK Institutional Shareholders' Committee ("ISC") recommends that institutional investors intervene where necessary. Although commonly referenced, "intervention" is rarely defined. For the purposes of this paper it is submitted that intervention is a specific activity or set of activities developed and implemented to change or improve a company's knowledge, attitudes, behaviour or awareness. Furthermore, it is submitted that intervention differs from engagement in intent and sensitivity. Intervention is typically more proactive in relation to change than engagement and involves amongst other things conducting very detailed research into a company and the reasons for its poor performance, putting proposals for change to the management of the company, and often co-ordinating other shareholders (Edkins and Bush, 2001). Proposals may relate to board changes, financial goals of selling unfocused businesses and unprofitable assets, restricting capital expenditure, increasing payouts, and changing capital structure (Becht, Franks, Mayer and Rossi, 2008). Proposals may be later withdrawn subsequent to negotiation (Chidambaran and Woidtke, 1999). In some instances it may involve the sharing of price-sensitive data or more active involvement by the institutional investor in the company's affairs.

Intervention may also involve targeting a broader range of underperforming companies for placement on a published focus list. Target companies are typically identified through establishing a focus list of companies that underperform a main index or may have a poor comparative corporate governance rating. This is often followed by enquiries and suggestions by the investor. Where enquiries are not responded to or suggestions not taken into account, the institutional investors may escalate their response and seek to change directors or exit the firm. As such, intervention may be collaborative, confrontational or a mixture of the two (Becht, Franks, Mayer and Rossi, 2008).

As intervention can be very costly, the OECD (2003) recommends that the authorities allow or even encourage institutions (and other shareholders) to co-operate and co-ordinate their actions provided that such co-operation is not aimed at manipulating the market or obtaining control of the company without going through accepted takeover procedures. Furthermore, where intervention involves the administrators of a pension fund nominating a trustee, employee, adviser or other candidate to the board of a company, the pension fund and the nominee may be exposed to additional liabilities and restrictions under common law or company, takeover or market abuse regulation should the trustee be held to be de facto or shadow director.

The Optimal Institutional Monitor

Coffee (1991) has suggested that the optimal monitor meet at least three criteria: (1) the institution should be reasonably free from conflicts of interest so that its evaluation of corporate management will not be biased by the opportunity to earn fees or income not equally available to shareholders; (2) its stake should be large enough to justify the expenditure of significant monitoring costs; and (3) its preferred investment horizon should be sufficiently long so that it has an interest in improved corporate governance, even when no immediate value-maximising transaction is in the offing. Based on these three criteria, Coffee has suggested that the pension fund is relatively superior as a monitor than other institutional investors. .Despite Coffee's relative optimism, empirical evidence to support the proposition that activism by public pension funds leads to performance improvements is limited (English, Smythe and McNeil (2004); Del Guercio and

Hawkins (1999)) although there is evidence to link shareholder activism with improvements in corporate governance structures in target firms (Karpoff, 2001).

The Irish Pension Funds Industry

Irish pension funds are relatively free from conflicts of interest. They have no other opportunities to earn fees or income from the investee company. They cannot make takeover bids. They do not face shareholder redemptions nor are they engaged in active competition for investors' funds. Furthermore, the institutional form is conducive to Irish occupational pension funds acting as monitors. Legally, trustees must not subordinate the interests of the members and beneficiaries of their pension funds to unrelated objectives or put themselves in a position where their own interest and their duty as trustees conflict. As the trustees of Irish pension funds are often the senior executives of the sponsor company and the Irish market is relatively small, the assumption of freedom from conflicts of interest may not apply to the same degree as the US where the pension fund has a better opportunity to avoid such conflicts. Even in the US, where public pension funds are mandated to exercise their voting rights, pension funds have been known to have experienced this tension (Kolman, 1985). Unlike the US, voting is not mandatory and there is no requirement for Irish occupational pension funds to exercise their rights as shareholders.

As a whole, Irish pension funds have a very significant monetary stake in Irish companies and capital markets and should therefore care about the performance of those companies in which they have invested. For the year ending 31 December 2007, pension fund assets under management amounted to €86.6bn compared with €87.7.3bn at 31 December 2006; equities accounted for 66.3% of assets under management with Irish equity content of 8.2% (€7.1bn) (IAPF, 2008). Based on these statistics, Irish pension funds owned c. 7.6% of the total Irish equity market at the end of 2007 (IAPF, 2008). However, although Irish pension funds have a significant stake as a whole in Irish equities, there is no evidence that discrete individual pension funds have significant shareholdings in Irish companies. In fact, a basic survey of the Annual Reports of 59 Irish public limited companies undertaken for this study provided no evidence that Irish occupational pension funds directly held significant shareholdings or large blockholdings in those companies.[1]

Irish occupational pension funds are the dominant form of long-term savings in Ireland. Pension fund stock turnover rates are typically lower than other institutions and so have a relatively longer investment horizon. The majority of Irish pension funds invest in long-term illiquid stocks including property, forestry, fixed interest, international equities, and fixed interest and index-linked stocks (IAIM, 2007; IAPF, 2008).

This evidence suggests that Irish occupational pension funds display the characteristics of suitable monitors. Although the area of institutional monitoring is widely debated internationally, there is little existing Irish data on pension fund and investment manager monitoring activity and their perceptions to key corporate governance themes.

Research Methodology

In this paper, we examine the prevalence of institutional monitoring strategies by pension funds and external fund managers in relation to the companies in which they have invested. Furthermore, we test whether there are significant differences in attitudes between the two groups across key themes relating to shareholder activism by occupational pension funds. Specifically, we examine whether attitudes to the board reform, information flow to shareholders, anti-takeover measures, corporate social responsibility, barriers to shareholder activism and mandatory voting by pension funds varies between the two groups in order to identify whether potential agency problems may exist in relation to delegation and representation.

The purpose of this study is to present preliminary evidence on (i) the prevalence of institutional monitoring strategies by occupational pension funds ('pension funds') and external fund managers in relation to the companies in which they have invested, and (ii) attitudes between the two groups across key themes relating to shareholder activism by occupational pension funds. Such evidence will permit the formulation of hypotheses on these issues for investigation in future research. To address the research questions, it was necessary to conduct questionnaire based research to collect data and ascertain the views of a sample of the two target groups.

The Irish pension funds industry was examined as data from such sources is reasonably accessible and as a result of European regulation, operates under a similar regime to other European countries and in particular the UK. Furthermore, the study argues that the findings have wider relevance because the Irish pension funds industry is not only relatively large in size in comparison to other European countries but also invests more heavily in equities than other European countries (with the exception of the UK) and therefore should have a greater interest in any risk-mitigating activities including monitoring (Mercer Investment Consulting, 2008).

Due to the size and geographical location of the intended sample, and following consultation with the Irish Association of Pension Funds as to how best obtain responses from those employed in the Irish pension funds industry for the research project, it was it was decided to use a questionnaire-based research methodology to ascertain directly the views of those to be surveyed and therefore appropriately address the research questions of the paper.

A questionnaire was designed consisting of 21 questions to elicit the respondent's views on their voting policies, engagement strategies with investee companies, their intervention strategies with investee companies and the institution's general attitudes to shareholder activism. The questionnaire was developed following extensive consultation with colleagues and staff at the authors, neighbouring and affiliated Universities as well as the Irish Association of Pension Funds and the Irish Association for Investment Managers. Discussions on the questionnaire focused on its content and whether it would adequately address the research questions of the paper. Prior relevant research was also examined to inform the content and focus of the questions contained in the questionnaire, and where appropriate, suggest potential questions for inclusion. The questionnaire was tested in advance of distribution to the sample population. This testing involved circulating the questionnaire to the Irish Association of Pension Funds and the Irish Association for Investment Managers and asking for comments or methods by which the questionnaire could be enhanced. The final questionnaire used in this investigation was approved by both the Irish Association of Pension Funds and the Irish Association for Investment Managers.

Questions included in the questionnaire were largely driven by prior research and by the key research questions this paper aims to address. 19 of the 21 questions included in the questionnaire were closed questions, while 2 were open questions which asked the respondents to provide details on their role within the institution and the type of institution they worked for. Nevertheless, in questions where it was appropriate to provide respondents with the means of providing information unique to their own institution not covered in the available responses to the questionnaire, an open ended 'other' option was offered, This appears in 4 of the 21 questions included in the questionnaire. One of the questions contained in the questionnaire asks respondents on whether they believed it was appropriate for pension funds to play a role in the corporate governance of investee companies. In instances where the respondents gave a 'no' answer, they were given the opportunity of explaining why they believed this to be the case. This study would argue that closed questions are more appropriate to facilitate the empirical analysis that will be presented later in the paper. While it could be claimed that open ended questions on the main themes addressesd in this study may provide more insight into the various issued explored, offering respondents open ended questions may also lead to greater subjectivity in the responses or indeed may be misunderstood by the respondents when answering and thus may undermine the validity of the conclusions drawn from such findings.

With regard to their voting policies, the questionnaire addressed issues such as: identifying if the institution has a formal voting policy and to whom is it supplied; if compliance with the voting policy is monitored and how often such monitoring takes place; whether compliance is required by the institution from its agents; whether the institution votes directly on issues raised at meetings, and if the institution publishes details on voting issues.

As regards engagement with investee companies, the questionnaire examines if the institutions meet, formally or informally, with the senior management of the investee companies, the frequency of such meetings and the issues addressed at meetings (e.g. strategy, performance, board structure, management quality or other issues).

To examine the respondent institution's intervention strategies, the questionnaire investigates if the institutions, individually or with other shareholders, target or otherwise use intervention strategies in relation to investee companies. Intervention strategies could include: conducting research on poor performance and submitting proposals for change to management, based on this research; targeting investee companies and disclosing the names of the companies with the reasons for targeting to the company and the general public; targeting investee companies and disclosing the names of the companies with the reason for targeting to the company only; co-ordinating activity with other shareholders; exit strategies, or other methods used by the respondent institution.

Finally, to provide insight into the institution's general attitudes to shareholder activism by pension funds, the questionnaire asks for the respondent's views on corporate governance in the Irish publicly listed companies and the role that pension funds can play in such governance. For this latter question, two key areas are examined. First, the perceived impact of pension funds to areas such as corporate board reform, improved information flow to shareholder, anti-takeover measures and corporate social responsibility. Secondly, the perceived importance of these same areas to pension funds. In each case, respondents may cite a 'low', 'medium' or 'high' impact/importance as their answer. In each of areas listed above, the study will investigate the extent to which the respondents perceive the impact of pension funds to be different from the perceived importance to pension funds. In addition, the questionnaire asks for the respondent's views on what they consider to be the major barriers to pension funds engaging on shareholder activism. Respondents are presented with a range of potential barriers, such as such as conflicts of interest, skill levels, market perception and liquidity problems, and are required to rate their responses again in terms of 'low', 'medium' or 'high'. Finally, the questionnaire examines if the institutions would support mandatory voting by pension funds in public companies both in general terms and in an Irish context only.

The survey was restricted to members of the Irish Association of Pension Funds (excluding pension fund advisors) and the Irish Association of Investment Managers. The questionnaire was distributed in July 2005 to 313 Member Representatives listed in the 2005 Irish Association of Pension Funds Yearbook and the 13 Member Representatives listed on the Irish

Association of Investment Managers website. Personalised letters accompanied these questionnaires explaining the purpose of the survey and detailing instructions on how to respond. The total population was 316 as 10 of the Irish Association of Investment Managers members were also members of the Irish Association of Pension Funds.

A total of 55 responses (17.4% of the population) were received. However, 12 organisations who initially responded were unable to form part of the final sample used in the study. All 12 of these organisations were occupational pension funds, 3 of which indicated that they could not respond due to lack of resources or for policy reasons. Of the remaining 9, 4 indicated that the questionnaire was irrelevant to them and 5 indicated that it would be more appropriate for completion by an investment manager. Thus, the final sample consists of 43 usable responses (13.6% of the population) were received. Of the 43 responses, 33 respondents (77% of the useable sample) were pension funds or schemes and 10 respondents (23% of the useable sample) were investment managers. While the overall response rate to the questionnaire is low, this comes as no surprise given that notable non-response often occurs when using questionnaires to collect data from large, geographically dispersed populations (Edwards *et al*., 2002). Given that the purpose of this investigation is to gather and present preliminary evidence on monitoring and corporate governance mechanisms in the Irish pension funds industry for hypothesis generation, it is argued that the final sample obtained is sufficient for this purpose and therefore no follow-up contact was made with the identified population. Table 1 presents a summary of the final sample used in the study.

Analysis of Results

In this section, descriptive statistics of the response data obtained is first presented. This will then be followed by an assessment of whether there are any statistically significant differences between the two response groups with regard to their responses to the questionnaire. From an initial assessment of the data obtained from those who responded, it was identified that all variables were non-normally distributed. Consequently, non-parametric statistical analysis is appropriate in this regard.

Respondent Role and Institution Type

The first two questions of the questionnaire asks the respondent to define their role within the institution and to state what type of institution they work for. Table 2 presents the analysis of the final sample for these two questions. As Table 2 shows, there is clearly considerable variation in the small sample surveyed in this study. This variation should provide interesting results in subsequent analysis.

Voting

As mentioned above, voting is a fundamental right of share ownership and is specifically emphasised by the Combined Code (2003) and the OECD (2004) as important governance mechanisms. Table 3 presents an analysis of the responses provided in relation to the voting policies used by occupational pension funds and investment managers in Ireland. In particular, the survey sought to assess the prevalence of formal voting policies, the disclosure and monitoring of voting policies, and the actual voting at AGMs of investee companies.

As Table 3 shows, there is clearly notable disparity between the findings for both samples with 90.9% of occupational pensions fund sample reporting that they have no formal voting policy compared to all investment managers contacted reporting that they have a formal policy for voting in place. In fact, only one occupational pension fund had a formal voting policy. This one respondent:

- did not supply the voting policy to investee companies nor did it monitor investee compliance with the formal voting policy;
- supplied all agents with a copy of this voting policy and required compliance by agents with the voting policy;
- monitored agent compliance quarterly;
- did not vote directly on any issues raised at investee company AGMs; and
- did not publish details on its own specific use of votes.

As will be shown later in Table 6, 48.5% of pension fund responses regarding mandatory voting were not supportive of mandatory voting by pension funds in public companies even if limited to Irish plcs (51.5%).

Table 1. Details of Final Sample

Panel A: Summary of overall sample		
	No.	*%*
Non-responses	261	82.6
Unusable responses	12	3.8
Usable Responses	43	13.6
Total number of questionnaires issued	316	100

Panel B: Analysis of final sample by sub group		
Occupational Pension Funds:	No.	%
Non-responses	258	85.1
Unusable responses	12	4.0
Usable Responses	33	10.9
Total number of questionnaires issued	303	100
Investment Managers:	No.	%
Non-responses	3	23.1
Unusable responses	-	0
Usable Responses	10	76.9
Total number of questionnaires issued	13	100

All data was collected by questionnaire which was posted in July 2005. All potential respondents were identified from the Irish Association of Pension Funds 2005 Yearbook and the Irish Association for Investment Managers membership for 2005 as defined on their website at www.iaim.ie.

Table 2. Descriptive Statistics: Analysis of Sample by Respondent Role and Organisation Type

Panel A: Respondent Role		
Occupational Pension Funds:	No.	%
Pension fund trustee	8	24.2
Pension trust secretary	5	15.2
Director	5	15.2
Management	3	9.1
Analyst	2	6.1
Human Resources Manager	2	6.1
CEO	2	6.1
Pension fund accountant	1	3.0
Client manager	1	3.0
Chair of pension fund	1	3.0
Administration controller	1	3.0
Financial controller	1	3.0
Not disclosed	1	3.0
	33	100
Investment Managers:	No.	%
Senior corporate governance management	3	30.0
CEO	2	20.0
Head of equity strategy	1	10.0
Head of legal department	1	10.0
Portfolio implementation	1	10.0
N/A	2	20.0
	10	100

Panel B: Institution Type		
Occupational Pension Funds:	No.	%
Pension fund	21	63.7
Broker	2	6.1
Defined pension fund	2	6.1
Public sector body	2	6.1
Private hospital	1	3.0
Financial securer	1	3.0
Insurance company	1	3.0
Wholly owned subsidiary	1	3.0
Privately owned bank	1	3.0
Wholesale distribution company	1	3.0
	33	100
Investment Managers:	No.	%
Fund manager	3	30.0
Investment manager	3	30.0
Asset manager	1	10.0
Mutimanager	1	10.0
Corporate Governance manager	1	10.0
Insurance	1	10.0
	10	100

All Investment Managers surveyed had formal voting policies and 50% of the sample supplied their investee companies with this voting policy. However, only 40% of the investment managers contacted monitor compliance with voting policies. Nevertheless, this remains notably higher than that reported for the occupational pension funds sampled where very little evidence of voting policy or voting policy compliance monitoring was found to exist. One of the investment managers surveyed (10%) indicated that monitoring in fact took place more often that every 3 months. In addition, one investment manager (10%) supplied their voting policy to other agents and required compliance with this voting policy by the agents. Compliance was monitored monthly in this instance. The remainder did not supply their voting policy or indicated that it was not applicable. This is most likely because agents such as custodians or proxy voting services are expected to strictly act on their instructions.

One investment manager (10%) indicated that he/she voted on none of the issues raised at investee company AGMs. Of the remainder, five (50%) voted on all issues and four (40%) on selected issues. Three respondents published details on their own specific use of votes. One of the respondents clarified that these votes were published in the UK only and in aggregate form. It is argued that not making voting policies public detracts from the impact such policies might have on corporate governance. In particular, it seems somewhat illogical to judge a company against expectations of which they are unaware or to have a voting policy and not to vote at general meetings, if in fact that is the case. As can be seen in Table 7, 60% of investment managers surveyed were not supportive of mandatory voting by pension funds in plcs even if limited to Irish plcs.

Engagement with Investee Companies

Table 4 presents the survey results for the analysis of engagement activity of institutions with investee companies. Panel A presents those for the occupational pension funds. Engagement would seem to be the most evident monitoring activity by Pension Funds. 27.3% of respondents (9 pension funds) met with the senior executives of investee companies. Of these respondents:

- 12.1% (4 pension funds) held these meetings every three to six months with a further 15.1% (5 pension funds) holding meetings every 12 months or more.
- 24.2% (8 pension funds) categorised these meetings as formal;
- All pension funds who met with senior executives of the investee companies discussed performance and strategy at meetings, while 3 (9.1%) discussed board structure, 6 (18.2%) discussed management quality and 2 (6%) discussed other issues such as future corporate structure, investment strategy and specific stock selection.[2]

The level of engagement in the above findings is surprising given the low number of voting policies. However, no assessment of the quality of these engagements can be made. Equally the type of engagement is not cited. As the majority of those surveyed (8 out of 9 respondents) indicated that these meetings were formal in nature, it is likely that the strategic impact of the engagements is low. The engagement might have been a semi-anonymous conference call, presentation or other similar event. No indication is given that corporate governance regulation or compliance was discussed and in fact there is some evidence to suggest that respondents may have confused engagement with investee companies and investment managers.

Panel B of Table 4 presents the findings for investment managers. The results indicate that all investment managers surveyed meet with senior executives of investee companies. 4 investment managers (40%) held these meetings every 12 months and a further 2 (20%) every six months. The remainder indicated more periodic timeframes. Eight of the ten respondents (80%) categorised the meetings as formal; the remainder indicated informal. All respondents stated that the main topics of these meetings were strategy and performance. 70% (7 respondents) indicated that board structure was discussed and 50% (5 respondents) indicated that management quality and other topics such as remuneration policy and practice, succession planning and corporate social responsibility were discussed.

Again, while engagement levels were high, no assessment of the quality of these engagements can be made for the reasons given earlier. Only one respondent (10%) indicated that corporate governance regulation or compliance was discussed. It is submitted that institutional investors would have greater impact in informal meetings and that addressing specific corporate governance compliance issues in this way may result in greater compliance.

Table 3: Descriptive Statistics: Analysis of Voting Policies used by Sample Institutions

Panel A: Occupational Pension Funds (number of respondents = 33). Note that 'N/R' refers to 'Non-Response'.

Question:	Yes %	No %	N/R %
Does your institution have a formal voting policy?	3.0	90.9	6.1
If 'Yes' then:			
Does your institution supply all investee companies with this formal voting policy?	0.0	9.1	90.9
Does your institution systematically monitor investee compliance with the policy?	0.0	6.1	93.9
Does your institution supply all agents with this voting policy?	0.0	3.0	97.0
If 'Yes' then:			
Does your institution require compliance by agents with this voting policy?	0.0	3.0	97.0
Does your institution monitor compliance with your formal voting policy?	0.0	3.0	97.0
Does your institution publish details on its own specific use of votes?	0.0	3.0	97.0

	3 mths %	6mths %	12 mths %	12+ mths %	Other %	N/R %
If your institution systematically monitors investee compliance with your formal voting policy, how regular does such monitoring occur?	0.0	0.0	0.0	0.0	0.0	100.0
If your institution monitors agent compliance with your formal voting policy, how regular does such monitoring occur?	3.0	0.0	0.0	0.0	0.0	97.0

	All Issues %	Selected Issues %	None at all %	N/R %
Does your institution vote directly on issues raised at investee company AGMs?	0.0	0.0	0.0	100.0

Panel B: Investment Managers (number of respondents = 10). Note that 'N/R' refers to 'Non-Response'.

Question:	Yes %	No %	N/R %
Does your institution have a formal voting policy?	100.0	0.0	0.0
If 'Yes' then:			
Does your institution supply all investee companies with this formal voting policy?	50.0	50.0	0.0
Does your institution systematically monitor investee compliance with the policy?	40.0	50.0	0.0
Does your institution supply all agents with this voting policy?	10.0	0.0	90.0
If 'Yes' then:			
Does your institution require compliance by agents with this voting policy?	0.0	0.0	100.0
Does your institution monitor compliance with your formal voting policy?	10.0	0.0	90.0
Does your institution publish details on its own specific use of votes?	30.0	60.0	10.0

	3 mths %	6mths %	12 mths %	12+ mths %	Other %	N/R %
If your institution systematically monitors investee compliance with your formal voting policy, how regular does such monitoring occur?	10.0	0.0	30.0	0.0	0.0	60.0
If your institution monitors agent compliance with your formal voting policy, how regular does such monitoring occur?	0.0	0.0	0.0	0.0	10.0	90.0

	All Issues %	Selected Issues %	None at all %	N/R %
Does your institution vote directly on issues raised at investee company AGMs?	50.0	40.0	10.0	0.0

Table 4: Descriptive Statistics: Analysis of Engagement Activity of Institutions with Investee Companies

Panel A: Occupational Pension Funds (number of respondents = 33). Note that 'N/R' refers to 'Non-Response'.

Question:	Yes %	No %	N/R %
Does your institution meet with the senior executives of investee companies?	27.3	66.7	6.0
Are strategy issues discussed at these meetings?	27.3	0.0	72.7
Are performance issues discussed at these meetings?	27.3	0.0	72.7
Are board structure issues discussed at these meetings?	9.1	18.2	72.7
Are management quality issues discussed at these meetings?	18.2	9.1	72.7
Are other issues discussed at these meetings?	6.0	21.3	72.7

	3 mths %	6mths %	12 mths %	12+ mths %	Other %	N/R %
If your institution meets with senior executives, how regular are these meetings?	3.0	9.1	9.1	3.0	3.0	72.7

	Formal %	Informal %	N/R %
Would your institution categorise these meetings as formal or informal?	24.2	3.0	72.7

Panel B: Investment Managers (number of respondents = 10). Note that 'N/R' refers to 'Non-Response'.

Question:	Yes %	No %	N/R %
Does your institution meet with the senior executives of investee companies?	100.0	0.0	0.0
Are strategy issues discussed at these meetings?	100.0	0.0	0.0
Are performance issues discussed at these meetings?	100.0	0.0	0.0
Are board structure issues discussed at these meetings?	70.0	30.0	0.0
Are management quality issues discussed at these meetings?	50.0	50.0	0.0
Are other issues discussed at these meetings?	50.0	10.0	40.0

	3 mths %	6mths %	12 mths %	12+ mths %	Other %	N/R %
If your institution meets with senior executives, how regular are these meetings?	0.0	20.0	40.0	0.0	40.0	0.0

	Formal %	Informal %	N/R %
Would your institution categorise these meetings as formal or informal?	80.0	20.0	0.0

Intervention Strategies and Investee Companies

Panel A of Table 5 presents the responses of those occupational pension funds surveyed regarding their intervention strategies. None of the Pension Funds surveyed made use of intervention strategies with investee companies. This is not surprising given the lack of evidence of significant individual shareholdings by Pensions Funds in Irish listed plcs. Intervention, as a strategy, relies heavily on the influence of the shareholder, primarily based on the size of their stake in the company being targeted. Furthermore, intervention is costly compared to other monitoring activities and therefore may not be cost-efficient where the shareholding is no significant.

Panel B of Table 5 presents the findings for the investment managers surveyed. 4 (40%) of investment managers indicated use of intervention strategies with investee companies. Half of those surveyed indicated that they used co-ordinating activity with other shareholders including discussing issues about the company (including problems and potential solutions) and discussing and exchanging views on a resolution to be voted on at a meeting. A lesser number (40%) held discussions or meetings about voting at a specific or proposed meeting of a company or disclosed individual voting intentions on a resolution (10%). No respondent indicated that they had recommended that another institution vote in a particular way. 2 respondents (20%) indicated that they conducted research on poor performance and submitted proposals for change to management based on that research. Further, 2 respondents (20%) indicated that they targeted investee companies but only disclosed the names of the companies with the reasons for targeting to the company.

From the evidence presented, it is submitted that more aggressive intervention strategies such as targeting, public or otherwise, are not widespread in Ireland. This may result from fear of market or public perception or simply it is perceived to be unnecessary given the size of the market. No assessment of the regularity of such interventions can be made and therefore it may be that these intervention strategies are used in very rare occasions.

General Attitudes to Shareholder Activism

A key section of the questionnaire examines the respondent's general attitudes to shareholder activism by pension funds. Table 6 presents those findings pertaining to the occupational pension funds. Panel A presents general attitudes while Panel B presents specific views regarding the respondent's beliefs on the impact of pension funds in corporate governance and the importance to pension funds of corporate governance. Finally, Panel C of Table 6 summarises the respondent's views on barriers to shareholder activism.

In Table 6, despite the low level of monitoring activity found in the pension funds industry, the overwhelming majority of pension funds surveyed believed that that there is a positive link between corporate governance and corporate performance (93.9%) and that it is appropriate for pension funds to play a role in the corporate governance of investee companies (69.7%). The majority of pension fund respondents (87.9%) perceived the quality of corporate governance compliance in Irish public companies as "medium". 3% perceived the quality of compliance as "high" and the remainder (9.1%) as "low", suggesting that while respondents are satisfied with the compliance levels, there are areas where compliance could be improved.

As regards Panels B and C of Table 6, while around 40% of the pension fund respondents surveyed regarded such questions as non-applicable, it may be useful to summarise such responses in terms of those that expressed a view on the link between pension funds and corporate governance and their perceived barriers to shareholder activism. To do so, those who returned a view of 'Low' in the questions cited in Panels B and C in Table 6 are assigned a value of 1; those whose responded with 'Medium' are assigned a value of 2, and those who responded with 'High' are assigned a value of 3. The total values for each question are then computed based on the values above returned from the respondents. This score provides an indication of the respondent's overall importance attached to each of the areas examined. Finally, to provide a simple heuristic of the importance of each area analysed, as determined by the sample responses, the total scores for all questions are ranked, with the highest score being ranked 1, the next highest score being ranked 2 and so on. The results from this analysis are presented in Table 7.

"Improving information flow", together with "director independence" were rated by the pension funds surveyed as the area perceived as the issues most likely to impact upon pension funds, while "Improving information flow" was again found to be the issue most likely to be important to pension funds. This may reflect concerns by Pension Funds on the quality of information provided or the regularity of information provided.

Table 5. Descriptive Statistics: Analysis of Intervention Strategies used by Sample Institutions

Panel A: Occupational Pension Funds (number of respondents = 33). Note that 'N/R' refers to 'Non-Response'.

Question:	Yes %	No %	N/R %
Does your institution use intervention strategies with investee companies?	0.0	93.9	0.0
Which of the following intervention strategies has your institution used?			
Conducting research on poor performance and submitting proposals for change to management based on this research	0.0	0.0	100.0
Targeting investee companies and disclosing the names of the companies with the reasons for targeting to the company and the general public	0.0	0.0	100.0
Targeting investee companies and disclosing only the names of the companies with reason for targeting to the company only	0.0	0.0	100.0
Co-ordinating activity with other shareholders	0.0	0.0	100.0
- Holding discussions or meetings about voting at a specific or proposed meeting of a company	0.0	0.0	100.0
- Discussing issues about the company, including problems and potential solutions	0.0	0.0	100.0
- Discussing and exchanging views on a resolution to be voted on at a meeting	0.0	0.0	100.0
- Disclosing individual voting intentions on a resolution	0.0	0.0	100.0
- Recommending that another institution votes in a particular way	0.0	0.0	100.0
Exit strategies	0.0	0.0	100.0
Other strategies	0.0	0.0	100.0

Panel B: Investment Managers (number of respondents = 10). Note that 'N/R' refers to 'Non-Response'.

Question:	Yes %	No %	N/R %
Does your institution use intervention strategies with investee companies?	40.0	60.0	0.0
Which of the following intervention strategies has your institution used?			
Conducting research on poor performance and submitting proposals for change to management based on this research	20.0	0.0	80.0
Targeting investee companies and disclosing the names of the companies with the reasons for targeting to the company and the general public	0.0	20.0	80.0
Targeting investee companies and disclosing only the names of the companies with reason for targeting to the company only	20.0	10.0	70.0
Co-ordinating activity with other shareholders	50.0	0.0	50.0
- Holding discussions or meetings about voting at a specific or proposed meeting of a company	40.0	0.0	60.0
- Discussing issues about the company, including problems and potential solutions	50.0	0.0	50.0
- Discussing and exchanging views on a resolution to be voted on at a meeting	50.0	0.0	50.0
- Disclosing individual voting intentions on a resolution	10.0	30.0	60.0
- Recommending that another institution votes in a particular way	0.0	40.0	60.0
Exit strategies	30.0	10.0	60.0
Other strategies	10.0	0.0	90.0

Table 6. Descriptive Statistics: Pension Funds: Analysis of Attitudes to Shareholder Activism

Panel A: General Attitudes. Note that 'N/R' refers to 'Non-Response'.

Number of respondents = 33

***Question*:**	Low %	Medium %	High%
How do you perceive the quality of corporate governance in Irish plcs?	3.0	87.9	9.1

	Yes %	No %	N/A %
Do you believe that there is a positive link between corporate governance and corporate performance?	93.9	6.1	0.0
Do you believe your institution would support mandatory voting by pension funds in public companies?	45.5	48.5	6.1
Do you believe your institution would support mandatory voting by pension funds in Irish public companies only?	39.4	51.5	9.1

Panel B: Pension Fund Impact & The Importance of Pension Funds. Note that 'N/R' refers to 'Non-Response'.

***Question*:**	Yes %	No %	N/R %
Do you believe that it is appropriate for pension funds to play a role in the corporate governance of investee companies?	69.7	24.2	6.1

If 'Yes', then indicate your assessment of the impact of pension funds to:	Low %	Med %	High%	N/R %
- Board reform	9.1	27.3	24.2	39.4
o CEO-Chairman separation	21.2	21.2	27.3	30.3
o Director selection	9.1	48.5	12.1	30.3
o Director independence	6.1	30.3	33.3	30.3
o Personal accountability of directors	9.1	36.4	24.2	30.3
o Remuneration	18.2	33.3	15.2	33.3
- Improving information flow to shareholders	6.1	30.3	33.3	30.3
- Anti-takeover measures	21.2	30.3	18.2	30.3
- Corporate Social Responsibility	12.1	36.4	18.2	33.3
- Other	3.0	3.0	3.0	91.0

If 'Yes', then indicate your assessment of the importance to pension funds of:	Low %	Med %	High%	N/A %
o Board reform	9.1	18.2	30.3	42.4
o CEO-Chairman separation	18.2	18.2	30.3	33.3
o Director selection	12.1	24.2	30.3	33.3
o Director independence	6.1	21.2	39.4	33.3
o Personal accountability of directors	6.1	30.3	30.3	33.3
o Remuneration	18.2	33.3	15.2	33.3
- Improving information flow to shareholders	9.1	12.1	45.5	33.3
- Anti-takeover measures	24.2	24.2	15.2	36.4
- Corporate Social Responsibility	9.1	36.4	18.2	36.4
- Other	3.0	3.0	6.1	93.9

Panel C: Barriers to Shareholder Activism. Note that 'N/R' refers to 'Non-Response'.

***Question*:**	Low %	Med %	High%	N/R %
What do you consider to be the major barriers to pension funds acting as shareholder activists? Rate the following based on impact:				
- Liquidity	30.3	15.2	18.2	36.4
- Thin equity	18.2	33.3	24.2	24.2
- Benefit time horizon	27.3	27.3	9.1	36.4
- Competition	24.2	30.3	3.0	42.4
- Free riders	30.3	33.3	6.1	30.3
- Conflicts of interest	18.2	15.2	39.4	27.3
- Political retaliation	24.2	36.4	15.2	24.2
- Market perception	24.2	21.2	30.3	24.2
- Public perception	33.3	15.2	24.2	33.3
- Financial constraints	27.3	15.2	24.2	33.3
- Skill levels	3.0	24.2	45.5	27.3
- Management manipulation of agenda	15.2	45.5	15.2	24.2
- Voting process	21.2	42.4	6.1	30.3
- Insider dealing provisions	24.2	27.3	15.2	33.3
- Control aggregation provisions	24.2	24.2	9.1	42.4
- Other company law	21.2	24.2	6.1	48.5
- Other legal reasons	30.3	33.3	6.1	30.3
- Other	0.0	0.0	21.2	78.8

Table 7. Descriptive Statistics: Ranking of selected focus areas: Occupational Pension Funds Industry

Presented below is a summary of responses provided by respondents in the Irish occupational pension funds industry as regards the significance they place on the impact of pension funds on selected focus areas (the 'Impact Ranking'), the importance of selected focus areas to pension funds (the 'Importance Ranking') as well as the importance they place on barriers to shareholder activism (the 'Barrier Ranking').

The below statistics are computed as follows: For each question pertaining to the Impact Ranking, the Importance Ranking and the Barrier Ranking, a response of 'Low', ',Medium' and 'High' is available. Responses are coded 1, 2 and 3 for Low, Medium and High, Respectively. The total score for each selected focus area is then calculated and the final scores ranked, with the highest score ranking '1' , the next highest score ranking '2', and so on.

Panel A: The impact of pension funds to selected focus areas and the importance of selected focus areas to pension funds

	Total Score	Impact Ranking	Total Score	Importance Ranking
Board reform	45	7	45	6
CEO-Chairman separation	48	4	48	5
Director selection	47	5	50	4
Director independence	55	1	55	2
Personal accountability of directors	51	3	52	3
Remuneration	43	9	43	8
Improving information flow to shareholders	55	1	56	1
Anti-takeover measures	45	7	39	9
Corporate Social Responsibility	46	6	45	6
Other	6	10	5	10

Panel B: The Importance of Barriers to Shareholder Activism

	Total Score	Barrier Ranking
Skill levels	62	1
Conflicts of interest	55	2
Benefit time horizon	52	3
Market perception	52	3
Management manipulation of agenda	50	5
Public perception	48	6
Political retaliation	47	7
Financial constraints	43	8
Voting process	41	9
Insider dealing provisions	41	9
Liquidity	38	11
Thin equity	38	11
Competition	36	13
Control aggregation provisions	33	14
Free riders	31	15
Other company law	29	16
Other legal reasons	14	17
Other	0	18

The Pension Funds surveyed have clear concerns regarding "director independence" which is rated significantly higher than all other board reform focus areas measured both in terms of importance and impact. In addition, it is interesting to observe that those in surveyed in the occupational pension funds industry view personal accountability of directors" and "director selection" as key issues within board reform. "CEO-Chairman separation" and "Remuneration" were rated relatively lower, possibly reflecting relative importance, apathy, or that it is not an issue of concern in Ireland.

Panel B of Table 7 shows the relative ranking of perceived barriers to pension funds acting as shareholder activists. Owing to the sizeable number of potential barriers suggested in the questionnaire, the rankings have been sorted in descending order. Until recently, trustees in Ireland were not required to undertake any training and it is likely that this is a major contributing factor to these results.[2] Unsurprisingly, "Skill levels" were perceived as by far the greatest barrier. Although no research is available on the matter, it is likely that the situation in relation to trustee expertise in Ireland is somewhat similar to that found by Myners (2001) in the UK in that many trustees are not especially expert in investment and do not receive substantial training to perform their role as trustee.

The high rating of "Conflicts of interest" should be examined in the context of the relatively high ratings of perception measures (market perception", "public perception" and "political retaliation"). Ireland is both a relatively small country and market for products and services. It is not unreasonable to believe that Pension Funds or their employer-sponsors would have or would like to have significant relationships with many Irish plcs. Furthermore, these findings may indicate a fear of reprisals for such action directly or indirectly.

"Benefit time horizons" was rated as joint third in terms of perceived barriers to shareholder activism. This may represent the Pension Funds' apprehension of the risk-return ratio on shareholder activism but may also reflect a perceived impact on liquidity and the ability to exit. Furthermore, given the trends in the market towards passive management, it may merely reflect a division in the market in relation to asset composition.

Due to the size of the Irish market, a number of large individual stockholders exist in major Irish plcs. Their perceived influence over those companies receives widespread media attention in Ireland. This may explain the high rating of "managerial manipulation of agenda" as a perceived barrier.

"Financial constraints" was rated mid-table by Pension Funds. This may reflect the relatively low level of current monitoring activity, the small number of plcs listed on the Irish Stock Exchange or the low number of significant holdings by occupational pension funds. As the number of investments that could be monitored may be perceived as extremely low, the associated cost of monitoring may be perceived as insignificant.

The remaining factors were not considered by respondents as significant barriers to shareholder activism. A number of possible explanations may exist:

- liquidity and thin equity may not be considered barriers due to the structural and long term nature of most pension funds.
- most Irish occupational pension funds do not compete per se, their investment managers or agents do. This may account for the relatively low ranking of "competition".
- the general lack of concern towards legal barriers may be attributable to a low assessment of risk, skill levels or general ignorance of the law.

It should be noted that the voting process was not explicitly included as a potential barrier despite commentators such as Myners (2001) citing this as a potential barrier to shareholder activism and specifically voting.

Table 8 presents the summary statistics for the investment manager's attitudes to shareholder activism. In line with Pension Fund responses, those from Investment Managers suggest a widely held perception that that there is a positive link between corporate governance and corporate performance (90%) and that it is appropriate for pension funds to play a role in the corporate governance of investee companies (100%).

Similarly, all Investment Managers responding perceived the quality of corporate governance compliance in Irish public companies as "medium" reinforcing the proposition that there are areas where compliance could be improved.

Table 9 summarises investment manager ratings of the importance to pension funds and impact of pension funds on specific focus areas as well as the perceived importance of certain barriers to shareholder activism. Table 9 highlights that even in small samples such as that reported in this investigation, there are notable differences with regard to investment manager's perceptions of the importance of "Anti-takeover measures", "Improving information flow to shareholders" and "Remuneration" to pension funds, when compared against the rankings for the impact of pension funds to each of these particular areas. Panel B of Table also shows that investment managers regard that "Skill levels", "Financial constraints" and "Public perception" to be the main barriers to shareholder activism.

Overall, these findings suggest that the priorities of Pension Fund Trustees and Investment Managers may be different and in some instances Investment Managers may not adequately reflect the concerns of the Pension Funds which they represent. Whether this reflects a significant agency problem or rather a natural difference due to institutional form requires further research however it may suggest the need for greater clearer instructions and a higher degree of agent monitoring by Pension Funds.

Table 8. Descriptive Statistics: Investment Managers: Analysis of Attitudes to Shareholder Activism

Panel A: General Attitudes. Note that 'N/R' refers to 'Non-Response'.

Number of respondents = 10

***Question*:**

	Low %	Medium %	High%
How do you perceive the quality of corporate governance in Irish plcs?	0.0	100.0	0.0

	Yes %	No %	N/R %
Do you believe that there is a positive link between corporate governance and corporate performance?	90.0	10.0	0.0
Do you believe your institution would support mandatory voting by pension funds in public companies?	30.0	60.0	10.0
Do you believe your institution would support mandatory voting by pension funds in Irish public companies only?	30.0	60.0	10.0

Panel B: Pension Fund Impact & The Importance of Pension Funds. Note that 'N/R' refers to 'Non-Response'.

***Question*:**

	Yes %	No %	N/R %
Do you believe that it is appropriate for pension funds to play a role in the corporate governance of investee companies?	100.0	0.0	0.0

If 'Yes', then indicate your assessment of the impact of pension funds to:

	Low %	Med %	High%	N/A %
- Board reform	0.0	30.0	40.0	30.0
o CEO-Chairman separation	0.0	50.0	40.0	10.0
o Director selection	20.0	30.0	40.0	10.0
o Director independence	10.0	30.0	50.0	10.0
o Personal accountability of directors	10.0	20.0	60.0	10.0
o Remuneration	0.0	50.0	30.0	20.0
- Improving information flow to shareholders	10.0	30.0	50.0	10.0
- Anti-takeover measures	0.0	30.0	60.0	10.0
- Corporate Social Responsibility	10.0	60.0	20.0	10.0
- Other	10.0	10.0	10.0	70.0

If 'Yes', then indicate your assessment of the importance to pension funds of:

	Low %	Med %	High%	N/A %
o Board reform	10.0	30.0	40.0	20.0
o CEO-Chairman separation	10.0	20.0	60.0	10.0
o Director selection	20.0	20.0	50.0	10.0
o Director independence	10.0	10.0	70.0	10.0
o Personal accountability of directors	20.0	0.0	70.0	10.0
o Remuneration	10.0	40.0	30.0	20.0
- Improving information flow to shareholders	10.0	50.0	30.0	10.0
- Anti-takeover measures	10.0	30.0	50.0	10.0
- Corporate Social Responsibility	10.0	50.0	30.0	10.0
Other	10.0	10.0	10.0	70.0

Panel C: Barriers to Shareholder Activism. Note that 'N/R' refers to 'Non-Response'.

***Question*:**

	Low %	Med %	High%	N/R %
What do you consider to be the major barriers to pension funds acting as shareholder activists? Rate the following based on impact:				
- Liquidity	40.0	10.0	10.0	40.0
- Thin equity	10.0	40.0	0.0	50.0
- Benefit time horizon	20.0	10.0	20.0	50.0
- Competition	40.0	10.0	0.0	50.0
- Free riders	30.0	10.0	0.0	60.0
- Conflicts of interest	10.0	40.0	0.0	50.0
- Political retaliation	20.0	10.0	10.0	60.0
- Market perception	20.0	0.0	20.0	60.0
- Public perception	20.0	0.0	30.0	50.0
- Financial constraints	10.0	0.0	40.0	50.0
- Skill levels	10.0	10.0	40.0	40.0
- Management manipulation of agenda	10.0	30.0	40.0	60.0
- Voting process	30.0	10.0	10.0	50.0
- Insider dealing provisions	40.0	10.0	50.0	50.0
- Control aggregation provisions	30.0	10.0	40.0	60.0
- Other company law	20.0	10.0	0.0	70.0
- Other legal reasons	20.0	10.0	30.0	70.0
- Other	0.0	0.0	10.0	90.0

Table 9. Descriptive Statistics: Ranking of selected focus areas: Investment Managers

Presented below is a summary of responses provided by investment managers as regards the significance they place on the impact of pension funds on selected focus areas (the 'Impact Ranking'), the importance of selected focus areas to pension funds (the 'Importance Ranking') as well as the importance they place on barriers to shareholder activism (the 'Barrier Ranking').

The below statistics are computed as follows: For each question pertaining to the Impact Ranking, the Importance Ranking and the Barrier Ranking, a response of 'Low', ',Medium' and 'High' is available. Responses are coded 1, 2 and 3 for Low, Medium and High, Respectively. The total score for each selected focus area is then calculated and the final scores ranked, with the highest score ranking '1' , the next highest score ranking '2', and so on.

Panel A: The impact of pension funds to selected focus areas and the importance of selected focus areas to pension funds

	Total Score	Impact Ranking	Total Score	Importance Ranking
Board reform	18	9	19	8
CEO-Chairman separation	22	3	23	2
Director selection	20	6	21	5
Director independence	22	3	24	1
Personal accountability of directors	23	2	23	2
Remuneration	19	7	18	9
Improving information flow to shareholders	22	3	20	6
Anti-takeover measures	24	1	22	4
Corporate Social Responsibility	19	7	20	6
Other	6	10	6	10

Panel B: The Importance of Barriers to Shareholder Activism

	Total Score	Barrier Ranking
Skill levels	15	1
Financial constraints	13	2
Public perception	11	3
Benefit time horizon	10	4
Conflicts of interest	9	5
Liquidity	9	5
Thin equity	9	5
Voting process	8	8
Market perception	8	8
Management manipulation of agenda	7	10
Political retaliation	7	10
Insider dealing provisions	6	12
Competition	6	12
Control aggregation provisions	5	14
Free riders	5	14
Other company law	4	16
Other legal reasons	4	16
Other	0	18

Table 10. General Attitudes Towards Shareholder Activism: Comparison of Rankings

Presented below is a comparison of the rankings for the 'Impact Ranking', 'Importance Ranking' and the 'Barrier Ranking', as defined in Tables 7 and 9. All total scores pertaining to each rank and an explanation of how they calculated can be found in Tables 7 and 9.

Panel A: Comparison of Impact Ranking

	Impact Ranking Pension Funds	Impact Ranking Investment Managers
Board reform	7	9
CEO-Chairman separation	4	3
Director selection	5	6
Director independence	1	3
Personal accountability of directors	3	2
Remuneration	9	7
Improving information flow to shareholders	1	3
Anti-takeover measures	7	1
Corporate Social Responsibility	6	7
Other	10	10

Panel B: Comparison of Importance Ranking

	Importance Ranking Pension Funds	Importance Ranking Investment Managers
Board reform	6	8
CEO-Chairman separation	5	2
Director selection	4	5
Director independence	2	1
Personal accountability of directors	3	2
Remuneration	8	9
Improving information flow to shareholders	1	6
Anti-takeover measures	9	4
Corporate Social Responsibility	6	6
Other	10	10

Panel C: Comparison of Barrier Ranking

	Barrier Ranking Pension Funds	Barrier Ranking Investment Managers
Skill levels	1	1
Conflicts of interest	2	5
Benefit time horizon	3	4
Market perception	3	8
Management manipulation of agenda	5	10
Public perception	6	3
Political retaliation	7	10
Financial constraints	8	2
Voting process	9	8
Insider dealing provisions	9	12
Liquidity	11	5
Thin equity	11	5
Competition	13	12
Control aggregation provisions	14	14
Free riders	15	14
Other company law	16	16
Other legal reasons	17	16
Other	18	18

As Panel C of Table 10 shows, there are also similarities in the barrier rankings attached to the various barriers to shareholder activism between the two groups surveyed. There is general agreement on skill levels as the most significant barrier. Again, this not surprising for reasons mentioned earlier but also given that expertise and knowledge is one of the central justifications for delegation to investment managers. The high barrier ranking of “Financial constraints” according to pension funds is consistent with this proposition in that the use of investment management services is justified on cost-efficiency grounds. In addition, the responses also clearly indicate differences in relation to perception ratings between the two different respondent types. This is particularly the case for variables such as “Market perception” and “Management manipulation of agenda”, which are ranked much higher in the pension funds surveyed, when compared to the investment managers surveyed. The lower ranking of “Management manipulation of agenda” by Investment Managers may be attributed to the greater influence of investment managers or by greater emphasis on passive management. In contrast, “Financial constraints”, “Liquidity” and “Thin Equity” are ranked much higher by investment managers relative to pension funds. This may be explained by a higher degree of knowledge and sophistication of Investment Managers.

Given that the study is presenting the views of two different groups on the same issues, it will also be of interest to determine whether there any statistically significant differences between the two groups with regard their responses yielded in their questionnaire responses. Using basic statistical analysis, it was identified that the data extracted from the respondents was non-normally distributed. Consequently, non-parametric statistical analysis is employed to examine for statistically significant differences between the two groups for which data has been collected. To examine for differences between the continuous and ordinal variables collected between the two groups, a Mann-Whitney U Test is conducted. To test for statistically significant differences between the discrete variables collected between the two industries, a Chi-Square Test is conducted.

Table 11 presents the results from the application of the Mann-Whitney U test to the sample data. It shows that the only statistically significant differences between the two groups is with respect to their general attitudes towards shareholder activism. More specifically, findings show that there is a statistically significant difference in perception between investment managers and pension funds in relation to the impact of pension funds on anti-takeover measures and the importance of these measures to pension funds. In relation to this item, investment managers perceive the impact to and importance of pension funds to be significantly higher than pension funds themselves. Ireland is not noted for the presence of takeover defence structures in listed plcs, mainly due to the heavy regulation of takeovers. This may explain the difference in attitudes between the two groups.

Furthermore, there were statistically significant differences between the two groups in relation to insider dealing as a barrier to shareholder activism. Pension Funds perceive insider dealing to be a greater barrier to activism than investment managers. This may relate to lack of skill levels and/or fear of a complex but high profile offence with significant penalties. At the time of the survey, a high profile insider dealing case was being heard in the Irish courts and this may have had an impact on responses. Investment Managers are more likely to be more aware of the degree to which pension funds are insulated from insider dealing and the rarity of insider dealing offences.

Table 12 presents the results from the application of the Chi-Square test to the sample data. This test cannot be performed if there is no data from one of the samples under comparison. Given that there was notable non-response from those surveyed from the Irish occupational pension funds industry, a considerable number of Chi-Square tests cannot be performed. These are presented as ‘N/A’ in Table 12. Table 12 reports that there are number of statistically significant differences between the sample groups surveyed. Since all investment managers surveyed have a formal voting policy in place and meet with the senior executives of their investee companies, this has given rise to a statistically significant difference between the two sample groups with respect to these variables. Table 12 also reports a statistically significant difference in the variable “Are other issues discussed at these meetings with senior executives of investee companies?”. From those surveyed in the pension funds industry, issues such as specific stock selection and future investment strategy are discussed in such meetings, while investment managers meeting with senior executives of investee companies discuss other issues such as remuneration policies, succession planning, corporate social responsibility, corporate governance regulation, capital structure, dividend policy and return on capital to shareholders. Finally, Table 12 also reports that a greater proportion of investment managers, compared to those surveyed in the pension funds industry, believe that it is appropriate for pension funds to play a role in the corporate governance of investee companies.

Table 11. Analysis of Significant Differences in Responses Between Sample Groups: Continuous Variables

This table presents the summary statistics of an examination for evidence of statistically significant differences between the two sample groups surveyed. To test for statistically significant differences in the continuous variables between the two groups, a Mann-Whitney U Test is employed. The Mann-Whitney Z statistic is presented for each variable together with its probability value (p-value), indicating the statistical significance of the difference in the responses between the two groups.

Note that in cases where there are no responses from sample groups, the Mann Whitney U test cannot be performed. In such cases, 'N/A' will entered below.

Topic and Related Questions	Z	p-value
Voting Policies		
If your institution systematically monitors investee compliance with your formal voting policy, how regular does such monitoring occur?	-1.000	0.317
If your institution monitors agent compliance with your formal voting policy, how regular does such monitoring occur?	N/A	N/A
Does your institution vote directly on issues raised at investee company AGMs?	N/A	N/A
Engagement Activity with Institutions of Investee Companies		
If your institution meets with senior executives, how regular are these meetings?	-1.365	0.172
General Attitudes to Shareholder Activism		
How do you perceive the quality of corporate governance in Irish plcs?	-0.571	0.568
The impact of pension funds to:		
Board reform	-1.006	0.315
CEO-Chairman separation	-1.033	0.302
Director selection	-0.787	0.431
Director independence	-0.280	0.780
Personal accountability of directors	-1.379	0.168
Remuneration	-1.448	0.148
Improving information flow to shareholders	-0.280	0.780
Anti-takeover measures	-2.358	0.018**
Corporate Social Responsibility	-0.049	0.961
Other	0.000	1.000
The importance of pension funds to:		
Board reform	0.029	0.977
CEO-Chairman separation	-1.143	0.253
Director selection	-0.284	0.777
Director independence	-0.824	0.410
Personal accountability of directors	-1.070	0.284
Remuneration	-0.995	0.320
Improving information flow to shareholders	-1.430	0.153
Anti-takeover measures	-1.825	0.068*
Corporate Social Responsibility	-0.306	0.760
Other	-0.609	0.543
Perceived barriers to shareholder activism:		
Liquidity	-0.685	0.493
Thin Equity	-0.174	0.862
Benefit time horizon	-0.178	0.859
Competition	-1.511	0.131
Free riders	-1.192	0.233
Conflict of interest	-1.426	0.154
Political retaliation	-0.375	0.708
Market perception	-0.135	0.892
Public perception	-0.603	0.546
Financial constraints	-1.450	0.147
Skills level	-0.031	0.976
Management manipulation of agenda	-0.731	0.465
Voting process	-0.737	0.461
Insider dealing provisions	-1.788	0.074*
Control aggregation provisions	-1.246	0.213
Other company law	-0.877	0.380
Other legal reasons	-0.200	0.841
Other	-0.125	0.484

*** Statistically significant at the 1% level
** Statistically significant at the 5% level
* Statistically significant at the 10% level

Table 12. Analysis of Significant Differences in Responses Between Sample Groups: Discrete Variables

This table presents the summary statistics of an examination for evidence of statistically significant differences between the two sample groups surveyed. To test for statistically significant differences in the dichotomous variables between the two groups (where, in most cases, an answer of 'Yes' from the respondent equals 1, and 'No' equals 0), a Chi-Square Test is employed. The Chi-Square statistic (χ^2) is presented for each variable together with its probability value (p-value), indicating the statistical significance of the difference in the responses between the two groups.

Note that in cases where there are no responses from sample groups, the Chi-Square test cannot be performed. In such cases, 'N/A' will entered below.

Topic and Related Questions	χ^2	**p-value**
Voting Policies		
Does your institution have a formal voting policy?	36.10	0.000***
Does your institution supply all investee companies with this formal voting policy?	N/A	N/A
Does your institution systematically monitor investee compliance with the policy?	N/A	N/A
Does your institution supply all agents with this voting policy?	N/A	N/A
Does your institution require compliance by agents with this voting policy?	N/A	N/A
Does your institution monitor compliance with your formal voting policy?	N/A	N/A
Does your institution publish details on its own specific use of votes?	N/A	N/A
Engagement Activity with Institutions of Investee Companies		
Does your institution meet with the senior executives of investee companies?	15.30	0.000***
Would your institution categorise these meetings as formal (1) or informal (0)?	0.28	0.596
Are strategy issues discussed at these meetings?	N/A	N/A
Are performance issues discussed at these meetings?	N/A	N/A
Are board structure issues discussed at these meetings?	2.55	0.110
Are management quality issues discussed at these meetings?	0.54	0.463
Are other issues discussed at these meetings?	5.40	0.020**
Intervention Strategies		
Does your institution use intervention strategies with investee companies?	N/A	N/A
Do you conduct research on poor performance and submitting proposals for change to management based on this research?	N/A	N/A
Do you target investee companies and disclose the names of the companies with the reasons for targeting to the company and the general public?	N/A	N/A
Do you target investee companies and disclose only the names of the companies with reason for targeting to the company only?	N/A	N/A
Do you Co-ordinate activity with other shareholders?	N/A	N/A
Do you hold discussions or meetings about voting at a specific or proposed meeting of a company?	N/A	N/A
Do you discuss issues about the company, including problems and potential solutions?	N/A	N/A
Do you discuss and exchange views on a resolution to be voted on at a meetng?	N/A	N/A
Do you disclose individual voting intentions on a resolution?	N/A	N/A
Do you recommend that another institution votes in a particular way?	N/A	N/A
Do you have exit strategies?	N/A	N/A
Do you have other strategies?	N/A	N/A
Do you believe your institution would support mandatory voting by pension funds in public companies?		
General Attitudes to Shareholder Activism		
Do you believe that there is a positive link between corporate governance and corporate performance?	0.18	0.668
Do you believe that it is appropriate for pension funds to play a role in the corporate governance of investee companies?	3.21	0.073*
Do you believe your institution would support mandatory voting by pension funds in public companies?	0.64	0.424
Do you believe your institution would support mandatory voting by pension funds in Irish public companies only?	0.29	0.593

*** Statistically significant at the 1% level
** Statistically significant at the 5% level
* Statistically significant at the 10% level

Conclusions

The research questions of this study were twofold; the first asks if Irish occupational pension funds and external fund managers employ institutional monitoring strategies in relation to investee companies. The preliminary evidence presented in this article suggests that Irish occupational pension funds display the characteristics of suitable monitors but are not optimal candidates for the role. On the one hand, their institutional form, their aggregate size, general portfolio composition and investment strategies would suggest that they are suitable candidates for monitors. Furthermore, the findings suggest that they and their agents, the investment managers, believe that they have a role to play in the corporate governance of the companies in which they invest. They share common concerns over specific corporate governance issues and perceive that they can have an impact on resolving these issues. On the other hand, few, if any, Irish occupational pension funds have significant shareholdings in Irish listed plcs. Despite the guidance by the Combined Code and the OECD, current monitoring activity by Irish occupational pension funds is at a very low level and what little exists seems limited to formal periodic meetings with executive management of investee companies. Furthermore, there is evidence to suggest that they may not have the experience or expertise to be active monitors. On the other hand, Investment Managers, would seem to undertake a significant level of monitoring activity.

The second research question of this study sought to address whether there are significant differences in attitudes between Irish occupational pension funds and external fund managers across key themes relating to shareholder activism by occupational pension funds? This includes perceived barriers to shareholder activism and focus of activity. The corporate governance literature and specifically literature relating to monitoring by institutional investors cite a variety of factors, discussed previously, that may deter occupational pension funds from acting as monitors of the companies in which they invest. Whereas the literature reviewed would suggest that these factors have universal application, the findings of this study suggest that these factors have selected applicability in the Irish context. The results suggest that trustee skill levels, market and political perception, and financial or resource constraints are ranked higher than other issues in the Irish context. Primary research did not establish legal factors as relatively significant disincentives to shareholder activism by Irish occupational pension funds. This may be attributed to low skill and knowledge levels, which is consistent with the findings of the survey. It is submitted that lack of knowledge relating to monitoring in general and the associated laws and regulations lead to an underestimation of the impact that such legal factors might have on monitoring activity.

In the authors' opinion, the deference to intermediaries is one of the most significant disincentives to Irish occupational pension funds. While the sample studied was small, the findings suggest that a fruitful avenue of research may be the agency relationship between Pension Funds and Investment Managers and the role of structural factors and their impact on institutional activism internationally. Our findings suggest that delegation and deference to intermediaries plays a role in the level of monitoring and active investing by pension funds. Firstly, it is submitted that the low level of monitoring activities by pension funds is explainable through a rational apathy, introduced by delegation, by the Irish occupational pension fund relating to the investment; as one respondent stated – "Why pay for a dog and bark yourself?". Secondly, this study identified some significant differences in the priorities of Irish occupational pension funds and Irish investment managers which suggest investment managers may not be representing the issues of Irish occupational pension funds fully. The impact and importance of these differences needs to be explored in greater depth. Finally, delegation, even where investment manager voting policies are adopted, may result in disenfranchisement for a variety of reasons including stock lending, share blocking, conflicts of interest and cost.

Although the findings of this study suggest that Irish occupational pension funds are not optimal candidates for monitoring, there is evidence that trustees of occupational pension funds in Ireland need, and indeed may want, to take more responsibility for the role that they have undertaken as trustees. Given the large percentage of the population affected by pension fund governance, it would seem a matter of public policy to address these shortfallings in the current pension fund governance system and the relationship between pension funds and their agents, and specifically investment managers. The striking differences between the activities and perceptions of pension funds and investment managers suggests a need for greater regulatory focus on the delegation of management responsibility and specifically the accountability for rights attached to shares that is not currently addressed adequately by regulation.

It is submitted that whilst it is clear that occupational pension funds have a role to play in the corporate governance compliance of investee companies, that role should, at the very least, extend to fulfilling their existing duties and responsibilities – watching the watchmen.

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Endnotes

1. This review was based on significant shareholder disclosures in annual reports. It is possible that stocks are held indirectly through pooled funds or agents.
2. The inclusion of stock selection by the respondent may indicate that the respondent confused engagement with investee companies and engagement with their fund manager and lends credence to concerns regarding trustee expertise and knowledge.
3. Section 34 of the Social Welfare and Pensions Act 2005 introduced qualification requirements with respect to trustees of pension schemes, which are detailed in Regulation 4(1) of the Occupational Pension Schemes (Trustee) Regulations, 2005, SI No. 595 of 2005. Trustees must possess, or employ or enter into arrangements with advisers who possess the qualifications and experience relevant to the investment of the scheme resources. Despite this it is submitted that skill levels is likely to be a continuing issue as only one trustee of a scheme need possess the necessary experience to satisfy the requirements of the regulations.