

Behind the Scenes:
The Corporate Governance Preferences of Institutional Investors

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Abstract

Institutional investors are the dominant force in financial markets today, yet their preferences about corporate governance are generally undisclosed and their activities in this area tend to be performed privately. We conduct a survey to elicit their views on investor protection and corporate governance mechanisms. We find that among the institutions who responded to our survey corporate governance is of importance to their investment decisions and a number of them are willing to engage in shareholder activism. Further, an examination of the institutional investors' portfolio holdings shows that their investment decisions appear to be related to their preferences.

1. Introduction

Institutional investors influence financial markets worldwide through their predominance as buyers, holders, and sellers of corporate securities. According to the International Monetary Fund (2005), as of 2005, institutional investors held equities worth more than USD 20 trillion. Further, as of September 2008, institutional investors held over 78% of the corporate equities in the United States.¹ Because of the size of their shareholdings in firms, they can and do affect the way corporations do business as well as the corporation's governance structure. Thus, understanding the preferences of institutional investors with respect to corporate governance is important for firms, policy makers, investors and researchers. Typically research has attempted to discern the preferences of institutional investors from inferences of which corporate attributes are deemed important and therefore monitored by institutional investors. Such research has examined market reactions to governance changes, proxy voting, and monitoring by the institutional investors.² However, the inferences on institutional investor preferences from such studies are typically based on indirect evidence.³ In this paper we take a more direct approach by conducting a survey of institutional investors about aspects of corporate governance.⁴ We ask for their assessments of country-level investor protection, their preferences regarding corporate governance mechanisms in their investment decisions, as well as their willingness to engage in shareholder activism and conduct coordinated activities with other institutional investors. Further we are able to connect the survey data to their portfolio holdings to examine whether their investment decisions are related to their preferences. Understanding the preferences and views of institutional investors is important for both companies trying to attract new investors and policy-makers considering the regulation of governance mechanisms (e.g., via corporate governance codes).

¹ Federal Reserve Flow of Funds database.

² See, for example, Pound (1988), Brickley, Lease and Smith (1988), Agarwal and Mandelker (1993), Gillan and Starks (2000, 2007), Hartzell and Starks (2003), Gaspar, Massa and Matos (2005), Chen, Harford and Li (2007) and Bushee, Carter and Gerakos (2007).

³ Two exceptions to this are studies that have direct evidence of the behind-the-scenes activities of two single institutional investors. Carleton, Nelson and Weisbach (1998) provide evidence on the activities of TIAA-CREF in private negotiations of shareholder activism and Becht, Franks, Mayer, Rossi (2007) provide evidence on the private shareholder activism of the Hermes UK Focus Fund. Further, we are aware of only one academic survey regarding institutional investors and corporate governance and this paper was much more limited in scope (Useem, Bowman, Myatt and Irvine, 1993).

⁴ Recent surveys in finance include Graham and Harvey (2001), Brav, Graham, Harvey and Michaely (2005, 2007), Graham, Harvey and Rajgopal (2005) and Jenkinson and Jones (2008).

Much of institutional investor preferences, particularly their behind-the-scenes activities, are private and thus, difficult to observe and measure with other methods. This can be illustrated with an example from the investor CalPERS (see Gillan and Starks, 2007). As CalPERS was dissatisfied with the governance of Texaco, they negotiated behind the scenes with the Texaco management to appoint a pro-shareholder candidate to its board of directors. Our survey is designed to capture these preferences and behind-the-scenes activities by contacting and asking institutional investors directly. For example, through our survey we can ask the institutional investors about their assessments of investor protection across countries as well as their preferences for different firm-level corporate governance mechanisms. Similarly, although we cannot generally observe the behind-the-scenes engagements and discussions with the boards and management of companies, our survey allows us to directly ask the investors about such activities.

We examine both country level and firm level aspects of corporate governance. In order to conduct an in-depth analysis without making the survey too long and complex for the investors, we focus on investments in firms in two countries with diverse investor protection environments and investor dispersion. Thus, while we survey a broad base of institutional investors from multiple countries, we restrict their attention to issues related to firms listed in the two countries. These countries, the United States and The Netherlands, have long-standing, well-developed stock markets with considerable institutional investor interest, but with very different investor protection regimes. The United States is a common law country that is considered to have high investor protection, low ownership concentration, and high institutional ownership. In contrast, The Netherlands is a French-civil law country that is considered to have low investor protection, high ownership concentration and low institutional ownership.⁵

We sent the survey to a group of global institutional investors with investments in both the United States and The Netherlands. The survey, designed to elicit the attitudes and activities of the institutional investors with respect to different issues of corporate governance, resulted in 118 responses, from which we were able to match 90 to additional information about the institutional investor. We find that the survey respondents have definitive and diverse assessments of investor protection in the United States and the Netherlands. Further the relative differences in their assessments are consistent with the anti-director index of La Porta, Lopez-de-Silanes, Shleifer and

⁵ See La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998); Djankov, La Porta, Lopez-de-Silanes and Shleifer (2008); La Porta, Lopez-de-Silanes and Shleifer (2006); and Ferreira and Matos (2008).

Vishny (LLSV, 1998) and the anti-self dealing index of Djankov, La Porta, Lopez-de-Silanes and Shleifer (DLS, 2008).

Given the relatively weaker levels of investor protection considered to exist in The Netherlands, we next restrict our attention to equity securities listed in that country and examine the importance of firm-level corporate governance mechanisms in the institutions' investment decisions. Theory suggests that corporate governance mechanisms should add value to firms (e.g., Shleifer and Vishny, 1997; Becht, Bolton, and Roell, 2002) and much empirical evidence has supported that theory. However, the empirical testing has also led to a debate regarding the value of corporate governance mechanisms to shareholders (e.g., Gompers, Ishii and Metrick, 2003; Cremers and Nair, 2005; Core, Guay and Rusticus, 2006; Bebchuk, Cohen and Farrell, 2008). Using our survey data, we can address the question of the value of firm-level corporate governance mechanisms from the perspective of investors who may consider those mechanisms in their valuation decisions. By asking the investors themselves which mechanisms they consider important, we can not only contribute to this debate, but we can also shed light on the relative importance of governance mechanisms addressing either the agency conflict between shareholders and managers (e.g., equity-based pay) or the one between large and small shareholders (e.g., transparency about holdings of large shareholders).

We find that most firm-level corporate governance mechanisms studied in the previous literature are considered at least somewhat important by the institutional investors, with the most important being equity ownership of management, use of equity based compensation, board independence, transparency about the holdings of large shareholders, and high free float (which allows for the possibility of liquidating shares easily). The implications of the institutional investor responses to the survey questions suggest that these investors focus on issues related to reducing agency conflicts *both* between managers and shareholders *and* between large and small shareholders.

We also find preliminary evidence that suggests the preferences for governance mechanisms vary across the institutional investor types. The issue of highest importance to the hedge funds in our sample is equity ownership by managers, while insurance firms care most about a high free float. Mutual funds find both equity ownership by managers and transparency about holdings of large shareholders to be most important, while pension funds are most concerned about ownership concentration, board independence and the high free float.

We further contribute to the debate on the value of corporate governance mechanisms by examining whether institutional investors consider these mechanisms to be more important in the relative absence of country-level investor protection measures. That is, we examine whether institutional investors consider investor protection and corporate governance mechanisms to be substitutes or complements. Cremers and Nairs (2005) provide empirical evidence that internal and external corporate governance mechanisms can be complements, while Giroud and Mueller (2007) provide evidence that they are substitutes. Gillan, Hartzell and Starks (2007) find that internal mechanisms (the board structure and charter amendments) can be substitutes for each other. Our evidence suggests that the internal corporate governance mechanisms we examine are substitutes for the external mechanism (investor protection). Specifically, we find that investors with more negative views on country-level investor protection rely on a subset of firm-level governance mechanisms to mitigate agency problems that might hinder receiving returns on their invested capital. The subset includes incentive mechanisms through executive compensation and ownership, board independence, and mechanisms that allow the market for corporate control to operate unimpeded by antitakeover provisions.

Harris and Raviv (2008) argue that in the presence of managerial agency problems, shareholders should have control over corporate decisions when they do not have private information, that is, shareholders should become activist, use their ‘voice’. Other theoretical studies have also argued for the intervention of large shareholders (e.g., Shleifer and Vishny, 1986; Maug, 1998; Kahn and Winton, 1998; Bolton and von Thadden, 1998; or Faure-Grimaud and Gromb, 2004). More recent theoretical studies have pointed out, however, that activism through ‘exit’, can be very effective and sometimes even more beneficial than activism through ‘voice’ (e.g., Admati and Pfleiderer, 2008; Edmans 2008; Edmans and Manso, 2008). Thus, the question is how institutional investors view these alternative routes to engaging in activism.

We also address the debate that has arisen recently regarding whether a one tier or two tier board system is superior by asking the institutional investors about their board system preferences.⁶ Adams and Ferreira (2007), Almazan and Suarez (2003) and Graziano and Luponini (2005) develop models of boards in which they are able to analyze differences between one-tier and two-tier board structures. The Netherlands provides a unique set-up to ask about board system preferences as Dutch firms have a choice between the two board structures. We find that

⁶ See, for example, O’Hare (2003) for this debate.

the institutional investors are split in their views, but there is twice as much preference for the two-tier system (52%) than for the one-tier system (21%).⁷

Our results show that institutional investors are willing to engage in a variety of shareholder activism methods with the most prevalent being ‘exit’, i.e. voting with their feet by selling their shares (80% of the investors are willing to do this). This finding is consistent with the recent theoretical models of Admati and Pfleiderer (2008), Edmans (2008), and Edmans and Manso (2008). However, we also provide evidence suggesting that institutional investors frequently use their ‘voice’ if they are dissatisfied as suggested by the theory. The respondents were, for example, highly willing to vote against management at the annual meeting and engage management in discussions. More than 50% of investors would engage in these two activities. Other activities such as making speeches or proposals at the annual meeting, contacting the firm’s supervisory board, going public with criticism or taking legal measures, received much less support from the institutions, in general, although some institutions such as hedge funds were more willing to engage in these additional measures.

It has been advocated for some time that institutional investors could contribute more to corporate governance and firm monitoring if they would speak up and in one voice (see, for example, Black, 1992). A question that then arises, but has not been well-established is the extent to which institutional investors coordinate their measures of shareholder activism, particularly if it takes place behind the scenes. We find that of our respondents, 59% state they consider coordinating their actions. For the 41% of investors that do not coordinate, over half stated that it is primarily because of legal concerns. Interestingly, we show that the most important trigger for shareholder activism is not dissatisfaction with a company’s stock price performance but rather with its (long-run) corporate strategy.

An implication of the institutional investor assessments of country-level investor protection is that such assessments should be related to the characteristics of the institutional investor’s portfolio holdings. We find that such relations do exist. For example, we find that the assessment of whether there exist appropriate legal measures in place to allow shareholders to

⁷ We will show that this is consistent with the Adams and Ferreira (2007) model which suggests that the two-tier system is optimal when managerial control benefits are higher. Our findings are also consistent with the argument in Graziano and Luponini (2005) that the two-tier system can be preferable in markets with more concentrated ownership, which is the case in The Netherlands.

influence the general strategy of the company in which they invest is related to firm characteristics suggesting a change in firm strategy would be warranted.

One caveat about our data is that the respondents who chose to answer our survey may be more likely to put a greater emphasis on governance-related issues and be more active in monitoring firms. However, we believe that our survey responses provide unique insights into the governance preferences of institutional investors and complement traditional large-sample empirical analyses and clinical studies. Even if our investors are in fact the more active and governance-sensitive ones, our results are still of relevance because these investors are probably the most important ones when it comes to affecting corporations' governance structures.

The remainder of the paper is organized as follows. In the next section we describe the survey design, delivery and response along with characteristics of the responding institutional investors and the possibility of non-response bias. In Section 3, we examine responses to the survey with regard to country-level investor protection and firm-level corporate governance and the relation between the two. In Section 4, we examine attitudes toward shareholder activism and the possibility of coordinated actions. In Section 5, we examine the relation between governance preferences and the characteristics of portfolio firms. We conclude in Section 6.

2. Data and Methodology

2.1 Design of the Survey

Because the survey is designed to elicit the attitudes and activities of institutional investors toward several different aspects of corporate governance, we divide it into five sections, each having a specific goal.⁸ The purpose of the first section is to gather background information on the responding institutions, such as type of institution, how proxy voting is conducted and the proportion of the portfolio that is actively invested. The second section is designed to extract the preferences of institutional investors with regard to corporate governance and investor protection issues. The third section focuses on the institutional investors' preferences regarding shareholder activism and corrective actions. The final section of the survey covered in this paper features

⁸ A copy of the survey is provided in Appendix A-1.

questions designed to elicit information regarding the institution's voting behavior and decision making around the firm's annual meeting.^{9,10}

The survey questions were developed based on the existing literature regarding corporate governance issues. Before conducting the survey, we circulated it among academics and investor relations research experts to get their feedback and suggestions on the survey design and execution. Once the survey questions were composed, we conducted beta tests by having graduate students and some institutional investors fill out the survey.

2.2 Delivery and Response

In order to reach a large number of institutional investors with international equity holdings, we selected the survey recipients from the FactSet/LionShares data base, which is considered a leading data source for the characteristics and equity portfolio holdings of institutional investors worldwide. FactSet/LionShares defines institutional investors as professional money managers with discretionary control over assets.¹¹

Because we ask our survey respondents to make comparisons between investor protection in the United States and The Netherlands, we need to ensure a certain awareness of the Dutch financial market and the corporate regimes in that country. Consequently, institutions in the database needed to have least 5% of their assets under management invested in companies from The Netherlands (by the end of 2006) in order to receive the survey. The survey was sent by email to the chief investment officers of a total of 1,178 institutional investors on November 1, 2007. Additional reminders were sent and individual phone calls made in the last weeks of December 2007 to maximize the response rate. The last responses were received in the first weeks of January 2008.

A total of 118 surveys were returned, giving us a response rate of about 10%. This response rate can be compared to the response rate of 9% in Graham and Harvey (2001), 10% in Graham, Harvey and Rajgopal (2005), 8% in the emailed set in Brav, Graham, Harvey and

⁹ The survey included an additional section regarding a deeper analysis of opinions about executive compensation. These questions and their responses are not covered in this paper.

¹⁰ The firm's annual meeting for shareholders is typically termed "annual shareholders meeting" in the United States and "annual general meeting" or AGM in The Netherlands. We will simply call it the annual meeting in this paper.

¹¹ This database has also been recently employed by Ferreira and Matos (2008) and Li, Moshirian, Pham and Zein (2006).

Michaely (2005) and between 15% and 19% in Jenkinson and Jones (2008).¹² We are able to match the identity of the institutional investors and hence the survey responses with data on the characteristics of the institutional investors from FactSet/LionShares for 90 out of the total of 118 investors that returned the survey.

FactSet/LionShares also contains data on the portfolio holdings of the institutional investors, in particular, the identity of portfolio firms and the size of stakes in these firms. Thus, we are able to match the survey responses of an investor with information on their portfolio companies by matching the holdings data with financial data on the portfolio companies from DataStream/Worldscope. This gives us a combined data set consisting of almost 8,000 investor-portfolio firm observations.

2.3 Characteristics of the Responding Institutional Investors

We first examine the characteristics of the responding institutional investors based on their responses to our survey as well as the matched portfolio holdings data from FactSet/LionShares and DataStream/Worldscope. Table 1 presents summary information regarding these characteristics. Panel A shows that the average institutional respondent has equities worth \$632 million under management, of which 10.4% are invested in firms listed in The Netherlands and 9.2% in firms listed in the United States. As we want to differentiate between investors with heavier weightings in each of these countries, we define investors with above median equity holdings in firms from the United States (The Netherlands) as investors with large US (NL) holdings.

On average, the institutions hold equity securities in 89 firms with an average stake of 0.13%. The value of the average investment is \$6.1 million. The investors show an average quarterly share turnover of 0.16, defined as the value of all buy and sell transactions divided by the market value of the equity portfolio. In subsequent analysis, we also divide our institutions into two groups by size of holdings and by turnover. We refer to investors with greater than median assets under management as large investors and the remainder as small investors. Similarly, if an investor has a share turnover which is below the median, suggesting more rapid turnover, we consider the investor to have a short investment horizon.

¹² The study by Bray, Graham, Harvey and Michaely (2005) also included surveys handed out in person which had much higher response rates.

Our sample contains survey responses from all important institutional investor-types, with a heavy clustering of mutual funds. As Panel B of Table 1 shows, of the responses received, 5.9% were from hedge funds, 7.6% from insurance firms, 62.3% from mutual funds, and 5.9% from pension funds.¹³ It should be noted that FactSet/LionShares identifies individual mutual funds as the investor unit in the database and has the portfolio holdings accordingly by fund, rather than aggregated across funds in the same mutual fund complex as is done by the 13f data. Consequently, we also retained that definition and sent the survey to individual funds. This is consistent with the fact that the investment decisions, and often the governance voting decisions, are made or at least influenced at the individual fund level rather than the complex level. Further, funds within a mutual fund family can have different governance preferences as shown by Morgan, Wolf and Yang (2008). The maximum number of institutional investor respondents in our sample from the same complex or holding company is two and we have seven of such pairs. Even in the case where there are two from the same complex, the questionnaires were sent to different investment vehicles and were filled out by different people.

Panel C reports the investor characteristics by investor-type and shows that while the sample pension funds have the largest equity holdings, the sample hedge funds are the most active in trading, exhibiting the highest share turnover. Our respondents were primarily based in Europe (88%), with the rest of the investors coming from North America (12%). The exact breakdown by national origin can be found in Panel D. The national origin of the investors in this table is based on the legal seat. This implies that of the 24 investors that have their legal seat in Luxembourg, only 6 actually operate from there. The other investors are de facto located in the United Kingdom (5 investors), the United States (3 investors), The Netherlands (4 investors), Switzerland (4 investors), Belgium (2 investors), Germany (2 investors) and Spain (1 investor).

One issue that could complicate the analysis is the possibility that institutional investors with largely passive holdings could be less inclined to be concerned about corporate governance or corrective actions (although it is also possible that as captive long term holders, the passive investors become more concerned). Regardless, to assure that the institutional investors in our sample also conduct active investment decisions, we requested from each investor the percentage

¹³ This categorization is based on self-reported information in the surveys. Many portfolio managers are from financial complexes that have multiple divisions. For example, an insurance company with an investment division. Thus, in the survey they were asked how their fund/institution could be best described in order to determine their own definition.

of equities actively invested, i.e., as a result of an active investment decision. The median investor reports that 80% of its equities are bought as a result of a positive/active investment decision while the remaining 20% are the result of a passive investment strategy. Panel E also shows that, as expected, hedge funds manage the largest proportion of actively invested funds (94%) and pension funds manage the lowest (60%). This is further illustrated in Figure 1.

We used the survey to ask investors how they make use of proxy voting advisors (e.g. ISS or Glass Lewis) for voting at an annual meeting. We included this question to examine to what extent investors delegate their proxy voting decisions and perhaps activist actions to external advisors. The data reported in Panel F suggests that over half of the institutions in our sample (53%) do not employ proxy voting advisory services at all. In fact, only 7% of the investors state that they always use proxy voting firms for determining their voting decisions. Of those investors who use proxy voting firms to some extent, most use the advice to determine their own position vis-à-vis the company they invested in.

2.4 Nonresponse Bias and Related Issues

One concern in any survey research is the extent of bias caused by differences in the participants who choose to respond to the survey and those who do not choose to respond. In Appendix A-2 we evaluate, as suggested by Moore and Reichert (1983) and Graham and Harvey (2001), the level of non-response bias by examining characteristics of responding versus nonresponding institutional investors. There are no significant differences in assets under management between the groups. However, by construction the respondents have significantly more assets invested in The Netherlands and fewer assets invested in the United States. Our sample also exhibits an overweighting of investors based in continental Europe (mainly from The Netherlands and Luxembourg), and an underweighting of investors from the U.K. and the U.S. However, almost all of our respondents managed portfolios containing significant positions in firms located in the U.S., U.K. or Asian. These differences are similar if we compare our respondents to all other institutional investors in the FacSet/LionShares database who did not participate in the survey.

In a survey of the opinions of economic agents, like this one, there is naturally also a risk that respondents answer strategic or untruthful. To mitigate these concerns, respondents participated in this survey confidentially and in return for anonymity. Furthermore, our

assessment from the phone conversations we conducted was also that the respondents would not spend time to fill out our survey if they intended to answer untruthfully.

3. Investor Protection and Corporate Governance

3.1 Importance of Country-Level Investor Protection

We first evaluate how institutional investors perceive investor protection in the United States relative to The Netherlands. As mentioned previously, these two countries have very different legal and governance regimes. According to the anti-directors index constructed by LLSV (1998) and revised in DLLS (2008), there is a difference in investor protection between the two countries. According to the revised numbers, the U.S. has a score of 3 and The Netherlands has a score of 2.5, while the original number was a score of 5 for the U.S. and 2 for The Netherlands.¹⁴ An alternate measure of shareholder rights is the anti-self-dealing index of DLLS (2008), which is a combination measure reflecting the private and public controls of self-dealing in countries.¹⁵ With this measure the U.S. has a score of .65 and The Netherlands of .20. Thus, both measures suggest that the U.S. has a better overall environment for investor protection.

The question that arises is whether the institutions perceive the investor protection differences across the countries to be important. Thus, the hypothesis we test is whether institutional investors with equity holdings in both of these countries perceive there to be differences in investor protection across countries as the indices suggest. Rather than potentially confounding the institutional investor perceptions by constructing a summary measure from the institutional investors, for each of the two regimes we measure the institutions' assessment of investor protection across four dimensions: protection of minority shareholder rights; ease of shareholders to exercise their rights; whether the companies provide sufficient information for shareholder decisions; and whether appropriate legal measures exist to allow shareholders to influence firm strategy. For each of these questions, investors could score on a scale from 1 to 7

¹⁴ The "anti-director rights" index aggregates 6 shareholder rights by adding 1 when: (1) the country allows shareholders to mail their proxy vote to the firm; (2) shareholders are not required to deposit their shares prior to the General Shareholders' Meeting; (3) cumulative voting or proportional representation of minorities in the board of directors is allowed; (4) an oppressed minorities mechanism is in place; (5) the minimum percentage of share capital that entitles a shareholder to call for an Extraordinary Shareholders' Meeting is less than or equal to 10 percent (the sample median); or (6) shareholders have preemptive rights that can only be waived by a shareholders' vote. The index ranges from 0 to 6 (see LLSV, 1998 and revision in DLLS, 2008).

¹⁵ The anti-self-dealing index is based on a set of questions posed to law firms regarding private and public enforcement of anti-self-dealing.

to what extent they disagree or agree (with 1 meaning “strongly disagree” and 7 meaning “strongly agree”).

The results for all of the institutional investors are illustrated in Figure 2 and provided in Table 2, with the responses regarding the United States in the left four columns and the responses regarding The Netherlands in the next four columns. The final column in the table contains the significance levels from a test for differences in the mean responses across countries. For reference purposes, the last two rows of the panel contain the measures for the United States and The Netherlands for the anti-directors index developed in LLSV (1998) and revised in DLLS (2008) and the anti-self-dealing index from DLLS (2008). Note that in order to reflect a valid comparison, the table only contains responses of those investors who answered the questions both with regard to the U.S. and The Netherlands. For each of the investor protection characteristics, there is a significant difference in the mean responses between the U.S. and The Netherlands, with the U.S. score being higher. Thus, the institutional investors’ perceptions are broadly consistent with the indexes of investor protection constructed by LLSV and DLLS.

Since we required that the institutional investors participating in our survey hold at least 5% of their equity holdings in Dutch companies, one might argue that the investors in our sample have a more positive view about investor protection in The Netherlands compared with investors that entirely avoid the country. While this could have occurred, it would cause a bias that makes it more difficult to find significant differences in investor protection between The Netherlands and the United States. Our documented findings would therefore be understating the actual differences in perceptions regarding the investor protection regimes.

3.2 Importance of Firm-Level Corporate Governance Mechanisms in the Presence of Weaker Investor Protection

Given the weaker levels of investor protection considered to exist in The Netherlands, both according to the survey measures and the indices, we next restrict our attention to that country and examine the perceived importance of different firm-level corporate governance mechanisms and whether the perceptions of these mechanisms are affected by the co-existing investor protection regimes.

While the costs and benefits of different governance mechanisms have been extensively addressed in the theoretical literature (see reviews by Shleifer and Vishny, 1997; Becht, Bolton

and Roell, 2002), models analyzing the relative importance of different governance mechanisms are rare. One exception is Burkart, Panunzi and Shleifer (2003) who provide a formal model of governance mechanisms addressing both the agency conflict between shareholders and managers and the conflict between large and small shareholders. Similarly, the work by Boot, Gopalan and Thakor (2006) implies that certain corporate governance mechanisms sometimes actually exacerbate agency problems through preventing management from doing what it should and thereby reducing shareholder wealth.

Using our survey instrument, we asked the institutional investors how important different firm-level governance mechanisms are when making an investment decision in The Netherlands. For each of the mechanisms and control devices, the investors could again score on a scale from 1 to 7 regarding their importance. The percentage responses are provided in Table 3 and the mean responses are also illustrated in Figure 3.

The mechanisms are divided into the following categories: issues related to anti-takeover devices, issues related to supervisory board and independence of director committees, issues related to executive compensation, voting issues, and ownership and capital structure issues. The last column of the table shows the percentage of responses that considered an issue to be at least somewhat important. As the table indicates, institutional investors apparently consider a number of the governance mechanisms to be important in making their investment decisions. Most of the issues are regarded as at least somewhat important, with the highest percentages for equity ownership of management (87%), use of equity based compensation (86%), supervisory board independence (86%), transparency about holdings of large shareholders (85%), and high free float (85%). The perceived importance of these issues is consistent with the evidence from the United States regarding shareholder proposals for the proxy statement. Gillan and Starks (2007) find that in the 2001-2005 period the issues most likely to be submitted as proxy proposals were issues related to executive compensation or issues related to boards. It is notable that few of the issues in Table 3 were considered less important. As the table indicates, only a few issues had 50% or less response considering them to be at least somewhat important: small supervisory board size (49%), limitation on director terms (50%), confidential voting (49%), and share certificates (44%).¹⁶

¹⁶ Share certificates are often observed in The Netherlands. They arise when a company issues shares to a foundation which in return issues share certificates which do not have voting rights. Investors can then only buy these certificates from the foundation and not the shares directly, leaving the control rights associated with the shares at the foundation. Foundation eventually controls the company and is often made up manager-friendly directors.

The implications of the institutional investor responses to the survey questions suggest that these investors focus on issues related to reducing both agency conflicts between managers and shareholders and between large and small shareholders. Specifically, they indicated highest interest in executive compensation mechanisms that would reduce agency conflicts between management and shareholders through incentives for executives through their stock ownership and stock options. The institutional investors also indicated strong interest in the mechanisms that would reduce agency conflicts between large and small shareholders through generally dispersed ownership structures, transparency regarding large blockholders, and through the presence of independent directors on the supervisory board.¹⁷

Previous studies have failed to find direct evidence that investors value board independence. Indirect evidence, however, suggests that board independence is important as research has documented that independent directors are more likely to replace a poorly performing CEO, the likelihood of hiring a replacement CEO from outside the firm increases with the percentage of independent directors, and shareholders react more positively to decisions made by boards dominated by independent directors.¹⁸ Further, having more independent directors reduces the likelihood of earnings management or financial fraud and increases the likelihood of accounting conservatism.¹⁹ Our survey evidence supports the indirect evidence provided earlier in that we find that a high percentage of respondents think that board independence is important. Our evidence is also consistent with the Bruno and Claessens (2007) evidence that the two most important governance mechanisms across countries are independence of the board and independence of the board committees.

Jensen (1986) and Yermack (1996) argue that smaller boards are more efficient due to coordination and communication problems. In contrast, according to Adams, Hermalin, and Weisbach (2008), the Hermalin and Weisbach (1998) model of boards implies that firms with larger boards would outperform those with smaller boards. The empirical evidence is mixed on

¹⁷ The Dutch corporate governance system employs a system of co-optation which allows large blockholders and management-friendly shareholders to control the supervisory board through excluding independent board directors. Small shareholders have de facto no influence on the election or removal of individual supervisory board members (see De Jong and Roell, 2005).

¹⁸ See Weisbach (1988); Brickley, Coles, and Terry (1994); Borokhovich, Parrino, and Trapani (1996). See also Hermalin and Weisbach (2003), Adams, Hermalin and Weisbach (2008), and Becht, Bolton and Roell (2002) for surveys of studies on board independence.

¹⁹ See, for example, Beasley (1996), Dechow, Sloan, and Sweeney (1996), Klein (2002), and Beekes, Pope and Young (2004).

this. While Yermack finds that firm performance (measured using Tobin's Q) is negatively related to board size, Coles, Daniel and Naveen (2008) find that firm performance is increasing in board size when one controls for the type of firm. Our results show that the respondents do not view having a small board as important. .

Bebchuk, Cohen and Farrell (2008) examine which of the 24 governance provisions in the Gompers, Ishii and Metrick (2003) framework are the most important and form their entrenchment index using six governance provisions. They find that poison pills, golden parachutes, staggered boards, limits to shareholders by-law amendments, and supermajority requirements for mergers and for charter amendments are the provisions driving the relationship between firm performance and governance provisions. We find that poison pills and golden parachutes and supermajority provisions are important. However, these mechanisms are not considered as important as some of the other governance mechanisms in our questionnaire, many of which are also not included in the 24 mechanisms in Gompers, Ishii and Metrick (2003).

We would not expect all institutional investors to view corporate governance mechanisms identically. Consequently, in Table 4 we show the mean and median for each of the investor types for the governance mechanisms. As expected, institutions have diverse preferences over governance mechanisms. For example, the issue of highest importance to the hedge funds in the sample is the equity ownership by managers. This is not nearly as important to the insurance companies whose issue of most importance is high free float (i.e., the possibility of liquidating shares easily). Mutual funds find both equity ownership by managers and transparency about holdings of large shareholders to be most important, while pension funds are most concerned about ownership concentration, board independence and the high free float.

3.3 Country-Level Investor Protection and Firm-Level Corporate Governance

Previous research (e.g., La Porta, Lopez-de-Silanes, and Shleifer, 1999; Claessens, Djankov, and Lang, 2000; Faccio and Lang, 2002) argues that poor firm level corporate governance is associated with weaker country-level investor protection suggesting that when investing in The Netherlands, the firm-level corporate governance may be more important. In light of this previous research and given our finding regarding the overall importance institutional investors ascribe to both the country-level protection and the firm-level corporate governance, in this section we examine whether the institutions view them as substitutes or complements. This

analysis contrasts with that of the previous section because we now study the importance of firm level governance variables *conditional* on the investors' assessment of the country-level investor protection. As a proxy for the investor protection assessment we focus on how investors perceive minority shareholder protection. Our analysis complements some recent studies which show that investors take firm-level governance into account when investing in countries with low investor protection (e.g., Leuz, Lins and Warnock, 2008). In fact, while these studies are essentially limited to measuring firm-level governance by looking at ownership structures we can use our survey methodology to test for the relevance of a much wider range of governance mechanisms.

To test whether (and which) firm-level corporate governance variables are considered as substitutes or complements, we run the following specification using an ordered logit model:

$$CG\ Mechanism_i = f(Minority\ Shareholder\ Protection_i + \mathbf{y}_i + \varepsilon_i) \quad (1)$$

The dependent variables in the different specifications, *CG Mechanism_i*, capture how important institutional investor *i* considers each firm-level corporate governance mechanism when making investments in The Netherlands. The importance of these governance mechanisms was measured on a scale from 1 (not important at all) to 7 (very important). The main independent variable, *Minority Shareholder Protection_i*, measures to what extent institutional investor *i* agrees with the statement that minority shareholders are adequately protected in The Netherlands. The variable has a possible range between 1 (=strongly disagree) to 7 (=strongly agree). The regressions also include a vector of investor-specific controls, \mathbf{y}_i , containing the logarithm of the assets under management, the fraction of assets an investor invested in firms from The Netherlands, and a set of investor-type and national origin dummies.²⁰ The results of these regressions are provided in Table 5. In the interest of saving space, we only report those regressions where the investor protection proxy is significantly related to the firm level governance variable.

As Table 5 shows, investors with very negative views on country-level investor protection rely on a subset of firm-level governance mechanisms to mitigate agency problems and to assure that they get a return on their invested capital. These firm-level governance mechanisms come from three main areas. First, such investors rely on incentive compensation via equity ownership by management through stock options to align their interests with those of management. Second,

²⁰ All regressions are estimated with heteroskedasticity robust standard errors.

they put an emphasis on having independent representatives on the supervisory board. Third, they rely on mechanisms that assure a functioning of the market for corporate control as an external governance mechanism (i.e., they prefer to invest in firms that have no poison pills, golden parachutes, supermajority provisions, greenmail payments, and target share placements).

Our results add to the empirical evidence regarding the complementarity or substitutability of corporate governance mechanisms. Cremers and Nairs (2005) provide empirical evidence that internal and external corporate governance mechanisms can be complements, while Giroud and Mueller (2007) provide evidence that they are substitutes. That is, the latter study finds that product market competition can substitute for firm-level corporate governance mechanisms. Gillan, Hartzell and Starks (2007) find that board structures can substitute for the internal mechanisms (i.e., charter provisions) examined in Cremers and Nair and Giroud and Mueller. Our results are more consistent with the substitute argument in that we find from the investors' perspective, the internal mechanisms can be substitutes for the external investor protection measures.

3.4 One Tier versus Two Tier Board Systems

A considerable debate has arisen recently regarding whether a one tier or two tier board system is superior.²¹ In the one-tier board system a firm has one board of directors consisting of executive and non-executive directors (as in the United States). In the two-tier board system a firm has two separate boards, a management board responsible for the day-to-day management of the firm and a supervisory board who monitors the executive board (as in Germany). From a theoretical perspective, both systems have obvious costs and benefits. One of the key issues has been whether board members in one or the other system are more likely to be captured by management in a way that undermines their ability to monitor. It has been argued, for example, that non-executive directors in the one tier system are often closer to management and hence less likely to be objective when it comes to corrective actions (see Becht, Bolton and Roell, 2002). On the other hand, Almazan and Suarez (2003) argue that under certain circumstances, weak (one-tier) boards would actually be optimal.

Adams and Ferreira (2007) develop a model of boards in which they are able to analyze differences between one-tier and two-tier board structures. In their model, under certain

²¹ See, for example, O'Hare (2003).

conditions shareholders would prefer a two-tier board structure, that is a separation between the advisory role (management board) and the monitoring role (supervisory board). They find that board independence is particularly valuable for a supervisory board in the two-tier board structure, but may not be valuable for the one-tier system due to the conflicting advisory and monitoring roles. The issue of which board structure is optimal depends on the level of the managerial control benefits. When those benefits are high, their model implies that the two-tier structure is better. Adams and Ferreira conclude that which board structure is selected should depend on shareholder preferences.

Graziano and Luponini (2005) argue that in the presence of large shareholders, the two-tier board system may be optimal because it can limit the interference of the large shareholder, correspondingly encouraging the manager to exert effort. Thus, their model supports the two-tier system in the presence of large shareholders (more concentrated ownership) as is the case in many European countries.

We address the debate on board structure by asking the institutions their board system preferences. The Netherlands provides a unique set-up to ask this question as Dutch firms have a choice between the two board structures. This allows us to elicit the board system preferences while holding the economic and legal framework constant. The responses are provided in Table 6. As can be seen from the table, our evidence contributes further to the debate about the costs and benefits of the respective structures and shows that it is indeed not settled. We find that the institutional investors are split, but there is twice as much preference for the two-tier system (52%) than the one-tier system (21%). These survey results are consistent with the Adams and Ferreira (2007) model perspective given an implication that for many of the firms in The Netherlands the managerial control benefits are higher. They are also consistent with the Graziano and Luponini (2005) argument that the two-tier system can be preferable in markets with more concentrated ownership, which is the case in The Netherlands.

4. Shareholder Activism

4.1 Exit and Voice: Shareholder Activism Measures

Theory has suggested that shareholders have choices of actions when they are unhappy with managerial performance. If institutional investors become dissatisfied with the companies

they invest in, they have three choices: exit, voice and loyalty (Hirschman, 1979). That is, the shareholders can choose to 1) ‘vote with their feet’ and sell the shares; 2) hold their shares and undertake actions against the company, or 3) hold their shares and do nothing. Traditional models on shareholder activism have focused on the benefits of corrective actions through direct intervention and ‘voice’ (e.g., Shleifer and Vishny 1986; Huddart, 1993; Admati, Pfleiderer, and Zechner, 1994; Maug, 1998; Kahn and Winton, 1998; Bolton and von Thadden, 1998; or Faure-Grimaud and Gromb, 2004). However, recent theoretical models have shown that activism through ‘exit’ can also be very effective and sometimes even more beneficial (e.g., Attari, Banerjee and Noe, 2006; Admati and Pfleiderer, 2008; Gopalan, 2008; Edmans, 2008; Edmans and Manso, 2008). The two sets of theories raise the question regarding which of the two mechanisms is more widely used by institutional investors in response to dissatisfaction.

To address the ideas raised by these theories, we elicited institutional investors’ views on shareholder activism as well as their views regarding what actions they would consider taking in pursuit of their goals. The use of a survey to gather this information is important. Although we can observe the activism undertaken by the institutional investors who choose to make it public, predominantly public pension funds, union funds and hedge funds, much institutional shareholder activism actually takes place behind the scenes, making it difficult to observe and measure. Previous evidence has primarily been derived from shareholder proposals, case studies, and activism by hedge funds or pension funds.²² Our survey method allows us to retrieve more general information about institutional investor attitudes and activities with regard to shareholder activism.

To shed light on the exit versus voice question and to understand the exact mechanisms of activism, we asked the institutional investors about the actions that would be considered against targeted firms. In the survey we presented a spectrum of possible forms of engagements, ranging from relatively quiet actions (i.e., ‘exit’ through selling shares) to very public and activist measures (i.e., ‘voice’ through lawsuits or public criticism). Investors could provide multiple responses to indicate the extent and spectrum of their willingness to engage. The responses to these questions are shown in Table 7 with Figure 4 further illustrating the relative importance of the different corrective actions. The most important corrective action/form of engagement that the

²² See Gillan and Starks, (2000, 2007); Becht, Franks, Mayer and Rossi (2007); Smith (1996); Klein and Zur (2008); Brav, Jiang, Partnoy and Thomas (2008); and Carleton, Nelson and Weisbach (1998).

investors are willing to take is to vote with their feet – 80% of the investors are willing to sell the shares in the portfolio company. Such an action is in some ways the easiest response, it is consistent with the theory evidence discussed above as well as previous empirical evidence that suggests that institutional selling could have a governance effect (Parrino, Sias and Starks, 2003). In particular, the fact that the institutional investors we survey would be in the position of being multiple blockholders supports the arguments of Edmans and Manso (2008) that while voice is effective with single blockholders, exit may be more effective with multiple blockholders.

Although not as prevalent as the exit choice, the voice option also received strong support from the survey respondents. In fact, the second most important corrective action/form of engagement according to our institutional investor respondents is to vote against the company at the annual meeting, 66% of the investors state they would take that approach.

One of the most striking responses is that 55% of the investors state they would engage in discussions with the firm's executives. The extent to which investors would be willing to seek discussions is quite high and shows that many institutional investors, in fact the majority of our sample, consider themselves as potentially active shareholders in terms of voice. A comparison of our results with the recent study by Brav, Jiang, Partnoy and Thomas (2008) who document that some hedge funds are very active in seeking communication with management also suggests that discussions with management are by far not restricted to this investor-type but a much more general phenomenon. Further, 22% of the investors would consider contacting the supervisory board. The two most extreme actions also received surprisingly high votes as 12% of the institutional investors are prepared to take legal measures and 11% are prepared to conduct public criticism. These responses are consistent with recent evidence surrounding firms (e.g., ABN Amro, Generali, Deutsche Börse). Surprisingly, the numbers on legal actions even exceed those documented in Brav, Jiang, Partnoy and Thomas (2008).

In terms of types of investors, hedge funds show the greatest willingness to take extreme actions but are by far not the only investor-type to do so. Even some pension funds, mutual funds, and insurance companies state that they are willing to conduct public criticism and to take legal actions.

In a second step, we further segment the sample according to institutional investor characteristics. We report the set of corrective actions for so-called independent and grey investors. Based on the categorizations of the FactSet/LionShares database by Ferreira and Matos

(2008), we consider hedge funds and mutual funds as independent investors and insurance firms and pension funds as grey investors.²³ Grey investors are considered to be potentially more conflicted (e.g. because they may also do business with the target firms). Consequently, these investors may be less likely to engage in shareholder activism. Our data suggests that differences do exist in some areas. Independent investors are more likely to vote against the company, engage in discussions with the executive board, and to disclose their voting decisions than are grey investors.²⁴

We also separate the investors into two groups according to their share turnover to get their implied investment horizons. The results are shown in the last two columns of Table 7. We find that the willingness to engage is unrelated to the institution's investment horizon, suggesting that shareholder activism is not primarily a phenomenon of short-term oriented investors (as is often claimed in the public debate in Europe).

In order to further examine institutions' willingness to engage in shareholder activism we construct a composite shareholder activism measure that is an investor-specific index of shareholder activism. This index is calculated by linearly adding the corrective actions an investor is willing to take (e.g. it adds a value of 1 if an investor is willing to give critical speeches at the annual meeting). The measure has a possible range between 0 (if an investor is not willing to take any actions) and 9 (if an investor is willing to take all actions), i.e. a higher number suggests that an investor is willing to be more activist. The advantage of our index is that it is based on the *actual* willingness of an investor to engage with firms rather than on an *ex ante* assumption that certain investor-types are more or less activist. Summary statistics of the measure are presented in Panel B of Table 7.²⁵ As might be expected given media coverage of their activities, the hedge funds in our sample are clearly more likely to engage in shareholder activism than are the other investors in our sample.

²³ This categorization is somewhat different from that of previous papers that use the 13-f data (e.g. Parrino, Sias, and Starks, 2003). Further, there are no public pension funds in our dataset.

²⁴ Choi and Fisch (2007) find that some public pension (which are likely to be more independent than private pension funds) can be very active in corporate governance (e.g. in shareholder litigation).

²⁵ We also use the shareholder activism measure to separate our sample into Activist and Non-Activist Investors. An investor is considered to be an Activist Investor if the activism measure from is above the sample median of 3 (i.e. if the investor is willing to take more corrective actions than the median); and a Non-Activist Investor otherwise. This categorization gives us 34% Activists and 64% Non-Activists.

4.2 Triggers of Shareholder Activism

Having examined the measures institutions are willing to take, we next investigate the corporate actions and events that trigger these measures and whether these triggers are different for investors that are considered to be activist or non-activist based on our engagement index. Our survey asked the institutions what events would trigger shareholder activism with respect to firms listed in the United States and The Netherlands. The results of these responses are provided in Table 8.

Panel A of Table 8 shows that the most important triggers are related to corporate strategy issues. More specifically, the three most important triggers are dissatisfaction with the goals and strategy of a firm, planned acquisitions, and corporate strategy in general. These results hold across countries. Interestingly, dissatisfaction with company performance does not appear to be the key driver, although it is still an important motivation consistent with the results of the Karpoff, Malatesta, and Walkling (1996) study of the characteristics of targets for shareholder proposals.

Panel B of Table 8 reports the perceptions of the triggers divided by the index of potential shareholder activism. We divide the sample of institutions at the median willingness to engage in activities score of 3 and show the mean of the importance for the United States and The Netherlands separately. The results show that for a number of the triggers, there is no significant difference across the activist and non-activist perceptions. The highest scores for the activist investors in absolute terms were again strategy-related issues. However, the score on goals and strategies were actually lower for the willing activist as compared to the non-activists. In addition, poor accounting performance is even less important for activists compared to non-activists.

4.3 Coordination of Shareholder Activism

It has been advocated for some time that institutional investors could contribute more to corporate governance and firm monitoring if they would speak up and in one voice (see, for example, Black, 1992). A question that then arises, but has not been well-established is the extent to which institutional investors coordinate their measures of shareholder activism, particularly if it takes place behind the scenes. Investors could conceivably keep such activities quiet due to legal limitations and threats regarding coordinated actions. In addition, acting in concert is illegal in many jurisdictions if it is not made public. The survey asked the question of whether the investors

would consider coordinating a corrective action and if not, whether legal risks were the primary reasons. The survey responses, provided in Table 9, suggest that coordination of corrective actions among institutional investors is very widespread. Of our respondents, 59% state they consider coordinating their actions. For the 41% of investors that do not coordinate, over half stated that it is primarily because of legal concerns. The institutional investors most likely to coordinate actions are pension funds and hedge funds, as well as the larger investors and those with shorter horizons.

Given that the annual shareholders meeting is often an important podium for shareholder activism, the question is how institutional investors prepare for these meetings. We asked the institutional investors a series of questions related to their preparation for the annual shareholders meeting. The responses are provided in Table 10 with responses for institutions in the United States in Panel A and The Netherlands in Panel B. In Panels C and D we divide the responses for the institutions in each country into activist and non-activist investors according to our shareholder activism index.

The responses in Panels A and B imply that the sample investors, who are primarily European investors, do not engage in as much preparation for the annual meetings of their holdings in the United States as they do for their holdings in The Netherlands. For annual meetings in the United States, 34% of the investors prepare their own point of view, while for the meetings in The Netherlands, 54% of the investors prepare their own point of view. Across both countries there is only limited coordinated action with other institutional investors prior to the meeting, although the typical case is to have none. Similarly, the responses show that some of the investors contact firm management, vote in concert with other institutional investors, and make use of the external proxy adviser, but these activities are not widespread. The division of the sample into activist and non-activist investors based on our activism measure in Panels C and D. Not surprisingly, with respect to their holdings in both countries activist investors are significantly more active than non-activist investors in preparing their own views regarding agenda items. In The Netherlands the activist investors are also more likely to contact the Executive Board of the company. Moreover, in both countries the activist investors are more likely to make use of proxy voting advisors.

5. Governance Preferences and Characteristics of Portfolio Firms

To this point we have provided evidence that institutional investors have definitive and diverse views regarding investor protection and corporate governance in the United States and The Netherlands. Moreover, many of these investors are apparently willing to engage in shareholder activism in furtherance of their views and influencing changes in their portfolio companies. In this section, we ask the question of whether a link exists between the characteristics of their portfolio holdings and their considerations of investor protection. Following LLSV (1998) and DLLS (2008), the views on investor protection in the United States can hereby be considered as proxying for an investors assessment of countries with generally high investor protection, while the views on The Netherlands rather proxy for its assessment of countries with weaker protection.

We first examine the relation between the characteristics of the portfolio holdings and the views on each of the investor protection variables. That is, we obtain data on the investors' portfolio holdings from FactSet/LionShares and match it with data on the portfolio firms from DataStream/Worldscope. We then construct firm characteristic measures of the firms' financial policies and performance using the approach and definitions of Cronqvist and Fahlenbrach (2008). We also add a measure of the ownership structures of the firms. We measure Tobin's Q as the market value of a firm divided by the book value of a firm and RoA (Return on Assets) as EBITDA over lagged total assets. Leverage is measured as total debt over total assets, dividend payout as dividends over earnings, cash holdings as the value of cash holdings over assets, investment as capital expenditure over lagged total assets, R&D expenditures as R&D expenditures over lagged total assets, M&A expenditures as the value of assets newly acquired over lagged total assets, and cash flow as EBIT over lagged total assets. Our ownership measure of closely held shares (CH shares) is the fraction of all shares that are held by insiders (including those held by directors, officers or immediate family members).²⁶

For each firm characteristic individually, we run the following regression

$$\text{Firm Characteristic}_{ci} = \text{Investor Protection}_i + \mathbf{X}_c + \mathbf{y}_i + \varepsilon_{ci} \quad (2)$$

²⁶ The corresponding variables are reported in Appendix A-3.

where the dependent variable $Firm\ Characteristic_{ci}$ is either Tobin's Q, Leverage, Dividends, Cash Holdings, Closely held Shares, Investment or R&D Expenditures of company c held by institutional investor i . $Investor\ Protection_i$ is the assessment of investor protection in the United States and The Netherlands by investor i . Investors could answer on a scale from 1 (strongly disagree) to 7 (strongly agree) to four statements regarding investor protection in the U.S. and in The Netherlands, respectively. Higher values suggest a more positive assessment of investor protection. X_c is a vector of firm-specific control variables which are log assets plus some of the above variables that are not the dependent variable in the regression. Finally, all regressions contain a vector of investor-specific controls, y_i , which includes the logarithm of the assets under management and the share turnover of an investor. For each firm characteristic, we include only one investor protection variable to avoid potential multicollinearity problems. The regressions are estimated using firm data from year-end 2007 (as well as the data lagged from that date). All regressions are estimated with heteroskedasticity robust standard errors which are clustered by institutional investor.

The results are provided in Table 11. To conserve space, the regression estimates for a given firm characteristic in Table 11 show the coefficients of four separate regressions (one for each investor protection assessment). The table also indicates which of the firm and investor controls are included in each of the four regressions for each characteristic. The results suggest that the characteristics of firms held in an institutional investor's portfolio are related to the investor's perception of the importance of the different investor protection mechanisms. For example, investors with strong assessments of minority interests being protected in the United States, are more likely to hold firms with lower Tobin's Q, more closely held firms, and firms with lower investments than investors with weak assessments of minority interests being protected.²⁷ The investor protection variable with the strongest relation to multiple firm characteristics is the assessment of whether there exist appropriate legal measures in place to allow shareholders to influence the general strategy of the company in which they invest. This variable is related to Tobin's Q, closely held shares, investment and R&D expenditures for the United States assessment and to leverage, investment, and R&D expenditures for the assessment

²⁷ These results are similar though sometimes less statistically strong (due the smaller sample size) if we restrict the analysis to portfolio firms in countries with English legal origin. We look at portfolio firms from all countries with English legal origin to avoid a too small sample size and assume that these countries have levels of investor protection similar to the United States (see La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998 and Djankov, La Porta, Lopze-de-Silanes and Shleifer, 2008).

of The Netherlands. The more strongly the institutional investors assess legal measures in place to allow them to influence company strategy, the more likely they are according to both measures to buy firms with low Tobin's Q, low investment, and low R&D. The implication of this result is that institutional investors who believe they have the legal ability to influence corporate strategy will be more likely to purchase firms that appear to be in need of a change in corporate strategy. Further, based on the United States measure, the institutional investors are also more likely to purchase firms with closely held shares, which suggests that they believe such an ownership structure would not preclude their being able to influence strategy. This implication is also consistent with the result on the assessment for the United States that minority interests are protected, which is also related to investments in firms with low Tobin's Q, closely held shares, and low investment.

6. Conclusion

Institutional investors make decisions about where to allocate their capital, both across countries and firms, yet we have little direct knowledge about their preferences regarding investor protection and corporate governance and how these preferences affect their investment decisions. By conducting a survey of a group of institutional investors with significant portfolio holdings in two countries that contrast in their investor protection regimes, we are able to provide insights into the investors' preferences and the relation of those preferences to their portfolio holdings.

Our study is able to show that for firms in the United States and The Netherlands institutional investors assess investor protection regimes in the same relative basis as is reflected by the anti-directors index (La Porta, Lopez de Silanes, Shleifer and Vishny, 1998; Djankov, La Porta, Lopez de Silanes and Shleifer, 2008) and the anti-self-dealing index (Djankov, La Porta, Lopez-de-Silanes and Shleifer, 2008). Importantly we find that the investors' assessments of the investor protection regimes are related to their views of the importance of firm-level corporate governance mechanisms as well as the characteristics of their portfolio holdings.

We also find that in the presence of weaker investor protection, firm-level corporate governance mechanisms are highly important, with the most important being mechanisms that mitigate potential agency conflicts between managers and shareholders (through incentives provided by executive compensation) and mechanisms that mitigate potential agency conflicts between large and small shareholders (through dispersed ownership structures, transparency

regarding large blockholders, and independent board structures). An important implication of these results is firms that reside in countries with weak legal regimes may be able to attract investors through having stronger corporate governance mechanisms.

We also find that the majority of the institutional investors who responded to our survey are willing to engage in shareholder activism. Their most likely methods would be first, to vote with their feet (i.e., simply sell the shares), second, to vote against the company at the annual meeting, and third, to engage in discussions with the firm's executives to achieve their goals. Further, a substantial number of the investors would consider contacting the firm's directors to discuss their concerns and some would even employ the more extreme measures of taking legal action. The strength of these responses combined with the fact that only a small percentage of the investors would engage in public criticism imply that behind-the-scenes shareholder activism may be more prevalent than previously thought.

In conclusion, our survey regarding the preferences of institutional investors toward country-level investor protection and firm-level corporate governance suggests that these factors are interrelated and highly important in investment decisions. The results also suggest that institutional investors who are actively monitoring their portfolio holdings are prepared and willing to engage in shareholder activism, even behind-the-scenes, to achieve their goals for the firms in their portfolios. These results have implications for firm management and boards in their decisions about corporate governance structures and the relation between those structures and the prevailing investor protection regime.

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Table 1: Institutional Investor Characteristics

Panel A of this table summarizes descriptive statistics of the main characteristics of the institutional investors that returned our questionnaires (total of 118 responses). It contains information on the assets under management of the investors (value of equity portfolio measured in 1000 USD), on the fraction of shares which are invested in firms listed in The Netherlands (in %) as well as in the U.S. (in %), and on the share turnover of the investors. The share turnover is measured as the value of all buy and sell transactions in a quarter divided by the market value of the equity portfolio. The data source for these investor characteristics is FactSet/LionShares. The number of observations varies and is smaller than 118 due to limited data availability in FactSet/LionShares. Panel A further reports data on the equity stakes that the institutional investors hold in their portfolio firms (in %) and reports the market values (in 1000 USD) of these stakes. This data is also from FactSet/LionShares. Panel B shows the distribution of the 118 survey respondents by investor-type (namely hedge funds, insurance companies, mutual funds, pension funds and other investors). The investor-type categorization is based on self-reported information in the returned questionnaires. Panel C reports main characteristics of the different investor-types (assets under management, shares invested in The Netherlands and U.S., and share turnover). Panel D reports the national origins of the investors. Hereby, the national origin is defined as the legal seat of an institutional investor. The data source for this information is FactSet/LionShares. Panel E lists self-reported information on which parts of the investor’s equity portfolios are invested as a result of an active (positive) investment decision or as a result of a passive investment decision (for diversification or index tracking only). The data source for this information is the returned questionnaires. Panel F records whether and to what extent the institutional investors make use of external proxy voting advisors (e.g. ISS or Glass Lewis) when determining how to vote in a Dutch annual meeting (AGM). Conditional on using such firms (i.e. if the answer is not ‘Never’), the panel also contains information on the extent to which the advice of the proxy voting firms is used. The data source for this information is also the returned questionnaires. The exact survey questions can be found in the Appendix. The FactSet/LionShares variables are calculated for the year-end 2007.

Panel A: Institutional Investor Characteristics

	Mean	Median	STD	5%	95%	Obs.
Investor Characteristic						
Assets under Management (in 1000 USD)	623,000	140,000	1,260,000	9,540	3,550,000	90
Fraction of Assets invested in NL (in %)	10.38%	6.85%	13.96%	0.00%	33.38%	90
Fraction of Assets invested in US (in %)	9.21%	0.00%	18.93%	0.00%	48.23%	90
Share Turnover	0.16	0.13	0.13	0.04	0.32	87
Number of Firms in Portfolio	89	60	135	20	292	89
Ownership Position in Portfolio Firms						
Percentage Ownership Stake (in %)	0.131	0.006	0.573	0.000	0.534	7919
Value of Ownership Stake (in 1000 USD)	6,103	841	20,100	44	29,400	7919

Panel B: Type of Institution

	All Investors		Hedge Fund		Insurance		Mutual Fund		Pension Fund		Other Investors	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Questionnaire Responses	118	100.0%	7	5.9%	9	7.6%	74	62.7%	7	5.9%	21	17.8%

Panel C: Characteristics by Investor-Types

	All Investors		Hedge Fund		Insurance		Mutual Fund		Pension Fund		Other Investors	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Assets under Management (in 1000 USD)	623,000	140,000	98,700	87,500	200,000	115,000	774,000	193,000	1,380,000	719,000	154,000	64,900
Fraction of Assets invested in NL (in %)	10.38%	6.85%	13.04%	13.08%	5.41%	6.55%	10.91%	6.95%	5.62%	5.29%	10.77%	6.83%
Fraction of Assets invested in US (in %)	9.21%	0.00%	25.75%	1.51%	6.35%	0.00%	7.53%	0.00%	0.00%	0.00%	15.34%	6.97%
Share Turnover	0.16	0.13	0.21	0.18	0.29	0.18	0.15	0.14	0.09	0.05	0.13	0.09
Obs.*	90	90	4	4	7	7	62	62	3	3	14	14

*Note: Share Turnover is calculated based 87 observations (only 59 Obs. for Mutual Funds)

Panel D: National Origin (Legal Seat) of Investors

	All Investors		Hedge Fund		Insurance		Mutual Fund		Pension Fund		Other Investors	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
The Netherlands	7	8%	2	50%	0	0%	3	5%	1	33%	1	7%
UK	6	7%	0	0%	1	14%	3	5%	1	33%	1	7%
US	6	7%	0	0%	0	0%	4	6%	1	33%	1	7%
Germany	6	7%	0	0%	1	14%	5	8%	0	0%	0	0%
France	8	9%	0	0%	2	29%	5	8%	0	0%	1	7%
Luxembourg	24	27%	0	0%	0	0%	17	27%	0	0%	7	50%
Other	33	37%	2	50%	3	43%	25	40%	0	0%	3	21%
Total	90	100%	4	100%	7	100%	62	100%	3	100%	14	100%

Panel E: Active versus Passive Investments

	All Investors		Hedge Fund		Insurance		Mutual Fund		Pension Fund		Other Investors	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Active Investment (in %)	69%	80%	93%	94%	60%	65%	72%	80%	49%	60%	61%	70%
Passive Investment (in %)	31%	20%	7%	6%	40%	35%	28%	20%	51%	40%	39%	30%
Obs.	99	99	6	6	8	8	60	60	7	7	18	18

Panel F: Importance of Proxy Voting Advisors

Usage of Proxy Voting Advisors	Always	That depends on the company	That depends on the agenda item	That depends on the circumstances	Never	Sum	Obs.
Percent of Responses	17%	10%	7%	13%	53%	100%	118
Manner of Usage of Proxy Voting Advice	Always follow advice fully	Use advice to determine own position	Use advice in case of own doubts	Others		Sum	Obs.
Percent of Responses	9%	65%	13%	13%		100%	55

Table 2: Assessment of Investor Protection by Institutional Investors

This table contains information on how institutional investors think about investor protection in the U.S. and The Netherlands. Investors could answers on a scale from 1 (strongly disagree) to 7 (strongly agree) to a set of statements regarding investor protection in these two countries. It contains the mean and median values of the responses as well as the number of available survey responses (Obs.). We also tested whether the mean response for the U.S. differed significantly from the mean response for The Netherlands and report corresponding *p*-values. Note that the table only contains responses of those investors which answered the questions both with regard to the U.S. and The Netherlands. The table also contains the anti-director rights index from La Porta, Lopez de Silanes, Shleifer and Vishny (1998) and the anti-self-dealing index from Djankov, La Porta, Lopez de Silanes and Shleifer (2008). For both indexes, higher values imply stronger investor protection. The exact survey questions can be found in the Appendix.

	United States				The Netherlands				Diff Sign
	Mean	Median	STD	Obs.	Mean	Median	STD	Obs.	<i>p</i> -value
Survey Responses									
Minority Shareholders Protected?	4.38	4.00	1.53	72	3.79	4.00	1.38	72	0.0028
Easy to Exercise Rights?	4.49	5.00	1.43	72	4.00	4.00	1.45	72	0.0180
Public Information Sufficient?	5.07	6.00	1.49	72	4.65	5.00	1.48	72	0.0091
Legal Rights in Place?	4.01	4.00	1.43	72	3.53	4.00	1.37	72	0.0042
Indexes from Country Data									
Anti-Directors Index (LLSV, 1998) revised	3.00				2.50				
Ant-Self-Dealing Index (DLS, 2008)	0.65				0.20				

Table 3: Relevance of Corporate Governance Mechanisms

This table tabulates responses on the assessment of a wide range of different firm-level corporate governance mechanisms by institutional investors. Institutional investors were asked to assess how important they consider different corporate governance and control devices when making investment decisions in The Netherlands. The governance and control devices range from issues related to anti-takeover devices, supervisory board and committee independence, equity compensation, voting as well as ownership and capital structure. Responses were measured on a scale from 1 (not important at all) to 7 (very important). The data source for this table is the returned questionnaires. The exact survey questions can be found in the Appendix.

	Not important at all (=1)	Un- important (=2)	More or less unimportant (=3)	Neutral (=4)	Somewhat Important (=5)	Important (=6)	Very important (=7)	At least somewhat important	Mean	Median	STD	Obs.
Issues Related to Anti-Takeover Devices												
Poisson Pills	3%	5%	8%	10%	20%	28%	26%	74%	5.26	6	1.64	92
Golden Parachutes	5%	5%	8%	12%	26%	30%	13%	69%	4.91	5	1.62	92
Supermajority Provisions	3%	5%	15%	18%	13%	27%	17%	57%	4.84	5	1.67	92
Prohibition of Greenmail Payments	2%	9%	8%	32%	16%	20%	17%	53%	4.63	4	1.55	90
Target Share Placements	2%	8%	8%	15%	15%	35%	16%	66%	5.05	6	1.59	91
Supervisory Board and Committee Independence Issues												
Supervisory Board Independence	2%	2%	2%	8%	18%	34%	34%	86%	5.74	6	1.37	92
Small Supervisory Board Size	2%	9%	10%	29%	26%	18%	5%	49%	4.46	4.5	1.39	92
Limitation on Director Terms	3%	17%	8%	22%	25%	19%	6%	50%	4.31	5	1.61	93
Possibility to Nominate Directors	3%	5%	4%	24%	25%	25%	14%	64%	4.91	5	1.49	93
Director Attendance at Meetings	2%	2%	3%	15%	16%	36%	25%	77%	5.48	6	1.41	92
Executive Compensation Issues												
Use of Equity Based Compensation	1%	3%	3%	6%	29%	37%	20%	86%	5.51	6	1.27	93
Equity Ownership by Managers	0%	3%	2%	8%	15%	37%	35%	87%	5.85	6	1.23	92
Voting Issues												
Confidential Voting	1%	9%	6%	35%	9%	27%	13%	49%	4.74	4	1.52	93
Multiple Voting Shares	2%	5%	5%	32%	15%	27%	13%	55%	4.86	5	1.47	92
Supermajority Voting Shares	2%	4%	5%	21%	16%	34%	16%	66%	5.13	6	1.48	91
Right to Call Special Shareholder Meetings	3%	7%	4%	16%	17%	33%	20%	70%	5.14	6	1.60	92
Preferred Shares	5%	11%	2%	30%	17%	25%	9%	51%	4.53	5	1.63	92
Share Certificates	5%	11%	4%	35%	18%	21%	5%	44%	4.33	4	1.55	91
Priority Shares	5%	7%	2%	24%	18%	30%	14%	62%	4.88	5	1.64	91
Ownership and Capital Structure Issues												
Ownership Concentration	0%	5%	4%	11%	23%	35%	22%	80%	5.43	6	1.35	93
Large Holdings of Institutional Investors	1%	12%	2%	19%	25%	32%	9%	66%	4.86	5	1.48	93
Cross-Shareholdings	0%	7%	3%	16%	23%	36%	15%	74%	5.24	6	1.35	92
Transparency about Holdings of Large Shareholders	0%	0%	6%	9%	12%	41%	32%	85%	5.84	6	1.16	93
Shareholder Agreements	1%	2%	8%	12%	19%	35%	23%	77%	5.43	6	1.37	93
High Free Float	0%	4%	1%	10%	15%	43%	27%	85%	5.72	6	1.24	93
High Leverage	2%	2%	4%	27%	17%	25%	23%	65%	5.19	5	1.45	93

Table 4: Relevance of Corporate Governance Mechanisms for Different Investor-Types

This table contains responses on the assessment of different corporate governance mechanisms for different institutional investor-types (hedge funds, insurance companies, mutual funds, pension funds, other investors). Investors were asked to assess how important they consider different corporate governance and control devices when taking investment decisions in The Netherlands. The governance and control devices range from issues related to anti-takeover devices, supervisory board and committee independence, equity compensation, voting as well as ownership and capital structure. Responses were measured on a scale from 1 (not important at all) to 7 (very important). For all different investor-types, the table contains the mean value and median value of the responses, as well as the number of available responses (Obs.). The data source for the table is the returned questionnaires. The exact survey questions can be found in the Appendix.

Mechanism	Hedge Fund			Insurance			Mutual Fund			Pension Fund			Other Investors		
	Mean	Median	Obs.	Mean	Median	Obs.	Mean	Median	Obs.	Mean	Median	Obs.	Mean	Median	Obs.
Issues Related to Anti-Takeover Devices															
Poison Pills	4.80	5.00	5	4.83	5.00	6	5.28	6.00	57	5.33	5.50	6	5.44	6.00	18
Golden Parachutes	4.20	5.00	5	4.50	5.00	6	4.82	5.00	57	5.33	6.00	6	5.39	6.00	18
Supermajority Provisions	5.20	6.00	5	3.83	4.00	6	4.81	5.00	57	5.17	5.50	6	5.06	5.00	18
Prohibition of Greenmail Payments	4.80	6.00	5	4.00	4.00	6	4.70	5.00	56	4.83	5.50	6	4.53	4.00	17
Target Share Placements	5.60	7.00	5	4.67	5.00	6	4.96	5.00	56	5.83	6.00	6	5.06	5.00	18
Supervisory Board and Committee Independence Issues															
Supervisory Board Independence	5.60	7.00	5	5.83	7.00	6	5.63	6.00	57	6.17	6.00	6	5.94	6.00	18
Small Supervisory Board Size	4.20	4.00	5	4.83	5.00	6	4.46	5.00	57	4.83	5.50	6	4.28	4.00	18
Limitation on Director Terms	4.80	6.00	5	4.33	4.50	6	4.14	4.00	58	5.33	5.00	6	4.39	4.00	18
Possibility to Nominate Directors	4.80	5.00	5	4.33	4.00	6	4.88	5.00	58	5.17	5.00	6	5.17	5.00	18
Director Attendance at Meetings	4.80	5.00	5	5.67	6.00	6	5.47	6.00	58	5.33	5.50	6	5.71	6.00	17
Executive Compensation Issues															
Use of Equity Based Compensation	5.20	6.00	5	5.17	5.00	6	5.66	6.00	58	5.17	6.00	6	5.33	5.00	18
Equity Ownership by Managers	6.25	6.50	4	5.33	5.50	6	5.97	6.00	58	5.50	6.00	6	5.67	6.00	18
Voting Issues															
Confidential Voting	4.20	4.00	5	3.67	3.50	6	4.79	4.00	58	5.33	6.00	6	4.89	5.00	18
Multiple Voting Shares	4.20	4.00	5	5.00	5.00	6	4.98	5.00	57	4.00	4.00	6	4.89	5.00	18
Supermajority Voting Shares	3.60	4.00	5	5.33	5.50	6	5.05	5.00	56	5.00	5.50	6	5.78	6.00	18
Right to Call Special Shareholder Meetings	4.80	5.00	5	4.67	4.50	6	5.11	6.00	57	5.17	5.50	6	5.50	6.00	18
Preferred Shares	3.00	2.00	5	4.83	5.50	6	4.49	4.00	57	4.33	4.00	6	5.06	5.00	18
Share Certificates	2.40	2.00	5	4.17	4.50	6	4.32	4.00	56	4.33	4.50	6	4.94	5.00	18
Priority Shares	3.60	4.00	5	4.67	5.50	6	4.82	5.00	56	5.83	6.00	6	5.17	5.50	18
Ownership and Capital Structure Issues															
Ownership Concentration	5.40	6.00	5	4.67	5.00	6	5.43	6.00	58	6.17	6.00	6	5.44	6.00	18
Large Holdings of Institutional Investors	4.20	4.00	5	4.50	5.00	6	4.72	5.00	58	5.50	6.00	6	5.39	6.00	18
Cross-Shareholdings	5.20	6.00	5	4.83	5.00	6	5.32	6.00	57	5.00	5.00	6	5.22	5.50	18
Transparency about Holdings of Large Shareh.	6.00	6.00	5	5.67	6.00	6	5.97	6.00	58	5.33	6.00	6	5.61	6.00	18
Shareholder Agreements	5.40	6.00	5	5.83	6.00	6	5.48	6.00	58	5.67	6.00	6	5.06	5.00	18
High Free Float	4.80	4.00	5	6.00	6.00	6	5.76	6.00	58	6.17	6.00	6	5.61	6.00	18
High Leverage	5.20	5.00	5	5.33	5.50	6	5.22	5.00	58	5.50	6.00	6	4.94	5.00	18

Table 5: Investor Protection and Corporate Governance

This table contains estimates of ordered response models (ordered logit models) at the institutional investor level. The dependent variables in these regressions capture how important institutional investors consider a set of firm-level corporate governance mechanisms. The importance of these governance mechanisms was measured on a scale from 1 (not important at all) to 7 (very important). The main independent variable measures to what extent institutional investors agree to the statement that minority shareholders are adequately protected in The Netherlands (country-level minority shareholder protection). This variable has a possible range between 1 (=strongly disagree) and 7 (=strongly agree). Control variables are the assets under management of an investor, the fraction of shares that are invested in The Netherlands and dummy variables for the investor-type as well as for the national origin of the investors. In the interest of saving space, we only report those regressions where the investor protection proxy is significantly related to the firm level governance variable. Robust t-statistics are reported in parentheses. * means significant at 10%, ** significant at 5%, and *** significant at 1%.

Dependent Variable:	Poisson Pills	Golden Parachutes	Supermajority Provisions	Prohibition of Greenmail Payments	Target Share Placements	Supervisory Board Independence	Equity Ownership by Managers	Multiple Voting Shares	Supermajority Voting Shares	Priority Shares
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Minority Shareholders Protected?	-0.502*** (-2.92)	-0.360** (-2.30)	-0.333* (-1.90)	-0.371* (-1.94)	-0.403*** (-2.59)	-0.354** (-2.16)	-0.501*** (-2.94)	-0.450*** (-2.72)	-0.418** (-2.15)	-0.378** (-2.57)
Assets under Mgmt	6.08e-10* (1.79)	8.41e-11 (0.41)	2.49e-10 (1.43)	2.29e-10 (1.46)	7.37e-10*** (3.82)	1.14e-10 (0.69)	2.93e-10 (1.38)	4.82e-10** (2.14)	2.59e-11 (0.16)	3.73e-10* (1.67)
Fraction of Assets invested in NL	-1.769 (-0.96)	1.762 (0.86)	1.393 (0.57)	1.556 (0.74)	-1.926 (-0.82)	1.229 (0.51)	3.690 (1.29)	6.034*** (3.10)	5.166** (2.05)	7.338*** (2.70)
Institutional Investor Types Dummy	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
National Origin Dummy	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Obs.	69	69	69	68	69	70	70	70	69	69
Pseudo R-Square	0.123	0.123	0.103	0.065	0.091	0.124	0.040	0.076	0.138	0.093

Table 6: One Tier versus Two Tier Board Structure

This table tabulates information on the preferences of the institutional investors with regard to the board structures of firms. Investors could express their preference with respect to (i) a one tier board structure (a system with executive and non-executive directors on the same board), (ii) a two tier board structure (a system with separate management and supervisory boards), or could state that they had (iii) no preference. The table contains the percentage of responses for each of the three categories. We summarize the information for different investor types (hedge funds, insurance companies, mutual funds, pension funds, other investors) and for several other characteristics of the investors (size of investor, fraction of US and NL share holdings, investment horizon and national origin). An investor is considered to be large if its assets under management are above the sample median. An investor is considered to have large US (NL) holdings, if its fraction of equity holdings invested in the US (NL) are above the sample median. An investor is considered to have a long investment horizon if its share turnover is below the sample median. The exact survey question can be found in the Appendix.

	Preference over Board Systems			Obs.
	One Tier System	Two Tier System	No Preference	
All Investors	21%	52%	27%	92
Hedge Fund	40%	60%	0%	5
Insurance	17%	50%	33%	6
Mutual Fund	22%	47%	31%	59
Pension Fund	0%	67%	33%	6
Other Investors	19%	63%	19%	16
Large Investor (\geq Median)	26%	42%	32%	38
Small Investor ($>$ Median)	21%	52%	27%	33
Large US Holdings (\geq Median)	19%	52%	29%	31
Small US Holdings ($<$ Median)	28%	43%	30%	40
Large NL Holdings (\geq Median)	20%	51%	29%	35
Small NL Holdings ($<$ Median)	28%	42%	31%	36
Long Horizon (Share Turnover $<$ Median)	27%	41%	32%	37
Short Horizon (Share Turnover \geq Median)	21%	52%	27%	33
Origins:				
The Netherlands	14%	71%	14%	7
UK	33%	33%	33%	3
US	0%	40%	60%	5
Germany	0%	50%	50%	4
France	0%	75%	25%	4
Luxembourg	32%	36%	32%	22
Other	31%	46%	23%	26

Table 7: Shareholder Activism by Institutional Investors: Corrective Actions

Panel A of this table contains information on the measures institutional investors are prepared to take as corrective actions (shareholder activism) against companies they have invested in. The information is presented for different investor-types (hedge funds, insurance company, mutual fund, or pension fund), according to whether an investor is an independent or grey investor, and according to whether investors have a long (Share Turnover>Median) or short investment horizon (Share Turnover<=Median). Based on Ferreira and Matos (2008), we consider hedge funds and mutual funds as independent investors and insurance firms and pension funds as grey investors. Panel B contains a self-constructed activism measure. It is constructed as an index that linearly adds the corrective actions an investor is willing to take. It can therefore range between 0 (no actions) and 9 (all actions). A higher number suggests that an investor is willing to be more active and to take more actions against a company. The panel shows the activism measure for different investor-types and investment horizons. An investor is considered to be an Activist Investor if the activism measure from is above the sample median (i.e. if the investor is willing to take more corrective actions than the median); and a Non-Activist Investor otherwise. The exact survey questions can be found in the Appendix.

Panel A: Corrective Actions

	Overall	Hedge Funds	Insurance	Mutual Funds	Pension Funds	Other Investors	Indep. Investors	Grey Investors	Long Horizon	Short Horizon
Selling Shares	80%	75%	71%	79%	83%	88%	78%	77%	82%	73%
Voting Against Comp. at the Annual Meeting	66%	75%	57%	67%	0%	53%	68%	31%	58%	65%
Critical Speeches at Annual Meeting	19%	25%	14%	20%	17%	18%	20%	15%	16%	11%
Proposals at Annual Meeting	20%	50%	14%	21%	17%	12%	23%	15%	18%	22%
Discussion with Executive Board	55%	75%	29%	59%	33%	53%	60%	31%	53%	51%
Contact Supervisory Board	22%	75%	14%	21%	17%	18%	25%	15%	18%	22%
Public Criticism	11%	25%	14%	10%	0%	12%	11%	8%	8%	11%
Disclosure of Voting at Annual Meeting	21%	50%	14%	23%	0%	18%	25%	8%	21%	19%
Legal Measures	12%	50%	0%	7%	17%	24%	9%	8%	5%	14%

Panel B: Self-Constructed Activism Measure

Shareholder Activism Measure

Mean	3.05	5.00	2.28	3.07	2.83	2.94	3.18	2.54	2.63	2.80
Median	3.00	5.00	2.00	2.80	2.00	3.00	3.00	2.00	2.00	3.00
Min	0.00									
Max	9.00									
STD	2.16									

Investors categorized as...

Activist Investors	34 (36%)
Non-Activist Investors	61 (64%)

Table 8: Triggers of Shareholder Activism in the United States and in The Netherlands

Panel A of this table lists information on the importance of a set of corporate events for triggering a corrective action (shareholder activism) against a target firm held by an institutional investor. We have information on the relative importance of such triggers for target firms listed in the United States and in The Netherlands. The investors could indicate the relevance of a certain trigger on a scale from 1 (not important at all) to 7 (very important). The table contains the mean and median response values. Multiple responses were possible. Note that the table only contains responses of those investors which answered the questions both with regard to the U.S. and The Netherlands. We also tested whether the mean response values for the US and The Netherlands are significantly different from each other and report the respective *p*-values. Panel B reports the importance of certain triggers for activist and non-activist investors. An investor is considered to be an activist if the activism measure from Table 7 is above the sample median (i.e. if the investor is willing to take more corrective actions than the median). The exact survey questions can be found in the Appendix.

Panel A: Triggers for Shareholder Activism

	<u>Target in United States</u>				<u>Target in The Netherlands</u>				Diff. Sign?
	Mean	Median	STD	Obs.	Mean	Median	STD	Obs.	<i>p</i>-value
Poor accounting performance	5.28	6.00	1.63	67	5.30	6.00	1.61	67	0.709
Poor stock price performance (absolute performance)	4.60	5.00	1.67	68	4.63	5.00	1.68	68	0.418
Poor stock price performance relative to peers	4.99	5.00	1.62	68	5.03	5.00	1.60	68	0.182
Excessive compensation packages	5.09	5.00	1.51	68	5.10	5.00	1.51	68	0.568
Low payments to shareholders despite high cash hold.	5.07	5.00	1.34	68	5.04	5.00	1.35	68	0.418
Suboptimal capital structure	5.24	5.00	1.16	68	5.24	5.00	1.16	68	1.000
Poor corporate strategy	5.59	6.00	1.21	68	5.59	6.00	1.22	68	1.000
Rights issues	4.90	5.00	1.25	68	4.93	5.00	1.24	68	0.159
Significant asset sales	5.13	5.00	1.12	68	5.18	5.00	1.12	68	0.182
Planned acquisitions	5.61	6.00	1.09	67	5.63	6.00	1.07	67	0.321
Goals & strategy	6.00	6.00	1.16	68	6.04	6.00	1.11	68	0.260

Panel B: Triggers for Activist versus Non-Activist Investors

	Activist Investors				Non-Activist Investors				US Diff. Sign.	NL Diff. Sign.
	(Shareholder Activism Measure > Median)				(Shareholder Activism Measure ≤ Median)					
	<u>Target in US</u>		<u>Target in NL</u>		<u>Target in US</u>		<u>Target in NL</u>			
	Mean	Median	Mean	Median	Mean	Median	Mean	Median		
Poor accounting performance	4.71	5.00	4.75	5.00	5.60	6.00	5.60	6.00	0.0246	0.0442
Poor stock price performance (absolute performance)	4.42	5.00	4.46	5.00	4.70	5.00	4.73	5.00	0.4858	0.6834
Poor stock price performance relative to peers	4.88	5.00	4.92	5.00	5.05	5.00	5.09	5.00	0.6792	0.9053
Excessive compensation packages	5.13	5.00	5.13	5.00	5.07	5.00	5.09	6.00	0.8792	0.8389
Low payments to shareholders despite high cash hold.	5.21	5.00	5.17	5.00	5.00	5.00	4.98	5.00	0.5855	0.1748
Suboptimal capital structure	5.54	6.00	5.58	6.00	5.07	5.00	5.05	5.00	0.1219	0.2107
Poor corporate strategy	5.46	5.00	5.50	6.00	5.66	6.00	5.64	6.00	0.4570	0.5940
Rights issues	5.08	5.00	5.17	6.00	4.80	5.00	4.80	5.00	0.3345	0.0176
Significant asset sales	4.92	4.50	4.96	5.00	5.25	5.00	5.30	5.00	0.2168	0.1210
Planned acquisitions	5.57	6.00	5.61	6.00	5.64	6.00	5.64	6.00	0.9441	0.6173
Goals & strategy	5.50	5.50	5.67	6.00	6.27	7.00	6.25	7.00	0.0061	0.0421

Table 9: Coordination of Shareholder Activism by Institutional Investors

Panel A of this table contains information on whether institutional investors consider coordinating their shareholder activism (corrective actions) with other investors. The table also subdivides the sample according to different investor criteria. We summarize the information for different investor-types (hedge funds, insurance companies, mutual funds, pension funds, other investors) and for several other characteristics of the investors (size of investor, fraction of US and NL share holdings, investment horizon and national origin). An investor is considered to be large if its assets under management are above the sample median. An investor is considered to have large US (NL) holdings, if its fraction of equity holdings invested in the US (NL) are above the sample median. An investor is considered to have a long investment horizon if its share turnover is below the sample median. Panel B contains information on the reasons why investors do not coordinate their shareholder actions (if the answer in the previous question was no). The exact survey questions can be found in the Appendix.

Panel A: Coordination of Activism

Type of Investor	Would you consider coordinating a corrective action?		Obs.
	No	Yes	
All Investors	41%	59%	91
Hedge Fund	25%	75%	4
Insurance Company	40%	60%	5
Mutual Fund	41%	59%	59
Pension Fund	17%	83%	6
Other Investors	53%	47%	17
Large Investor (\geq Median)	32%	68%	38
Small Investor ($>$ Median)	55%	45%	33
Large US Holdings (\geq Median)	50%	50%	32
Small US Holdings ($<$ Median)	36%	64%	39
Large NL Holdings (\geq Median)	47%	53%	34
Small NL Holdings ($<$ Median)	38%	62%	37
Long Horizon (Share Turnover $<$ Median)	50%	50%	36
Short Horizon (Share Turnover \geq Median)	35%	65%	34
Origins:			
The Netherlands (NL)	29%	71%	7
UK	33%	67%	3
US	20%	80%	5
Germany (DE)	100%	0%	3
France (FR)	0%	100%	4
Luxembourg (LU)	50%	50%	22

Panel B: Reasons for Non-Coordination

Why No Coordination?	Legal Risks	Other Reasons	Obs.
		59%	

Table 10: Preparation of Annual Meeting

This table tabulates information on the measures taken by institutional investors to prepare for the annual meeting of a company. Panel A provides this information for annual meetings of firms in the United States while Panel B provides this information for annual meetings of companies in The Netherlands. Panel C and D separate the sample according to the shareholder activism measure from Table 7. This measure is constructed as an index that linearly adds the corrective actions an investor is willing to take. It can therefore range between 0 (no actions) and 9 (all actions). A higher number suggests that an investor is willing to be more active and to take more actions against a company. The data source for this information is the returned questionnaires. Multiple answers were possible. The exact survey questions can be found in the Appendix.

Panel A: Annual Meetings in the United States

Summary Statistics	No		Yes		Obs.
	Responses	Percent	Responses	Percent	
Prepare your own point of view in relation to agenda of the company	59	66%	31	34%	90
Contact other institutional investors	85	94%	5	6%	90
Contact the Executive Board of the company	84	93%	6	7%	90
Get legal advice	86	96%	4	4%	90
Decide to vote in concert with other institutional investors	79	88%	11	12%	90
Make use of an external proxy voting advisor	67	74%	23	26%	90

Panel B: Annual Meetings in The Netherlands

Summary Statistics	No		Yes		Obs.
	Responses	Percent	Responses	Percent	
Prepare your own point of view in relation to agenda of the company	41	46%	49	54%	90
Contact other institutional investors	78	87%	12	13%	90
Contact the Executive Board of the company	79	88%	11	12%	90
Get legal advice	86	96%	4	4%	90
Decide to vote in concert with other institutional investors	77	86%	13	14%	90
Make use of an external proxy voting advisor	56	62%	34	38%	90

Table 10 (continued)

Panel C: Annual Meetings In the US for Activist and Non-Activist Investors

	Activist Investors (Shareholder Activism Measure>Median)				Non-Activist Investors (Shareholder Activism Measure<=Median)				Diff. Sign.
	No		Yes		No		Yes		<i>p</i> -value
	Responses	Percent	Responses	Percent	Responses	Percent	Responses	Percent	
Prepare your own point of view in relation to agenda of the company	16	52%	15	48%	43	73%	16	27%	0.0442
Contact other institutional investors	28	90%	3	10%	57	97%	2	3%	0.2204
Contact the Executive Board of the company	28	90%	3	10%	56	95%	3	5%	0.4122
Get legal advice	29	94%	2	6%	57	97%	2	3%	0.5085
Decide to vote in concert with other institutional investors	28	90%	3	10%	51	86%	8	14%	0.5980
Make use of an external proxy voting advisor	17	55%	14	45%	50	85%	9	15%	0.0017

Panel D: Annual Meetings in the Netherlands for Activist and Non-Activist Investors

	Activist Investors (Shareholder Activism Measure>Median)				Non-Activist Investors (Shareholder Activism Measure<=Median)				Diff. Sign.
	No		Yes		No		Yes		<i>p</i> -value
	Responses	Percent	Responses	Percent	Responses	Percent	Responses	Percent	
Prepare your own point of view in relation to agenda of the company	5	16%	26	84%	36	61%	23	39%	0.0000
Contact other institutional investors	25	81%	6	19%	53	90%	6	10%	0.2278
Contact the Executive Board of the company	23	74%	8	26%	56	95%	3	5%	0.0040
Get legal advice	29	94%	2	6%	57	97%	2	3%	0.5085
Decide to vote in concert with other institutional investors	27	87%	4	13%	50	85%	9	15%	0.7662
Make use of an external proxy voting advisor	11	35%	20	65%	45	76%	14	24%	0.0001

Table 11: Investor Protection and Portfolio Firm Characteristics

This table summarizes coefficient estimates of regressions of portfolio firm characteristics on investor protection assessments by institutional investors. The sample consists of the portfolio firms held by 89 out of 118 institutional investors that returned our questionnaire. For each investor protection variable, the table reports the coefficient of a separate regression of a given portfolio firm characteristic (e.g. Tobin's Q) on the investor protection variable (e.g. the assessment whether investors believe minority shareholders are protected in the US/NL). We run individual regressions for each of the investor protection variables to avoid multicollinearity problems (the investor protection variables are highly correlated with each other). Investors could answers on a scale from 1 (strongly disagree) to 7 (strongly agree) to a set of statements regarding investor protection in the US and in The Netherlands. Panel A contains the investor protection assessment for the US, and Panel B for the Netherlands. The sample consists of firms that are being held in the portfolios of the institutional investors by the end of 2007. The firm characteristics are also for the year 2007. Robust *t*-statistics are reported in parentheses. Standard are clustered at the institutional investor level. The regressions control for a set of firm and institutional investor characteristics. Tobin's Q is the market value of a firm divided by the book value of a firm, RoA (Return on Assets) is EBITDA over lagged total assets, leverage is total debt over total assets, dividends is dividends over earnings, cash holdings is the value of cash holdings over assets, CH shares is the fraction of all shares that are held by insiders (including those held by directors, officers or immediate family members), investment is capital expenditure over lagged total assets, R&D Expenditures is R&D expenditures over lagged total assets, M&A Expenditures is the value of acquired assets over lagged total assets and cash flow is EBIT over lagged total assets. The total number of observations varies between 3,074 and 6,752 firms due to limited data availability on the firm characteristics. The source of data for the portfolio holdings is FactSet/LionShares and for the firm characteristics DataStream/Worldscope. * means significant at 10%, ** at 5%, *** at 1%.

	Investor Protection Assessment in the United States								
	Tobin's Q (1)	RoA (2)	Leverage (3)	Dividends (4)	Cash Holdings (5)	CH Shares (6)	Investment (7)	R&D Exp. (8)	M&A Exp. (9)
Coeff. of Indiv. Regressions									
Minority Interests Protected?	-0.0607** (-2.51)	-0.0016 (-0.73)	-0.0035 (-0.67)	0.0165 (0.30)	-0.0024 (-0.60)	1.052*** (2.67)	-0.0038* (-1.80)	-0.0012 (-1.34)	-0.0027* (-1.92)
Easy to Exercise Rights?	0.0179 (0.59)	0.0048** (2.06)	-0.0082 (-1.60)	0.0179 (0.33)	-0.0058* (-1.75)	-0.303 (-0.46)	-0.0018 (-0.85)	-0.0007 (-0.68)	0.0005 (0.34)
Public Information Sufficient?	-0.0347 (-1.24)	0.0012 (0.42)	-0.0104 (-1.57)	0.0070 (0.17)	-0.0014 (-0.37)	0.615 (1.39)	-0.0049* (-1.80)	-0.0016* (-1.75)	-0.0004 (-0.21)
Legal Rights in Place?	-0.0666*** (-2.77)	-0.0027 (-1.01)	-0.0030 (-0.60)	0.0361 (0.73)	-0.0067 (-1.19)	1.040** (2.27)	-0.0046* (-1.87)	-0.003*** (-3.10)	-0.00018 (-0.13)
Firm Controls									
Log(Total Assets)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R&D Exp.	Yes	Yes	No	No	No	No	No	No	No
Leverage	Yes	Yes	No	No	No	No	No	No	No
Cash Flow	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
RoA	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tobin's Q	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Investor Controls									
Log(Assets under management)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Turnover	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered by Inv.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Investor Protection Assessment in The Netherlands									
	Tobin's Q	RoA	Leverage	Dividends	Cash Holdings	CH Shares	Investment	R&D Exp.	M&A Exp.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Coeff. of Indiv. Regressions									
Minority Interests Protected?	0.00830	-0.0007	-0.0074	0.0603	0.005	0.992**	-0.002	-0.0001	-0.0002
	(0.29)	(-0.26)	(-1.37)	(0.89)	(1.17)	(2.27)	(-0.78)	(-0.11)	(-0.17)
Easy to Exercise Rights?	0.0750***	0.002	-0.0079	0.0247	0.0027	-0.607	-0.0009	0.0019*	0.003*
	(2.69)	(0.79)	(-1.54)	(0.34)	(0.60)	(-0.96)	(-0.38)	(1.72)	(1.93)
Public Information Sufficient?	-0.0058	0.0026	-0.0154**	0.116	-0.0049	0.589	-0.0059*	-0.0018	0.0003
	(-0.15)	(0.72)	(-2.31)	(1.65)	(-0.94)	(0.94)	(-1.85)	(-1.40)	(0.15)
Legal Rights in Place?	-0.0419	-0.0036	-0.0140**	0.0187	-0.0048	0.822	-0.0072**	-0.0025**	0.0008
	(-1.62)	(-1.34)	(-2.33)	(0.30)	(-0.79)	(1.57)	(-2.59)	(-2.55)	(0.51)
Firm Controls									
Log(Total Assets)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R&D Exp.	Yes	Yes	No	No	No	No	No	No	No
Leverage	Yes	Yes	No	No	No	No	No	No	No
Cash Flow	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
RoA	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tobin's Q	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Investor Controls									
Log(Assets under management)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Turnover	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Standard Errors Clustered by Inv.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Figure 1: Active versus Passive Investments

This figure lists self-reported information on the parts of the portfolios of the institutional investors that are invested as a result of an active (positive) investment decision or as a result of a passive investment decision (for diversification or index tracking only). The data source for this information is the returned questionnaires.

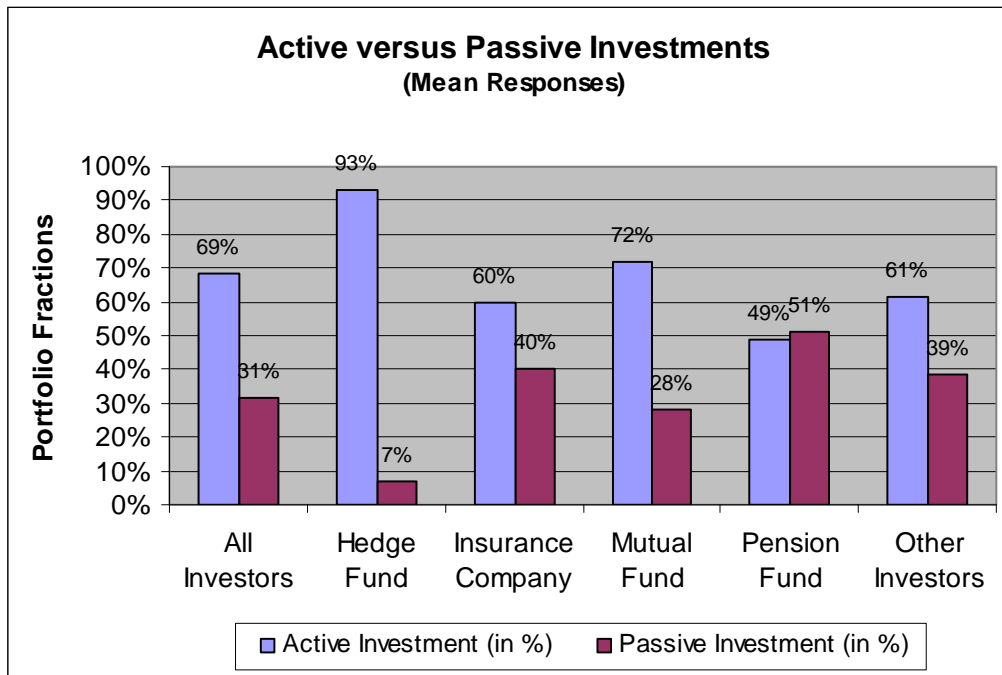


Figure 2: Assessment of Investor Protection

This figure contains information on how institutional investors think about investor protection in the United States and in The Netherlands. Investors could provide answers on a scale from 1 (strongly disagree) to 7 (strongly agree) to a set of statements regarding investor protection in the two countries. The exact questions can be found in the questionnaire (see Appendix).

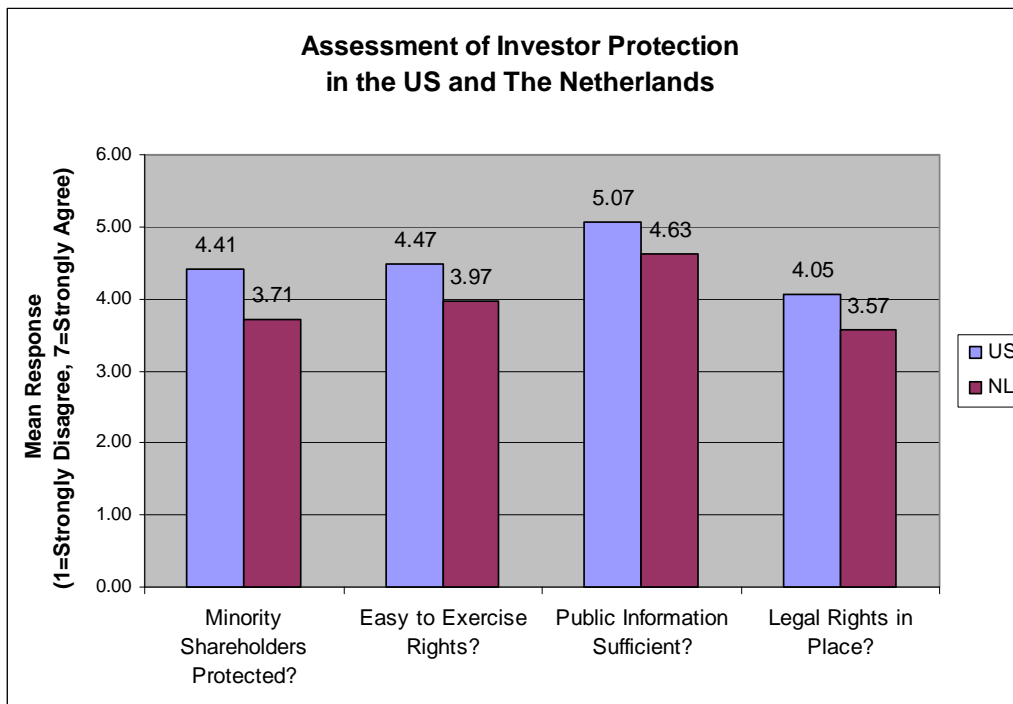


Figure 3: Assessment of Corporate Governance Mechanisms

This figure shows the five firm-level corporate governance mechanisms that are considered to be most and least important for their investment decisions according to the institutional investors. The governance and control devices range from issues related to anti-takeover devices, supervisory board and committee independence issues, equity compensation issues, to voting issues and ownership and capital structure issues. Responses were measured on a scale from 1 (not important at all) to 7 (very important).

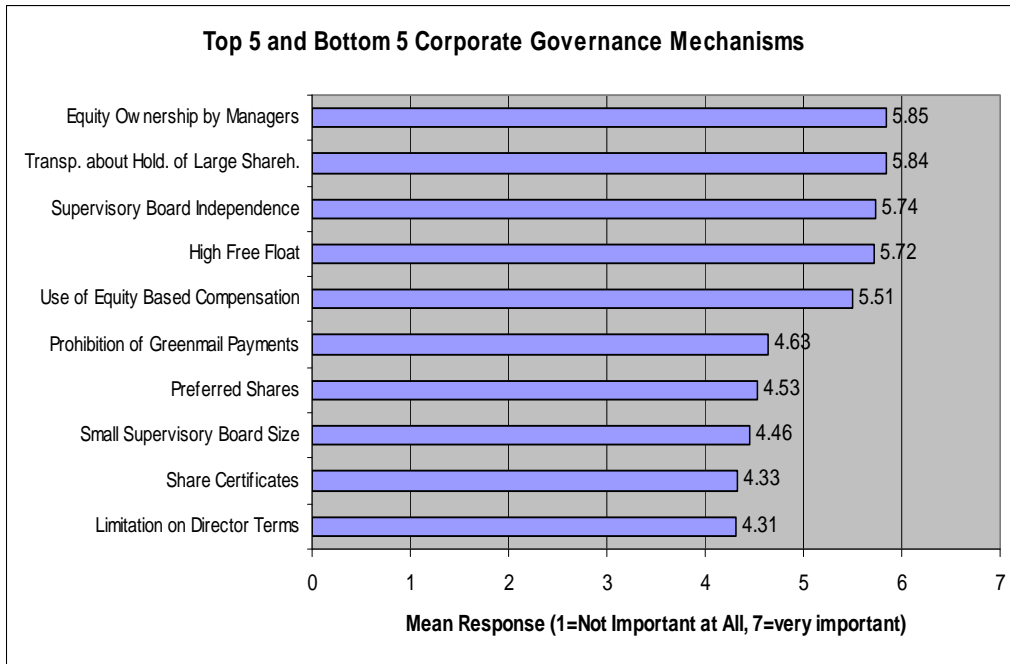
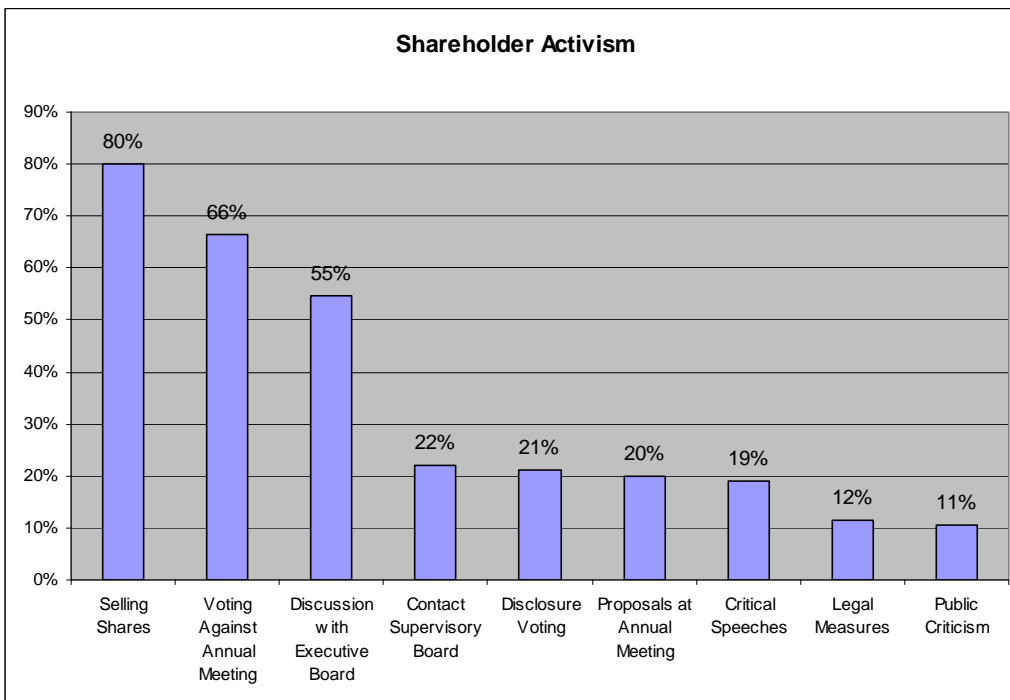


Figure 4: Shareholder Activism

This figure contains information on the measures investors are prepared to take as corrective actions (shareholder activism) against the companies they have invested in. The table reports the fraction of investors that are willing to take a certain action. Multiple responses were possible.



Appendix A-1: Questionnaire

Introduction

Thank you very much for participating in this survey.

As a token of our appreciation for your co-operation you can apply for a complimentary copy of one of the following books:

- The Age of Turbulence: Adventures in a New World by Alan Greenspan
- Pay without Performance: The Unfulfilled Promise of Executive Compensation by Lucian Bebchuk and Jesse Fried
- Corporate Governance (2nd Edition) by Kenneth A. Kim and John R. Nofsinger

We would like to make use of all provided answers. In case you unexpectedly did not fill in the questionnaire completely, we will make use of the answers you already handed over to us. We assume that you have no objection to this, in case you have, please tick the box below.

- I do not want my answers to be processed if I have not completed the survey entirely.

In this survey we use a 7 point scale. There are two different types of questions in which this scale is used. Below both scales are written down, in the explanation of the specific question only the extremes of the scale are written down.

- | | |
|-----------------------------|----------------------|
| 1. not important at all | 1. strongly disagree |
| 2. unimportant | 2. disagree |
| 3. more or less unimportant | 3. somewhat disagree |
| 4. neutral | 4. neutral |
| 5. somewhat important | 5. somewhat agree |
| 6. important | 6. agree |
| 7. very important | 7. strongly agree |

Part A: General information regarding institution/fund

This part of the questionnaire contains some general questions about the fund/institution you work for.

A1 You work for a fund/institution which can be best described as:

- | | | |
|--|--|---|
| <input type="checkbox"/> hedge fund | <input type="checkbox"/> pension fund | <input type="checkbox"/> endowment, charity |
| <input type="checkbox"/> insurance company | <input type="checkbox"/> private equity fund | <input type="checkbox"/> other, namely: _____ |
| <input type="checkbox"/> mutual fund | | |

A2. Do you make use of an external proxy voting advisor (like ISS or Glass Lewis) when determining how to vote in a Dutch annual general meeting?

- | | | |
|--|--|--------------------------------|
| <input type="checkbox"/> always | <input type="checkbox"/> that depends on the agenda item | <input type="checkbox"/> never |
| <input type="checkbox"/> that depends on the company | <input type="checkbox"/> that depends on the circumstances | |

In case the answer of question A2.a is not 'never'.

A2. In what manner do you use the external proxy voting advisor?

- b
- I always follow their advice blindly (full proxy)
 - I use their advice to determine my own position
 - In case I have (some) doubts about my own position, the advice of the external proxy voting advisor is binding for me
 - other, namely: _____

A3 Which part of your shares portfolio (in percentages) is the result of a positive investment decision (active, satellite) and which part is the result of diversification (passive, core)?

_____ positive investment (active, satellite)

_____ diversification (passive, core)

- | | |
|---|---|
| <input type="checkbox"/> selling shares held in the company | <input type="checkbox"/> contacting the supervisory board to seek management change |
| <input type="checkbox"/> voting against at AGM | <input type="checkbox"/> publicly criticizing executive board members |
| <input type="checkbox"/> critical speeches at the AGM | <input type="checkbox"/> disclosure of voting (against) at AGM |
| <input type="checkbox"/> proposals at the AGM | <input type="checkbox"/> use of lawsuits against managers |

C2. How important are the following events for potentially triggering a corrective action? (Scale from 1 not important at all to 7 very important)

US (standard)	NL	
_____	poor accounting performance (e.g. missing of pre-set EBIT or sales figures)
_____	poor stock price performance (absolute performance)
_____	poor stock price performance relative to peers
_____	excessive compensation packages
_____	low payments to shareholders despite high cash holdings
_____	suboptimal capital structure
_____	poor corporate strategy (e.g. firm is too diversified)
_____	rights issues
_____	significant asset sales
_____	planned acquisitions
_____	goals & strategy

C3. Would you consider coordinating such a corrective action with other investors?
 yes no

In case the answer of question C3.a is 'no'.

C4. What is the reason for not coordinating your actions with other investors?
 legal risks (acting in concert) other reason: _____

Part D: Voting behavior and decision making in the AGM

The final part of the questionnaire contains questions about your voting behavior in the Annual General Meeting in the Netherlands compared to the US and decision making in the Annual General Meeting in both countries. (In case the answer to question A.2b is 'I always follow their advice blindly (full proxy)', the questions below are skipped)

D1 Prior to an annual general shareholder meeting of a company, do you:

US (standard)	The Netherlands
<input type="checkbox"/> prepare your own point of view in relation to agenda of the company	<input type="checkbox"/> prepare your own point of view in relation to agenda of the company
<input type="checkbox"/> contact other institutional investors	<input type="checkbox"/> contact other institutional investors
<input type="checkbox"/> have meetings with other institutional investors	<input type="checkbox"/> have meetings with other institutional investors
<input type="checkbox"/> contact the Executive Board of the company	<input type="checkbox"/> contact the Executive Board of the company
<input type="checkbox"/> get legal advice	<input type="checkbox"/> get legal advice
<input type="checkbox"/> decide to vote in concert with other institutional investors	<input type="checkbox"/> decide to vote in concert with other institutional investors
<input type="checkbox"/> make use of an external proxy voting advisor	<input type="checkbox"/> make use of an external proxy voting advisor

Appendix A-2: Evaluation of Non-Response Bias

Panel A of this table compares descriptive statistics of the institutional investors that returned our questionnaires with all non-responding investors as well as all other institutional investors in the FactSet/LionShares data base. It contains information on the Assets Under Management of the investors (measured in 1000 USD), and on the fraction of all assets of the investors that are invested in firms listed in The Netherlands (in %), on the fraction of all assets that are invested in firms listed in the US (in %). The table contains means, medians, and standard deviations (STD) of the respective variables. It also contains the number of available observations (Obs.). The table also contains p-values of t-tests comparing the mean values of a variable for the respondents with the mean values of the non-respondents/other investors in FactSet/LionShares. Panel B compares the national origins of the respondents and the non-respondents. The data source for the variables is FactSet/LionShares. The number of observations varies due to limited data availability in FactSet/LionShares.

Panel A: Investor Characteristics

	Respondents				
	Mean	Median	STD	Obs	
Assets under Mgmt (in 1000 USD)	623,000	140,000	1,260,000	90	
Fraction of Assets invested in NL (in %)	10.4%	6.9%	14.0%	90	
Fraction of Assets invested in US (in%)	9.2%	0.0%	18.9%	90	
	Non-Respondents				Diff Sign?
	Mean	Median	STD	Obs	p-value
Assets under Mgmt (in 1000 USD)	1,060,000	216,000	4,100,000	1060	0.4916
Fraction of Assets invested in NL (in %)	9.9%	8.0%	9.3%	1060	0.0033
Fraction of Assets invested in US (in%)	19.8%	13.5%	20.6%	376	0.0000
	All Other Investors in FactSet/LionShares				Diff Sign?
	Mean	Median	STD	Obs	p-value
Assets under Mgmt (in 1000 USD)	2,030,000	256,000	9,910,000	3730	0.1982
Fraction of Assets invested in NL (in %)	4.4%	2.9%	6.5%	3730	0.0000
Fraction of Assets invested in US (in%)	37.8%	29.2%	32.9%	2257	0.0009

Panel B: Distribution of National Origins of Institutional Investors

	Respondents	Non-Respondents	All Other Inv. in FactSet/LionShares
Countries			
The Netherlands (NL)	8%	4%	2%
UK	7%	16%	14%
US	7%	11%	29%
Germany (DE)	7%	8%	7%
France (FR)	9%	10%	9%
Luxembourg (LU)	27%	22%	18%
Others	37%	22%	22%
Total	100%	100%	100%

Appendix A-3: Portfolio Firms of Institutional Investors

This table provides financial information on the firms that are held in the portfolios of the institutional investors that returned our survey. We have the equity portfolio holdings for 89 out of the total of 118 investors. The portfolio holding data is from FactSet/LionShares. We matched the holding data with financial data on the firms in the portfolios. This data is from DataStream/Worldscope. Tobin's Q is the market value of a firm divided by the book value of a firm, RoA (Return on Assets) is EBITDA over lagged total assets, leverage is total debt over total assets, dividends (div.) is dividends over earnings, cash holdings is the value of cash holdings over assets, CH shares is the fraction of all shares that are held by insiders (including those held by directors, officers or immediate family members), investment is capital expenditure over lagged total assets, R&D Expenditures is R&D expenditures over lagged total assets, cash flow is EBIT over lagged total assets, and ROA is EBITDA over lagged total assets and M&A Expenditures is the value of acquired assets over lagged total assets. The total number of observations varies due to data limitations in DataStream/Worldscope. The data is for the year-end 2007.

Characteristics of Portfolio Firms

	Mean	Median	5%	95%	STD	Obs.
Tobin's Q	1.791	1.437	0.999	3.820	1.178	7524
RoA	0.157	0.142	0.013	0.371	0.142	7385
Leverage	0.265	0.238	0.009	0.571	0.225	7513
Dividends	0.026	0.182	0.000	0.666	4.849	7175
Cash Holdings	0.151	0.085	0.011	0.437	0.294	6176
CH Shares (in %)	23.78	18.44	0.06	66.04	22.11	6032
Investment	0.061	0.043	0.001	0.170	0.108	7141
R&D Expenditures	0.036	0.018	0.000	0.141	0.051	3668
M&A Expenditures	0.046	0.003	0.000	0.189	0.158	6283