CORPORATE MONITORING AND VOTING DISCLOSURE CHOICES: A STUDY OF UK ASSET MANAGERS

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Abstract

This paper investigates the link between voting transparency and voting behaviour in asset managers, and its implications for corporate monitoring. Our results show that the more effort asset managers put into disclosure, the higher their dissention rate, suggesting that the duty asset managers have to represent their clients' interests is not taken equally seriously across the board. When factoring in voting rationales, we find that 1) the more accepted a rationale for dissent by full-disclosure managers, the greater the overall opposition to management, and that 2) the partial-disclosure and the non-disclosure investors are significantly more complacent than the full disclosure ones. Collectively, our results suggest that when non-disclosure and partial-disclosure asset managers constitute a significant majority of investors, the core accountability mechanism between shareholders and corporate management – namely, stewardship through voting – is malfunctioning.

Keywords: Corporate Monitoring, Accountability, Corporate Governance, Voting Behaviour, Transparency, Remuneration Policy

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1 Introduction

Accountability mechanisms are key to the study of political science and public policy. Whether implicitly or explicitly, the relationships between voters and representatives, legislature and executive, or publicly-funded institutions and government constitute the exoskeleton of the study of political life. While the effectiveness of public accountability mechanisms is arguably front and centre in political science, such discussions rarely progress without mention of the role of transparency in enabling effective governance. The general consensus among academics is that transparency is a necessary but not sufficient condition for accountability. In instances where it falls short, transparency may be akin to window shopping, where the display is two-dimensional, the quality unverifiable, and customer service inaccessible (Fox 2007). In public accountability, this translates to difficult-to-access, difficult-to-assess, and difficult-to-process information. For instance, Security and Exchange Commission (SEC) filings are often criticised for the paucity of their required disclosure, and there has been extensive debate as to whether greater disclosure is associated with greater accountability for the corporations involved. The related question of whether disclosure and monitoring quality are linked for *investors* in these corporations has received far less attention. This paper contributes a partial answer to that question.

In the wake of the 2008 financial crisis, the interlinkage of public and private institutions is ever more apparent, and the boundaries between political and corporate governance ever more blurred. The widespread government intervention that took place as the crisis dragged on is indicative of the importance of global corporate wellbeing, but first and foremost it is to their shareholders that corporations must answer. Whether the relationship between shareholders and corporate management constitutes an effective accountability tool is thus an increasingly pressing question. This paper also contributes a partial answer to that question.

It is at the intersection of these two questions that the focus of this paper lies. We conduct an empirical investigation which uses the primary output of the relationship between shareholders and management (the outcome of votes at annual general meetings, or AGMs) in order to examine the link between voting transparency and monitoring effectiveness of UK asset managers. It contributes answers to the questions of whether shareholder democracy is currently effective and whether transparency leads to accountability, but most importantly, it ties these two debates together by asking the following research question:

How is the transparency level of asset managers related to the quality of their corporate monitoring?

To investigate this question, we focus on votes regarding remuneration-related proposals. The

reasons for this are threefold. First, these votes are the most contentious and least uniform (in outcome) of AGM resolutions. Second, focusing on a single type of resolution fosters comparability. Third, remuneration-related resolutions typically receive the most attention, in part because of the high impact that remuneration practices can have on performance, and in part because executive compensation figures often draw public opprobrium.

Ultimately, this paper concerns itself with understanding how and why investors, and specifically UK asset managers, utilize their voting power the way they do, and how this interacts with the way they choose to disclose their voting behaviour. The implications are vast, but the topic little studied. As a result, to our knowledge, this is the first paper to systematically examine the link between corporate voting transparency and voting outcomes, the reasons for corporate voting behaviour, and voting behaviour itself by UK fund managers.

The following section overviews the relevant literature, and introduces the theory and hypotheses guiding this study.

2 Literature, theory and hypotheses

The issue of voting behaviour and its relationship to transparency with respect to corporate investors is an interdisciplinary one. It relates to political science, as at its centre lies an important accountability mechanism (proxy voting[5]) that in many ways emulates that of democratic political systems. The potential failure of this mechanism has vast societal impact that goes well beyond internal corporate affairs. Yet, related literature is most commonly placed within the field of corporate governance. We begin by covering the relevant political science literature, and proceed with the more context-relevant investigations of corporate governance.[6] This literature review leads into the theory and the hypotheses that guide this study, given at the end of this section.

A core feature of accountability mechanisms is that they aim to mitigate principal-agency problems. These problems are based on the fact that the agent (the actor to whom the principal delegates a task) has interests that diverge from those of the principal, and the purpose of accountability mechanisms is to help better align the interests of both actors (Rees 1985). One of the most common methods for doing so is tying agents to principals by giving principals the power to vote in ways that have the potential to control some agent behaviour. While the specifics differ, this is the method that is meant to bind politicians to citizens in democratic societies and management to shareholders in corporate structures.

In both public and private systems, the voting mechanism relies on active engagement by the principal, and political science thus often concerns itself with low voter turnout (especially in popular elections) as a problem to be addressed (e.g. Bingham 1986, Jackman 1987). Several studies (Almond 1989; Inglehart and Welzel 2003) show that a voting culture that shuns non-voting is a strong contributor to citizens' engagement that goes beyond the mere act of voting.

Yet for voters in popular elections, voting itself usually is done anonymously and voluntarily, and so the pressure to engage is a 'gentle' one. In the instances where certain types of democratic voting are conducted publicly but still effectively,[7] voter engagement, both in terms of turnout and genuine consideration of the issues, is significantly higher – despite the lack of explicit coercion (Nai 2009). Part of this is explained by a growing body of research that describes the phenomenon of 'correct voting' (Lupia 1994; Lau and Redlawsk 1997 and 2006), which involves the ability of uninformed citizens to mimic the choices of 'experts'. Political cultures where individual voting decisions (and rationales) are publicly discussed experience higher rates of correct voting, because natural leaders emerge in the deliberative process. In other words, correct voting can help translate greater voting transparency into more efficient voting outcomes. As we show below, the inefficiencies inherent in corporate voting make it particularly interesting to consider the role that transparency may play in ameliorating the proxy voting process.

Perhaps the foundational question in the proxy voting literature is, does voting matter? After all, corporate voting is a process with numerous flaws (Kahan and Rock, 2008): votes may not be binding (Levit and Malenko, 2011), and in any case majority opposition to management is very rare (Romano, 2003) – all of which means that the average investors' vote has an infinitesimal chance of being pivotal. The importance of voting, however, is underscored by results such as those of Cai et al. (2009) who show that even a seemingly unimportant 1% decrease in investor support for the re-election of the head of the remuneration committee is associated with a $220,000 reduction in CEO compensation in the following year.

The literature on institutional investor voting tends to focus on mutual funds (which, since 2003, are required by the SEC to disclose their votes), and in particular on conflicts of interest in the way they vote. A particularly prominent example of this literature is Davis and Kim (2005), who show that funds run by investment management firms which manage substantial corporate pension assets tend to be especially supportive of management in their voting.

[5] In the corporate context, the term proxy voting is used in recognition of the fact that formally shareholders fill out proxy forms when they vote, and therefore refers to voting by shareholders in a company.

[6] For a recent example of an article at the intersection of corporate governance and politics, see Kogan and Salganik-Shoshan (2015).

[7] One such example being Swiss communal assemblies.

Taub (2009) provides a broad-ranging critique of mutual funds' voting practices, with specific emphasis on pervasive voting passivity. Westphal and Bednar (2008) suggest that a partial explanation for shareholder voting passivity is that corporate executives use a combination of ingratiation and persuasion to dissuade institutional investors from activism. However, Gonzalez and Calluzzo (2014) show that occasionally, some investors coordinate their activism, and that coordinated activism is significantly more effective as measured by shareholder returns.

Individual investors' voting has received scant, if any, attention in the literature. A key reason for that is that individual-investor-level voting data are unavailable. In fact, the only study we are aware of that examines individual shareholders' voting uses an experimental design (Krause et al., 2014). Aggregate-level voting data from a report co-authored by the proxy voting firm Broadridge (ProxyPulse 2014) shows that in the 2014 proxy season, participation by individual investors stood at 29%, down from 30% in 2013. In other words, entreaties by the Securities and Exchange Commission (2010) for shareholders to exercise their right to vote so far have largely fallen on deaf ears.

On the whole, the result is overall passivity from both individual and institutional investors. Individuals rarely vote, and institutions rarely vote against management. Partially as a response to this problem, the SEC brought into effect in 2003 minimum disclosure requirements for mutual funds meant to promote more active voting. The UK Financial Reporting Council followed suit and published the Stewardship Code, brought into effect in 2010.

Despite the SEC's intent, Cremers and Romano (2007), based on SEC data, find no evidence of mutual fund companies supporting management proposals less after they were required to make their voting record public. This conclusion would likely apply in the UK as well, but the UK Stewardship Code's 'comply or explain' policy, whereby different levels of disclosure become a choice rather than a requirement, may be a source of divergence and therefore an opportunity for further analysis. Effectively, the Stewardship Code creates a natural layering of institutional investors (specifically, asset managers): those who choose to explain, those who choose to comply, and those who choose to exceed minimum disclosure requirements. This layering provides a potentially useful analytical tool for investigating this study's research question, namely: *how is the transparency level of asset managers related to the quality of their corporate monitoring?*

Presumably, minimum (or partial) disclosure requires more effort than non-disclosure, and further (or full) disclosure requires more effort than minimum disclosure. Additionally, voting for management is considered to be the 'default' (Taub 2009), and therefore a greater propensity towards voting against management is evidence of greater effort. We therefore hypothesize the following:

H1: If the effort that relates to disclosure choices is accompanied by greater effort in voting, then full-disclosure asset managers are less prone to 'rubber-stamping' management proposals than are other asset managers.

As corollaries, we propose the following sub-hypotheses:

H1.A: Full-disclosure asset managers are less prone to rubber-stamping management proposals than are partial-disclosure asset managers

H1.B: Partial-disclosure asset managers are less prone to rubber-stamping management proposals than are no-disclosure asset managers

Transparency, in the case of voting decisions, can refer not only to disclosing how votes are cast, but also to why they are cast the way they are. Indeed, those who practice full-disclosure publish the rationales for their votes against management. In these cases, increased transparency may facilitate 'correct voting' whenever coincident rationales by full-disclosure voters are deemed to be persuasive by other voters. As a result, we hypothesize the following.

H2: If non-disclosure investors are prone to influence by other investors, then:

H2.A: Their voting decisions are more impacted by full-disclosure investors than by partial-disclosure investors.

H2.B: Their voting decisions are impacted by the homogeneity of opposition to management by full-disclosure investors

Below we discuss in greater depth the reasoning that motivates these hypotheses.

Most, if not all, of the plausible reasons for choosing to disclose voting-related matters point to asset managers monitoring their portfolio companies more conscientiously. We therefore hypothesize that there is a positive relationship between voting transparency and voting activism: the more an asset manager discloses its voting decisions, the more likely it is to oppose the default voting option of siding with the management.

Since the Stewardship Code does not compel investment managers to disclose their voting rationales, and since it compels but does not require them to disclose their voting behaviour, it is important to understand what forces may push investment managers toward greater or lesser transparency with regard to their proxy voting.

First, an investment manager may genuinely believe that disclosure is part of accountability to their investors. Second, they may disclose in order to curry favour with their current and potential investors. Third, they may disclose under pressure from The Stewardship Code as well as the media and NGOs. Fourth, they may disclose because they believe that their votes will have more impact if they are disclosed (and perhaps persuade other investors to act likewise). Contrarily, forces acting against disclosure include the direct and indirect costs of disclosure, and the belief that disclosure of 'against' votes would undermine the asset managers' relationship with their portfolio companies.

In this study, we classify investors into categories, or tiers, according to the extent of their voting disclosure in the UK: Tier 1 for those who disclose both their votes and the reasons for those votes (more precisely, their reasons for voting against management proposals); Tier 2 for investors who disclose only their votes but not their reasons; and Tier 3 for investors who do not disclose any of their voting behaviour.

While the more 'active' (in terms of corporate governance) asset managers self-select into T1 and T2, T3 is a catch-all category for the remaining shareowners (cf. Appendix A).[8] Some of these shareowners (the larger asset managers) have the resources to monitor corporate management on their own but choose not to disclose, while others may not have enough own resources to monitor and, to the extent they are interested in participating in the governance process, are liable to be impacted by the 'thought leaders' in this area. The previous hypotheses claim that transparency in voting correlates with leadership and activism in stewardship. The following section overviews the data used to test them.

3 Data

The data used come from several sources. First, we obtained data on management proposals and voting outcomes for FTSE 100 companies in the UK (see Appendix C for the list of the FTSE 100 companies) from the proxy voting advisory firm Manifest. From these, we retained only votes pertaining to remuneration, which resulted in a sample of 206 votes for the 100 firms.

We then obtained a list of asset managers classified according to their voting disclosure from ShareAction's review "Asset Manager Voting Practices: In Whose Interests?" (2015) based on annual general meetings in 2014. According to this report, eight sizable UK-based asset managers practice full disclosure, and 18 practice partial disclosure. However, for the purpose of our research, some asset managers needed to be reclassified (see Appendix D). As a result, we ended up with 5 Tier 1 asset managers and 16 Tier 2 asset managers.

For the 21 asset managers in our sample, we used Factset to collect their percentage ownership in each of FTSE 100 firms. We then aggregate them to obtain the total ownership percentage by each tier in each portfolio firm, as well as to infer the residual (i.e. Tier 3) ownership percentage. This in turn allows us to infer the proportion of for/against/abstain votes on each proposal by Tier 3 investors in each FTSE 100 company in 2014.

The core of the data work was the manual collection of the voting data on the individual asset managers. This was complicated by the fact that the setup of voting-related disclosures is not standardized across asset managers. The data was published in formats ranging from searchable databases where individual votes were stored, to compiled annual, quarterly, and monthly reports. This meant recording 21 * 206 = 4,326 data points (although 17.5% of these are null because the company in question is not held by the asset manager).

Lastly, for against-management votes by Tier 1 asset managers, we recorded the reason they gave for their vote. We then classified the rationales into nine categories to create a measure of agreement between Tier 1 asset managers on against votes, by recording, for each proposal, the maximum number of asset managers citing the same rationale category. We call this measure *MaxArgStrength* as it plausibly captures the strength of argument for voting against the management's proposal. See Appendix E for full detail on the creation of this measure.

[8] See Appendix A for tier definitions and Appendix B for Tier 1 and Tier 2 constituents.

Table 1. Descriptive statistics

This table summarizes the data on investments and voting in FTSE 100 companies in 2014. The sample contains 206 remuneration-related proposals for the 100 companies. See Appendix A for tier definitions.

	Min.	25th Perc.	Median	75th Perc	Max.	Mean	St. Dev.
Percentage of shares voted	41%	67%	71%	76%	95%	71%	9%
Percentage of shares for management	47%	91%	95%	98%	100%	91%	10%
Percentage of shares against management	0%	2%	3%	7%	52%	7%	9%
Percentage of shares abstained	0%	0%	1%	3%	19%	2%	3%
Proportion of shares held by							
Tier 1	0%	2%	3%	5%	17%	4%	3%
Tier 2	1%	9%	13%	18%	32%	14%	7%
Tier 3	60%	76%	83%	88%	99%	82%	9%

Table 1 shows descriptive statistics for our sample. The most striking quantity (at least to those unfamiliar with the literature on corporate voting) to emerge from the table is the very low average opposition to management proposals: only 7% 'against' votes, and 2% abstentions. In fact, three-fourths of all management proposals receive 91% or higher support from investors. This stands in stark contrast with voting in the political sphere where, for example, even the widely questioned 2014 Crimea status referendum produced only 80% official support for the Crimea-Russia unification proposal. This in spite of widely expressed concerns about executive compensation in the media and public opinion. Indeed, not reported in the table, investor support for other management proposals (most of which pertain to director elections) by FTSE100 firms in 2014 exceeds 97%. In addition to complacent voting, the table also indicates substantial voter apathy – only 71% of shares outstanding were voted on average. While 29% of shares were not voted at all, formal abstentions represented only 2% of the voted shares. Although we do not have detailed investor type breakdown for the ownership of non-voted and abstaining shares, it is plausible that non-voted shares are disproportionately held by small individual investors who have little incentive to vote. Active abstentions, on the other hand, likely originate disproportionately from institutional investors who may be under pressure to demonstrate effort to represent their clients' interests by voting on their behalf. In spite of the high average pro-management voting rates, in some cases opposition to management can be substantial, as evidenced by the minimum value of management support of 47% [9] and the substantial standard deviation (10%) of management support.

The bottom three rows of Table 1 show the distribution, across proposals, of the proportion of shares held by investors in every transparency tier. Recall that Tier 1 contains five full-transparency asset managers, Tier 2 has 16 partial-disclosure ones, and Tier 3 comprises the remaining investors (both institutions and individuals). It is striking that, on average, voting direction is observable for investors representing only 18% of voted shares – the 4% of the shares that are held by Tier 1 and 14% that are held by Tier 2. There is, however, substantial variation in these ownership rates – for example, ownership by Tier 1 asset managers ranges from 0% in Randgold Resources to 17% in IMI, while Tier 2 asset managers hold only 1% in Hargreaves Lansdown and 32% in Melrose Industries.

[9] Note that this is the only one of the 206 votes in the sample that constituted a formal defeat for management. This comes from the well-publicized Burberry case, whose investors were concerned about discretionary payments to the incoming CEO as well as the overall level of pay in the remuneration report. Note however, that votes on remuneration reports, unlike those on remuneration policy, are advisory i.e. non-binding.

Figure 1. Dissent rate versus ownership for Tier 1 asset managers

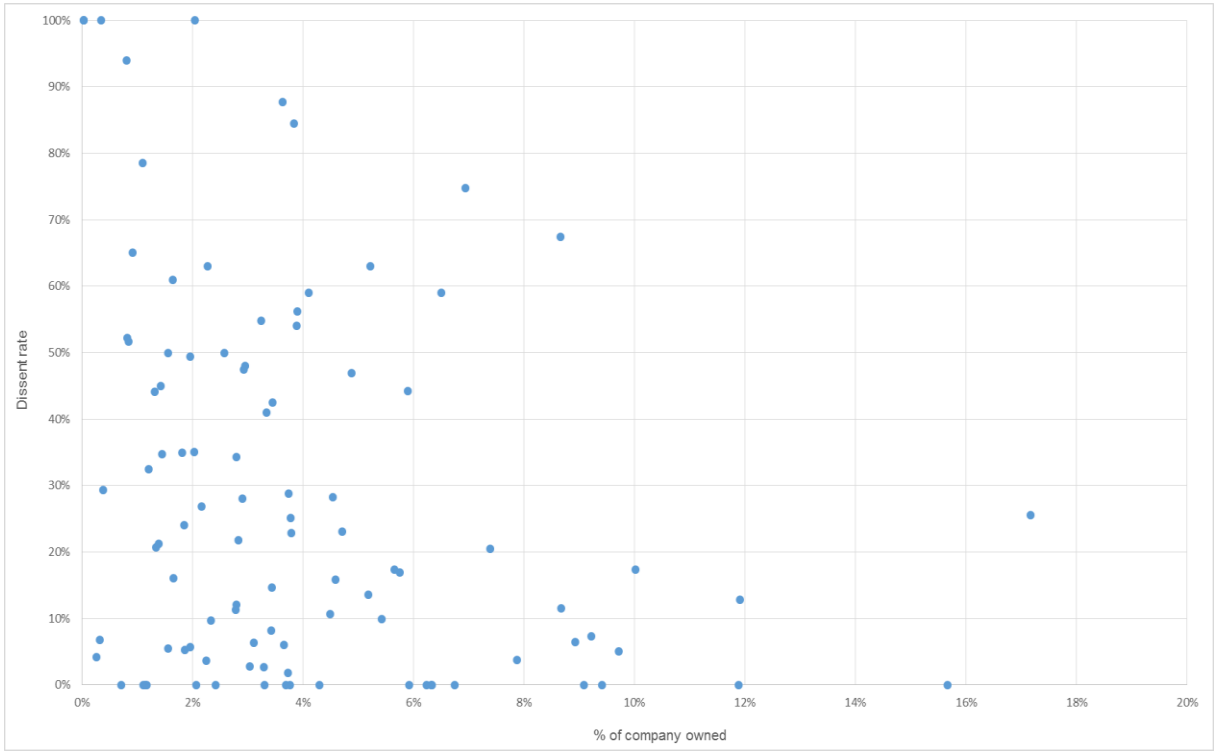
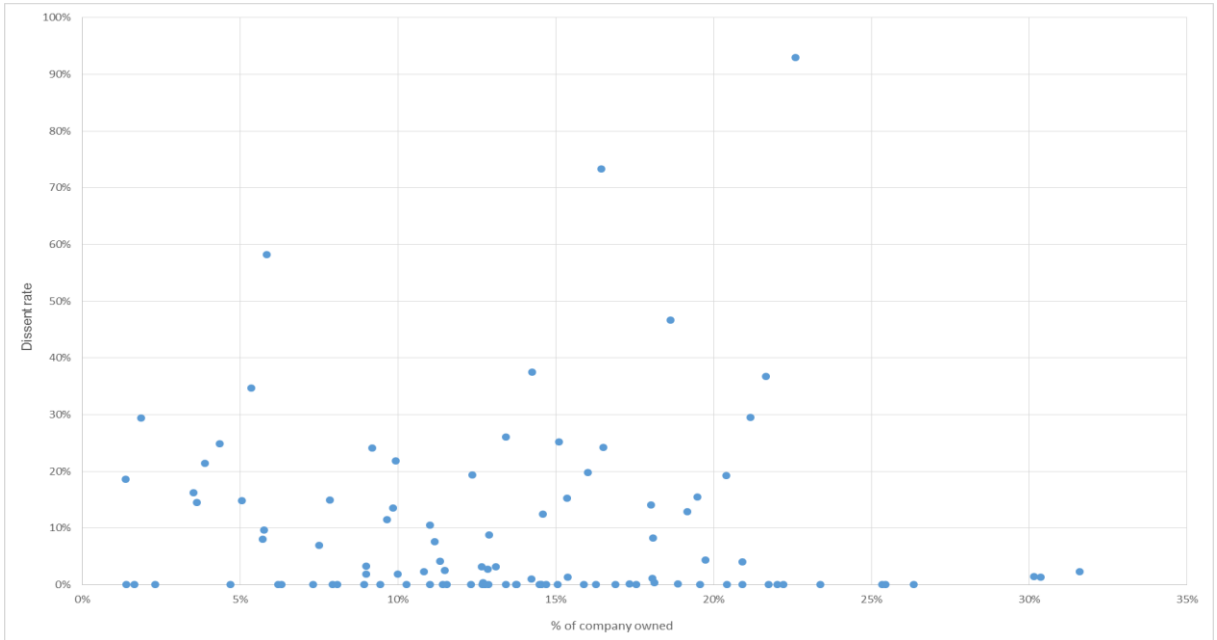


Figure 2. Dissent rate versus ownership for Tier 2 asset managers



A possible impediment to the interpretation of asset manager votes is concern about self-selection: one could argue that the larger a manager's stake in a company, the more likely they are to approve of the way the company is managed, and therefore to vote for management's proposals. To help assess whether this is a concern in the data, Figure 1 plots, for each FTSE100 company, the average rate of Tier 1 managers' dissent (opposition plus abstentions) across all management proposals for that company versus Tier 1's aggregate ownership in the company. Figure 2 does the same for Tier 2 managers. While Figure 1 indeed suggests a negative relationship, it does not appear to be particularly strong, while in Figure 2 greater ownership tends to be associated with higher, not lower, dissent. It is indeed plausible that institutional investors take greater stakes in companies they view as undervalued, and seek to effect positive change in these companies by voting against the status quo.

Figure 3. Dissent rate for Tier 1 versus dissent rate for Tier 2, by company

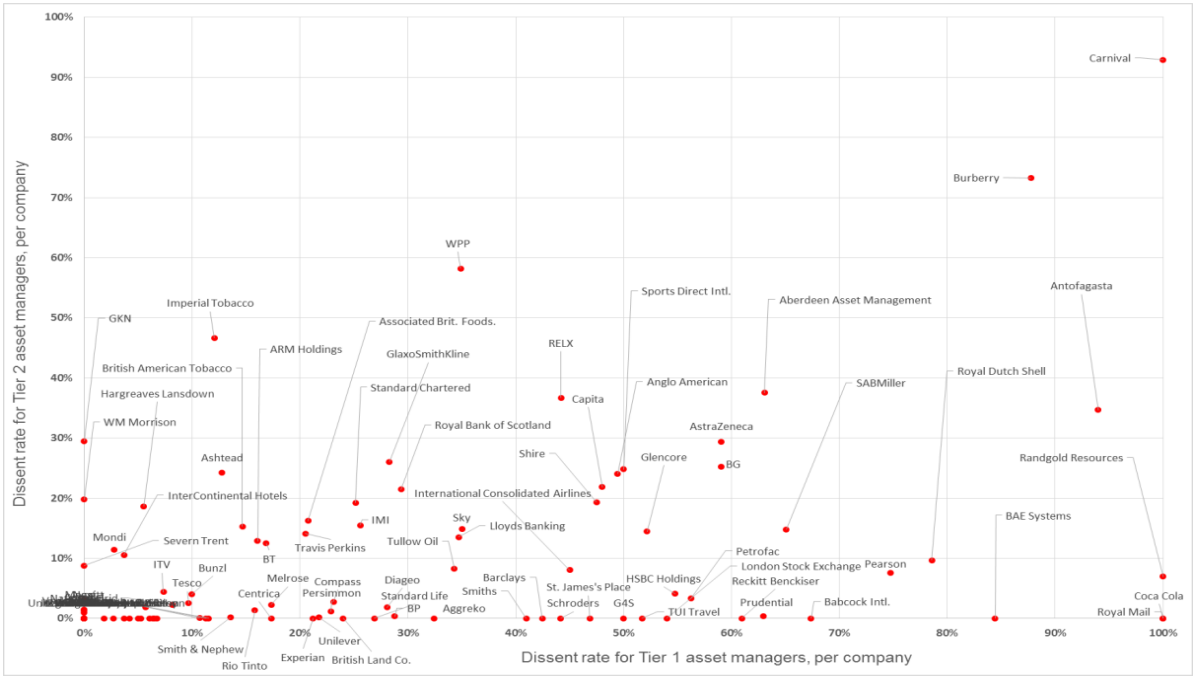


Figure 3 shows, for each company, the average opposition to its management's proposals by Tier 1 investors versus the corresponding measure for Tier 2 investors. A substantial number of companies receive little opposition from either type of investor – a total of 33 companies are in the leftmost bottom quadrant, where both Tier 1 and Tier 2 oppositions do not exceed 10% of the shares voted by them. For the remaining two thirds of the firms, however, the dispersion in opposition to management can be substantial. Also to note in that figure is the strong positive association between opposition to management by Tier 1 and Tier 2 companies.

Figure 4. Average dissent rate of Tier 1 and Tier 2 asset managers

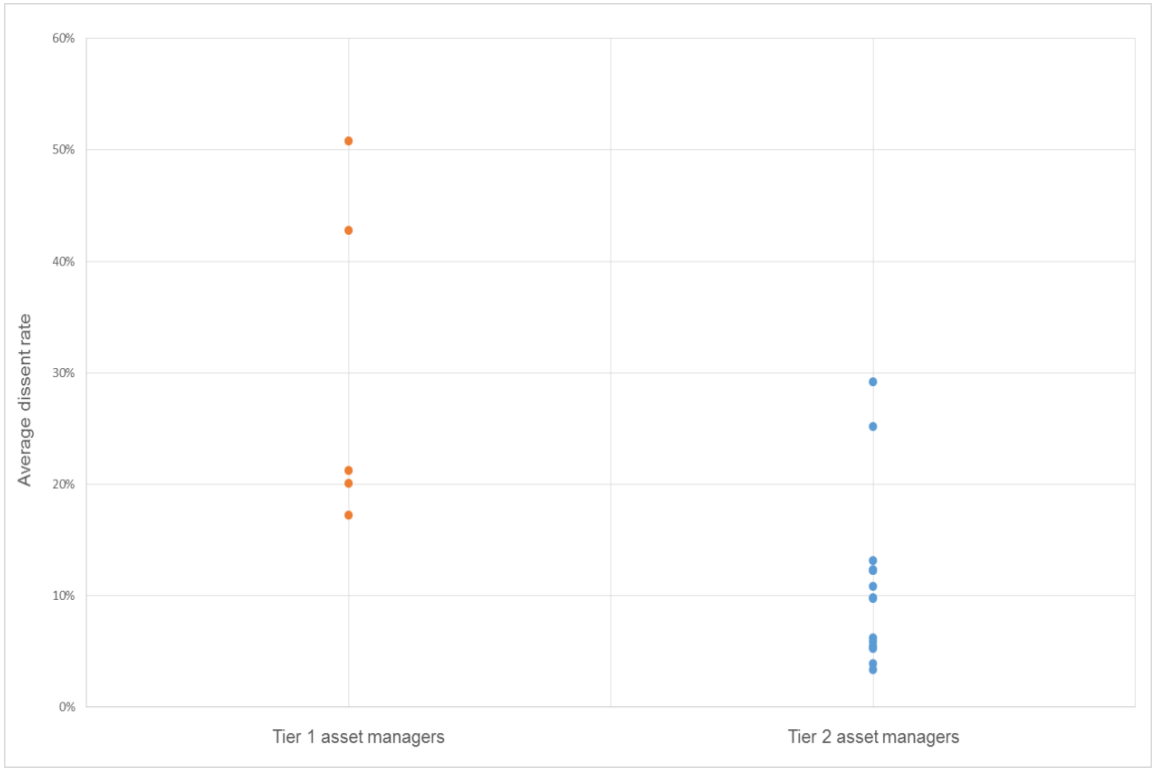


Figure 4 focuses on a comparison of opposition to management by individual Tier 1 and Tier 2 firms. While two Tier 2 firms have opposition rates in excess of 25%, exceeding the opposition of the three most restrained Tier 1 firms, this situation is rather an exception: generally, Tier 1 firms are more likely to oppose management than are their Tier 2 counterparts, and this is clearly the case on average for Tier 1 and Tier 2 firms.

Given the low average level of active opposition to management combined with substantial variation in such opposition, it is especially interesting to understand how voting transparency by asset managers relates to their activism, and we focus on this relationship in the remainder of the paper.

4 Methods

In order to test the hypotheses set out in Section 2, we proceed as follows.

First, to test H1, we calculate the ownership-weighted average for, against and abstain votes by each investor tier on each management proposal. We then calculate average levels of these votes across the proposals for each tier. Lastly, we conduct paired one-tailed t-tests (with each of the management proposals as a unit of observation) to compare average levels of for/against/abstain votes across tiers. See Appendix F for detailed descriptions of the variables.

Second, to test H2.A, we regress the proportion of for/against/abstain votes by Tier 3 investors on the corresponding votes by Tier 1 and Tier 2 investors. Given the [0,1] nature of the dependent variable, we use a fractional logit GLM (Papke and Woldridge 1996), which is a generalized linear model with fractional logistic specifications (i.e. with binomial family and a logit link). Since we have multiple (almost always two) proposals for our sample firms, standard errors need to be adjusted for the possible correlation across these observations, hence we use clustered standard errors.

Lastly, to test H2.B, we need an additional variable that captures homogeneity of rationales for against-management votes given by Tier 1 asset managers. To do this, we construct a variable called *MaxArgStrength*. We obtain this variable as follows. First, for each of the 206 management proposals, for each of the five Tier 1 asset managers, we indicate whether one of nine rationale categories is evoked. Second, we count the number of asset managers evoking a particular category in the context of a given management proposal. The largest number of Tier 1 asset managers agreeing with a particular rationale for a given proposal is *MaxArgStrength*. We then include *MaxArgStrength* as an explanatory variable in the regressions described above. See Appendix E for a more detailed breakdown of the coding procedure.

5 Results

The key analyses herein examine voting behaviour by investor tier in order to understand the link between investor transparency and the tendency to question management proposals. Accordingly, Table 2 summarizes voting behaviour by investor tier.

Table 2. Ownership and voting by investor tier

This table presents the data on investments and voting in FTSE 100 companies in 2014 by investor category, or tier. The investors are categorized into three tiers (see Appendix A for tier definitions and Appendix B for Tier 1 and Tier 2 constituents). The votes considered are those pertaining to remuneration. In Panel A, the first row shows, by investor tier, the mean, median and standard deviation of the proportion of company shares held by that investor tier, across the 100 portfolio companies; the next three rows, respectively, show the same summary statistics for the proportion of votes cast for management proposals, against management proposals, and abstaining from voting. Panel B shows the results of hypothesis tests comparing voting across tiers.

Panel A. Proportions

	Tier 1			Tier 2			Tier 3			Overall		
Variable	Mean	Median	St.D.	Mean	Median	St.D.	Mean	Median	St.D.	Mean	Median	St.D.
Proportion of votes for management	72%	82%	32%	90%	100%	18%	92%	96%	11%	91%	95%	10%
Proportion of votes against management	20%	7%	28%	8%	0%	17%	6%	3%	10%	7%	3%	9%
Proportion of abstentions	8%	0%	15%	2%	0%	5%	2%	1%	4%	2%	1%	3%

Panel B. Test for equality of means for voting proportions across tiers

		Tier 1 and Tier 2				Tier 1 and Tier 3				Tier 2 and Tier 3		
		Mean	*t*-stat	*p*-value		Mean	*t*-stat	*p*-value		Mean	*t*-stat	*p*-value
PropFor	**Tier 1**	72%	-8.58	0.00	**Tier 1**	72%	-9.38	0.00	**Tier 2**	90%	-1.11	0.13
	Tier 2	90%			**Tier 3**	92%			**Tier 3**	92%		
PropAgainst	**Tier 1**	20%	6.33	0.00	**Tier 1**	20%	7.42	0.00	**Tier 2**	8%	1.48	0.07
	Tier 2	8%			**Tier 3**	6%			**Tier 3**	6%		
PropAbstain	**Tier 1**	8%	5.73	0.00	**Tier 1**	8%	5.53	0.00	**Tier 2**	2%	-0.83	0.2
	Tier 2	2%			**Tier 3**	2%			**Tier 3**	2%		

The first row of Panel A shows that the previously reported 91% average support for management disguises a much more sceptical attitude by Tier 1 investors, whose support for their portfolio companies' managers averages only 72%. Tier 2 investors support for corporate management, however, is much closer to that of Tier 3: 90% and 92%, respectively. Panel B reveals that, based on a paired one-tailed t-test, the negative differences between Tier 1 and Tier 2, as well as between Tier 1 and Tier 3, are highly statistically significant (p-value < 0.01)[10] while the difference between Tier 2 and Tier 3 does not achieve significance at conventional levels.

The above results indicate that full-disclosure asset managers indeed play a far more active role in monitoring their portfolio companies than other investors. The link between transparency and activism becomes weaker as one moves from partial-disclosure investors of Tier 2 to the no-disclosure[11] ones in Tier 3.

Against-management votes are largely a mirror image of pro-management ones: there is a much higher level of opposition from Tier 1 investors (20% on average) than from Tier 2 and Tier 3 ones (8% and 6%, respectively). The difference between Tier 1 and Tier 2 and 3 is significant at the 1 percent level, while that between Tiers 2 and 3 is only significant at the 10 percent level.

Abstentions tell a similar story: 8% for Tier 1 versus 2% each for Tiers 2 and 3. Once again, Tier 1 is significantly different from the two remaining tiers. Abstention rates for tiers 2 and 3, on the other hand, are statistically indistinguishable.

Overall, then, the results thus far lend strong support to hypothesis H1.A but not H1.B: the relationship between transparency and monitoring is an increasing one as one goes from partial to full disclosure, but not when one goes from no disclosure to partial disclosure.

It is plausible to imagine that the influence of disclosing investors on aggregate outcomes goes beyond their own votes. Since Tier 1 and Tier 2 investors commit to making their votes public, they are also likely to communicate them, whether formally or informally, before the vote takes place, and so to influence other investors. In order to understand the influence of disclosing voters on their non-disclosing peers, we conduct regressions of manager support by Tier 3 voters on manager support by Tier 1 and Tier 2 voters. Additionally, having classified voting rationales by Tier 1 voters, we examine the effect of consensus among these voters as measured by *MaxArgStrength*.

[10] The significance of the negative difference between Tiers 1 and 2 is confirmed by a binomial test where instead of using proposals as the unit of observation like in the paired t-test whose results are reported in Panel B, we use individual asset manager / proposal combinations as the unit of observation.

[11] In actuality, because we rely on ShareAction's classification of UK asset managers by disclosure, it is possible that Tier 3 contains some disclosing managers from outside the UK. In practice, however, any such managers are likely to be in the minority, as outside of the UK, and with the notable exception of SEC's disclosure requirements for US mutual funds voting on US corporations, the fund management industry is less disclosure-prone. This is corroborated also by the fact that the UK Stewardship code is generally acclaimed as best-practice in asset manager stewardship responsibilities. As an example, the US-based BlackRock, the largest investment management company in the world, only discloses its mutual funds' votes on North American companies – i.e. only the required minimum.

Table 3. Explaining Tier 3 support for management proposals

This table reports the results of Papke and Wooldridge (1996) fractional logit regressions of support for management proposals by Tier 3 asset managers on the corresponding quantity for Tier 1 and Tier 2 asset managers (*PropFor1* and *PropFor2*, respectively). *MaxArgStrength* captures the consensus on voting rationales among Tier 1 asset managers. Standard errors are adjusted for clustering by firm and are given in parentheses below the coefficient estimates. Statistical significance at the 5 percent and 1 percent levels is marked with * and **, respectively. AIC is the Akaike Information Criterion and No. is the number of observations.

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	1.65***	3.36***	3.21***	2.74***	1.05***	2.92***
	(0.32)	(0.45)	(0.2)	(0.44)	(0.28)	(0.55)
PropFor1	1.12***	-0.15			0.93***	-0.23
	(0.21)	(0.47)			(0.35)	(0.48)
MaxArgStrength		-0.64***	-0.60***	-0.56***		-0.62***
		(0.14)	(0.1)	(0.11)		(0.14)
PropFor2				0.48	0.82**	0.52
				(0.38)	(0.42)	(0.39)
AIC	0.45	0.45	0.44	0.45	0.46	0.46
No.	206	206	206	206	206	206

The regressions are summarised in Table 3. The first regression indicates that PropFor1 is highly correlated with PropFor3 – the coefficient estimate is 1.12 with a standard error of 0.21 (p-value < 0.01). Of course, this analysis does not disentangle causation from correlation. However, it is plausible that at least some of the third tier's voting is impacted by the first tier's leadership, and the results of subsequent analyses are consistent with this conjecture.

The analysis summarized in column 2 additionally includes *MaxArgStrength* as an independent variable. Since this variable measures how many of the Tier 1 investors agreed on the reason to oppose the management proposal, it is highly correlated with Tier 1's opposition to management (accordingly, *MaxArgStrength*'s correlation with PropFor1 is -0.74). Nonetheless, *MaxArgStrength* also captures an important dimension not picked up by voting behaviour – the strength of the reasoning for the opposition to the vote. The highly significant coefficient estimate of -0.64 (standard error = 0.14, p-value < 0.01) for this variable, which 'knocks out' the significance of *PropFor1* is suggestive of the fact that the strength of reasoning is indeed an important factor in influencing aggregate voting outcomes. This is corroborated by regression (3), where *MaxArgStrength* on its own results in a lower Akaike Information Criterion value (0.44) than does *PropFor1* on its own (0.45).

Regressions (4)-(6) are analogous to regressions (1)-(3) but additionally include *PropFor2* as an explanatory variable. This variable is not significant when included alongside *MaxArgStrength* (regressions (4) and (6)), but is significant when included with *PropFor1* only (regression (5)). It is notable that the coefficient of *PropFor2* in regression (5) is lower than that of *PropFor1* (0.82 vs. 0.93), even though the difference between them is not significant. Taken at face value, this is consistent with Tier 3 investors (the 'followers') being more influenced by the outspoken managers of Tier 1 than by those of Tier 2. Regression (6) once again underlines the importance of argument strength, as the corresponding variable is significant in explaining Tier 3 voting behaviour, while neither *PropFor1* nor *PropFor2* is.

Table 4. Explaining Tier 3 opposition to management proposals

This table reports the results of Papke and Wooldridge (1996) fractional logit regressions of opposition to management proposals by Tier 3 asset managers on the corresponding quantity for Tier 1 and Tier 2 asset managers (*PropAgainst1* and *PropAgainst2*, respectively). *MaxArgStrength* captures the consensus on voting rationales among Tier 1 asset managers. Standard errors are adjusted for clustering by firm and are given in parentheses below the coefficient estimates. Statistical significance at the 5 percent and 1 percent levels is marked with * and **, respectively. AIC is the Akaike Information Criterion and No. is the number of observations.

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-3.06***	-3.52***	-3.54***	-3.52***	-3.10***	-3.51***
	(0.36)	(0.26)	(0.26)	(0.26)	(0.19)	(0.25)
PropAgainst1	1.38***	0.40			1.02***	0.20
	(0.20)	(0.43)			(0.39)	(0.42)
MaxArgStrength		0.53***	0.61***	0.52***		0.48***
		(0.13)	(0.12)	(0.12)		(0.13)
PropAgainst2				1.02***	1.23***	0.96**
				(0.37)	(0.48)	(0.41)
AIC	0.38	0.38	0.37	0.38	0.38	0.39
No.	206	206	206	206	206	206

Table 4 reports on regressions that are similar to those in Table 3, but which use the proportion of opposition to management, both on the left- and right-hand-sides of the regression. Since opposition = 1 – support – abstentions, and abstentions are few, it follows that the results are close to being the mirror image of those for pro-management voting. Specifically, *PropAgainst1* is highly significant when included without *MaxArgStrength*, but *MaxArgStrength* is even more so (as judged by the Akaike Information Criterion). Differently from Table 3, however, *PropAgainst2* is significant throughout. In fact, in regression (5), where it is included with *PropAgainst1*, it has a higher coefficient than the former. Then, when all the variables are included together in regression (6), *PropAgainst2* has a much higher coefficient than *PropAgainst1* (0.96 vs. 0.20) and is significant at the 5 percent level while *PropAgainst1* is not. At the same time, *MaxArgStrength* is significant at the 1% level, with only a slightly lower coefficient (0.48) than when it is included on its own (0.61). Although the correlations among the three variables can be high (corr(*PropAgainst1*, *MaxArgStrength*) = 0.66, corr(*PropAgainst1*,*PropAgainst2*) = 0.35 and corr(*PropAgainst2*,*MaxArgStrength*) = 0.35), the results are nonetheless suggestive: to the extent that Tier 1 influences voting by other investors, its impact is more due to the reasons it gives for its actions than to the actions themselves.

Table 5. Explaining Tier 3 abstentions

This table reports the results of Papke and Wooldridge (1996) fractional logit regressions of abstentions by Tier 3 asset managers on the corresponding quantity for Tier 1 and Tier 2 asset managers (*PropAbstain1* and *PropAbstain2*, respectively). *MaxArgStrength* captures the consensus on voting rationales among Tier 1 asset managers. Standard errors are adjusted for clustering by firm and are given in parentheses below the coefficient estimates. Statistical significance at the 5 percent and 1 percent levels is marked with * and **, respectively. AIC is the Akaike Information Criterion and No. is the number of observations.

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-3.90***	-4.46***	-4.45***	-4.43***	-3.88***	-4.44***
	(0.17)	(0.18)	(0.18)	(0.18)	(0.18)	(0.19)
PropAbstain1	0.90	0.10			0.92	0.12
	(0.75)	(0.80)			(0.74)	(0.79)
MaxArgStrength		0.48***	0.48***	0.49***		0.48***
		(0.13)	(0.13)	(0.13)		(0.13)
PropAbstain2				-1.95	-1.40	-1.96
				(3.80)	(3.47)	(3.76)
AIC	0.19	0.19	0.18	0.19	0.20	0.20
No.	206	206	206	206	206	206

Lastly, Table 5 focuses on abstentions. While we include this table for completeness, it is difficult to interpret the abstention results for two reasons. First, they are only a very small proportion of all votes. Secondly, it is not clear why a Tier 3 investor would decide to vote but mark 'abstain' in the ballot instead of simply not voting. Nonetheless, it is notable that while actual abstaining by Tiers 1 and 2 are not significant, *MaxArgStrength* is. In other words, reasons given by Tier 1 managers to oppose company proposals are enough to sway some Tier 3 investors into abstaining from supporting these proposals.

The above results do not support hypothesis H2a: while the coefficient of *PropFor1* is higher than that of *PropFor2* when explaining *PropFor3*, the difference is not statistically significant, and the results are reversed for the *PropAgainst* variables. In other words, actual voting by Tier 1 firms is not more impactful than voting by Tier 2 firms.

However, there is consistently strong evidence that reasons for voting – and more specifically, the consensus around these reasons by Tier 1 managers – do matter, and this supports hypothesis H2.B. And in fact, the joint impact of actual voting by Tier 1 firms and of their voting disclosure does exceed the impact of voting by Tier 2 firms. In short, Tier 1 firms' behaviour is a better predictor of voting outcomes than is voting by Tier 2 firms – but this is largely due to Tier 1 firms' disclosure of their reasons for opposing management proposals.

6 Discussion and direction for future research

In sum, this study finds that while Tier 1 asset managers do exhibit significantly different voting behaviours from Tier 2 and Tier 3 investors, the difference between Tier 2 and Tier 3 investors is negligible. It also finds that the reasoning behind Tier 1's opposition to management matters more than the extent of Tier 1's opposition to management.

These findings have a natural interpretation. That there is little difference between Tier 2 and Tier 3 gives strength to the idea that minimum disclosure requirements achieve no tangible effect beyond disclosure. That the difference in voting behaviour is so significant between Tier 1 investors on the one hand and Tier 2 and Tier 3 investors on the other hand suggests that an active choice to exceed minimum disclosure requirements accompanies other proactive behaviours. Finally, it is not far-fetched to imagine that opposition to management at the lower levels of disclosure is spurred on by a unified voice at the top of the disclosure hierarchy. When that voice is lacking, dissent from more active asset managers need not translate into dissent from the more passive ones.

From a policy-making perspective, these findings are interesting. They suggest that requiring greater disclosure will do little to affect existing pro-management passivity. However, they also imply that there is a natural hierarchy of 'opinion leaders' that could potentially be exploited by policy makers. Thus, requiring minimum disclosure to the standard of Tier 1 managers might prompt Tier 2 and Tier 3 investors to 'copy-paste' the votes and reasoning of current Tier 1 investors, in a corporate variant of so-called correct voting.

That said, this might not work, or it might do little more than shift the problem without addressing overall levels of disinterest. Shareholder passivity is problematic because it belies the idea that the accountability mechanism between shareholders and management is an effective way for shareholders to express their interests. A functioning representative mechanism is one where every proposal is given due consideration. Rules of thumb that are unrelated to content yet dictate voting behaviour risk making representation ineffective.

Furthermore, for those actors who invest and vote on their clients' behalf, passive voting constitutes a systematic failure of the fiduciary responsibility they have towards their clients. These clients are often middle class individuals who use asset managers to build up their savings or to safeguard their pensions, and it is in their interest that the companies their monies are invested in be committed to maximizing long-term shareholder value. Because corporate management may well be concerned with its own interests more than those of the shareholders, it is in part through the annual general meetings and the proxy voting accompanying it that potential principal-agent frictions are meant to be resolved. Unfortunately, as our results suggest, under the status quo this conduit for addressing shareholder concerns appears to be rather ineffective.

The greatest outlier in Figure 3 is a testament to this. Tier 1 and Tier 2 asset managers both had such significant concerns with Carnival's remuneration policy and report that their dissent rates exceeded 90%.[12] Yet only 23% of shares held by Tier 3 were voted against, so all three of Carnival's remuneration-related resolutions passed with an average approval of 60%. Enabling proper corporate stewardship is a step towards ensuring that such concerns are more widely shared by investors.

This is a problem with serious implications. The corporate world has vast resources, and its interaction with the public and the environment has immense impact. Corporate negligence, or outright misbehaviour, has produced countless environmental disasters, many costing human lives as well. While it would be misleading to say that these tragedies could

[12] In opposing these resolutions, Tier 1 managers gave such reasons as "we do not consider continued employment to be an adequate performance condition for awards upwards of 200% of salary" and "a vote against this proposal is warranted [because of] severance payments to […] Pier Luigi Foschi who had oversight over health and safety at the company during the Costa Concordia disaster".

all have been avoided with stronger monitoring by shareholders, there is little doubt that a shift towards more active stewardship by shareholders would have profound implications for how corporations behave.

As the search for ways to foment active voting by shareholders progresses, the idea of pass-through voting, a mechanism by which asset managers would ask their clients how they would like their shares to be voted, has been gaining traction. This would align incentive with economic interest for individual clients, all the while potentially lessening the burden on asset managers, who would only need to 'pass-through' their clients' voting requests. Beyond that, the transfer of voting power directly to the individual would create explicit demand for a market of 'corporate voting guidance'. Whether that demand is met by existing Tier 1 managers, and/or by other actors who stand to gain from directing shareholder votes, is unimportant. The existence of that market alone would have the potential to inject the world of corporate voting with a fraction of the vibrancy that exists in political voting. This could be the solution to unleashing the true power of shareholders.

A core part of understanding which policy response has the greatest chance of achieving true corporate representation depends on studies, such as this one, that attempt to analyse corporate voting under the status quo. While this paper uses political science and corporate governance literatures as a springboard, it is, to our knowledge, innovative in a number of ways. It is the first paper to systematically examine the link between corporate voting transparency and voting outcomes, the reasons for corporate voting behaviour (cf. *MaxArgStrength*), and voting behaviour itself by UK fund managers. On the other hand, the dataset this study uses could benefit from the addition of further explanatory variables and from extending the time period under study.

The relationship between disclosure and transparency in the context of shareholder democracy has a wide range of implications for the world and is relevant political science, economics, corporate governance, and finance. It is perhaps the interdisciplinary nature of the topic that explains the paucity of work on it. This study is a first step towards filling this gap.

7 Conclusion

We investigate the relationship between voting disclosure practices and voting behaviour on remuneration-related resolutions for investors holding shares in the FTSE 100 in 2014. We find that while those who disclose the recommended minimum (Tier 2 investors) do not vote significantly differently from those who do not disclose at all (Tier 3), those who actively choose to disclose rationales for voting against management (Tier 1) also display more active voting behaviour. We further find that the extent of agreement with Tier 1 on the *reason* for voting against management is a more significant explanatory variable for Tier 3 dissent than either Tier 1 or Tier 2 voting behaviour itself.

In the midst of an arena where the average vote outcome is 97% in favour of management across all management proposals, and 91% in favour of management for remuneration-specific resolutions, there is reason to suspect that shareholders are not engaging with management in meaningful ways. The fact that the most involved investors are also several times more likely to oppose management lends credence to this suspicion. These findings constitute a step towards empowering policy-makers with the knowledge needed to encourage a more genuine democracy for shareholders.

That doing so would be desirable is hard to dispute. The accountability mechanism meant to align management to shareholder interests is malfunctioning. The fix need not be revolutionary, but its implications for corporate monitoring would likely be. This paper, and others like it, could help pave the way to a solution.

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Appendices

Appendix A. Tier definitions.

Tier 1
All UK-based asset managers who disclose:
The way they vote at shareholder meetings for the companies they hold shares in.
Their rationale(s) for voting against management.

Tier 2
All UK-based asset managers who disclose:
The way they vote at shareholder meetings for the companies they hold shares in.

Tier 3
All other shareholders, including:
Non-UK based asset managers with various levels of vote disclosure.
Other institutional shareholders.
Individual shareholders.

Appendix B. Asset manager list by tier.

Tier 1	Tier 2
AVIVA Investors	Aberdeen Asset Management
AXA Investment Management	Baillie Gifford & Co
Newton Investment Management	Fidelity Worldwide Investments
Royal London Asset Management	First State Investments
Standard Life Investments	Goldman Sachs Asset Management
	Henderson Global Investors
	Hermes Investment Management
	HSBC Global Asset Management
	Jupiter Asset Management
	Legal & General Asset Management
	Schroders Investment Management
	M & G Investment Management
	Morgan Stanley Investment Management
	State Street Global Advisors
	Threadneedle Asset Management
	UBS Global Asset Management

Appendix C. List of FTSE100 companies in 2014.

3i
Aberdeen Asset Management
Admiral
Aggreko
Anglo American
Antofagasta
ARM Holdings
Ashtead
Associated Brit. Foods.
AstraZeneca
AVIVA
Babcock Intl.
BAE Systems
Barclays
BG
BHP Billiton
BP
British American Tobacco
British Land Co.
BT
Bunzl
Burberry
Capita
Carnival
Centrica
Coca Cola
Compass
CRH
Diageo
EasyJet
Experian
Fresnillo
Friends Life
G4S
GKN
GlaxoSmithKline
Glencore
Hammerson
Hargreaves Lansdown
HSBC Holdings
IMI
Imperial Tobacco
InterContinental Hotels
International Cons. Airlines
Intertek
ITV
J Sainsbury
Johnson Matthey
Kingfisher
Land Securities
Legal & General
Lloyds Banking
London Stock Exchange
M & S
Meggitt
Melrose
Mondi
National Grid
Next
Old Mutual
Pearson
Persimmon
Petrofac
Prudential
Randgold Resources
Reckitt Benckiser
RELX
Rexam
Rio Tinto
Rolls Royce
Royal Bank of Scotland
Royal Dutch Shell
Royal Mail
RSA Insurance
SABMiller
Sage
Schroders
Severn Trent
Shire
Sky
Smith & Nephew
Smiths Group
Sports Direct Intl.
SSE
St. James's Place
Standard Chartered
Standard Life
Tesco
Travis Perkins
TUI Travel
Tullow Oil
Unilever
United Utilities Group
Vodafone Group
Weir Group
Whitbread
William Hill
WM Morrison
Wolseley
WPP

Appendix D. Changes to the asset managers' classification as compared to ShareAction's

Reclassifications
Asset managers classified as 'full disclosure' by ShareAction, but whose rationales for votes against do not count as genuine rationales (e.g. "remuneration policy insufficiently aligned with shareholders' interests").
Hermes Investment Management
UBS Global Asset Management

Deletions
Asset managers on the ShareAction list whose disclosure is split by fund, making data collection logistically impossible given limited time and resources.
AllianceBernstein Global Asset Management (Tier 2)
BlackRock (Tier 2)
F & C/BMO Global Asset Management (Tier 1)
Investec Asset Management (Tier 2)
JP Morgan Asset Management (Tier 2)

Appendix E. Coding strategy for *MaxArgStrength*

Because disclosure methods differ, the format of the rationales varied from bullet-pointed to extended descriptions. In order to code up *MaxArgStrength*, we read all the rationales and noted each new 'frame' (or 'central argument') used to justify dissent. We were left with the following nine: poor disclosure, discretionary issues, unsatisfactory pension arrangements, inappropriate level of pay, poor pay-performance linkage, inappropriate service contracts, excessive complexity, short-term/long-term, and lack of board independence. Refer to the next page for detailed descriptions of these frames.
For each rationale provided by Tier 1 asset managers, we then code in binary fashion whether a given frame was used; 1 indicates that the frame was used, 0 that it was not.
We then calculate the maximum number of instances any frame is mentioned by all five Tier 1 asset managers for each vote. *MaxArgStrength* is that number.

Frame	Description
Poor disclosure	Any argument that invokes unsatisfactory level of disclosure about remuneration practices.
Discretionary issues	Any argument that claims that excessive disclosure is given to the remuneration committee with respect to certain practices.
Unsatisfactory pension arrangements	Any argument that indicates displeasure with existing pension arrangements. Typically this relates to excessive pension contributions.
Inappropriate level of pay	Any argument indicating that the level of pay is either too low or excessive in relation to comparable companies.
Poor pay-performance	Any arguments suggesting that the level of pay is either too low or excessive in relation to performance.
Inappropriate service contracts	Any argument claiming that service contracts relating to director employments are flawed.
Excessive complexity	Any argument claiming that remuneration practices are excessively complex.
Short-term/long-term	Any argument suggesting that remuneration practices are either too long-term or too short-term focused.
Lack of board independence	Any argument that claims that the various elements of remuneration (most notably the remuneration committee) are too tied to the company board.

Appendix F. Variable descriptions

Variable	Description
PropFor	The proportion of shares voted in favour of management on remuneration-related resolutions. This proportion is weighted by each individual asset manager's stake in each company. Designates the investor tier when affixed with 1, 2, or 3 at the end of the variable name.
PropAgainst	The proportion of shares voted against management on remuneration-related resolutions. This proportion is weighted by each individual asset manager's stake in each company. Designates the investor tier when affixed with 1, 2, or 3 at the end of the variable name.
PropAbstain	The proportion of shares abstained on votes for remuneration-related resolutions. This proportion is weighted by each individual asset manager's stake in each company. Designates the investor tier when affixed with 1, 2, or 3 at the end of the variable name.
MaxArgStrength	The maximum number of instances one of nine arguments is given for voting against management, across all five Tier 1 asset managers. Refer to Appendix E for details on the coding strategy.
Dissent rate	The sum of *PropFor* and *PropAbstain*.