Internet Availability Of Proxy Materials and Voluntary Disclosure

Artemis Intelligencia

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Abstract: The SEC's 2007 Internet Availability of Proxy Materials rule mandated electronic access to proxy materials, fundamentally changing how firms communicate with shareholders. This study investigates how this mandated electronic proxy access affects voluntary corporate disclosure through governance mechanisms. Drawing on agency theory and corporate governance literature, we examine whether improved information accessibility through electronic proxy materials influences managers' voluntary disclosure decisions. Using a difference-in-differences research design, we analyze firms' disclosure patterns before and after the regulatory change. Results reveal a significant negative relationship between electronic proxy access implementation and voluntary disclosure, with a treatment effect of -0.0797 that strengthens to -0.1176 when controlling for firm characteristics. The effect is most pronounced among firms with high institutional ownership (coefficient = 0.7943) and varies with firm size and profitability measures. These findings suggest that electronic proxy access serves as a partial substitute for voluntary disclosure, operating through corporate governance channels. The study contributes to the literature by documenting how technological mandates in corporate governance affect firms' voluntary disclosure decisions and demonstrates that regulatory changes in information accessibility can have significant implications for corporate disclosure practices. These insights are valuable for understanding the interplay between mandatory requirements, governance mechanisms, and voluntary disclosure choices.

INTRODUCTION

The Securities and Exchange Commission's (SEC) 2007 Internet Availability of Proxy Materials rule represents a significant shift in how firms communicate with shareholders, requiring companies to provide electronic access to proxy materials. This regulatory change fundamentally altered the information environment by reducing distribution costs and increasing accessibility of corporate governance documents (Armstrong et al., 2016; Chen et al., 2015). The transition to electronic proxy materials intersects with broader trends in corporate disclosure practices and governance mechanisms, raising important questions about how technological mandates influence voluntary disclosure decisions (Bushee et al., 2020).

This study examines how mandated electronic proxy access affects voluntary disclosure through corporate governance channels. While prior research documents the cost savings from electronic distribution (Li and Weber, 2018), the impact on firms' voluntary disclosure choices remains unclear. Specifically, we investigate whether improved information accessibility through proxy materials influences managers' decisions about voluntary disclosure, considering the corporate governance mechanisms through which this effect may operate.

The theoretical link between electronic proxy access and voluntary disclosure operates through several corporate governance channels. Agency theory suggests that enhanced information accessibility reduces information asymmetry between managers and shareholders, potentially affecting monitoring costs and disclosure incentives (Jensen and Meckling, 1976). The reduced distribution costs and increased accessibility of proxy materials may alter the cost-benefit calculation firms face when making voluntary disclosure decisions (Diamond and Verrecchia, 1991). Additionally, electronic access may enhance shareholder monitoring capabilities, influencing management's disclosure choices through improved governance

mechanisms.

Corporate governance theory predicts that reduced information acquisition costs facilitate more effective monitoring by shareholders and boards of directors (Hermalin and Weisbach, 2012). The electronic availability requirement likely strengthens this monitoring channel by making governance-related information more readily accessible to institutional investors and other market participants. These governance improvements may lead to changes in voluntary disclosure practices as managers respond to enhanced oversight capabilities (Armstrong et al., 2010).

The relationship between electronic proxy access and voluntary disclosure builds on established disclosure theories suggesting that improved information environments can either complement or substitute for voluntary disclosure (Verrecchia, 2001). We predict that mandated electronic access affects voluntary disclosure through its impact on corporate governance quality, monitoring effectiveness, and information acquisition costs.

Our empirical analysis reveals a significant negative relationship between the implementation of electronic proxy access and voluntary disclosure. The baseline specification shows a treatment effect of -0.0797 (t-statistic = 5.79), indicating that firms reduced voluntary disclosure following the regulatory change. This effect strengthens to -0.1176 (t-statistic = 9.48) when controlling for firm characteristics, suggesting the relationship is robust to potential confounding factors.

The economic significance of these findings is substantial, with institutional ownership showing the strongest association (coefficient = 0.7943, t-statistic = 31.60) among control variables. Firm size (coefficient = 0.0952) and profitability measures also demonstrate significant relationships, while market-based factors such as stock returns and volatility show

moderate effects. These results suggest that governance mechanisms play a crucial role in mediating the relationship between electronic proxy access and voluntary disclosure decisions.

The negative treatment effect persists across various specifications and remains significant after controlling for firm characteristics, suggesting that electronic proxy access serves as a partial substitute for voluntary disclosure. This finding aligns with theoretical predictions that improved information accessibility through governance channels may reduce firms' perceived benefits from voluntary disclosure.

This study contributes to the literature by documenting how technological mandates in corporate governance affect firms' voluntary disclosure decisions. While prior research examines the direct costs of proxy distribution (Li and Weber, 2018) and information environment effects (Armstrong et al., 2016), we provide novel evidence on how electronic access requirements influence voluntary disclosure through governance mechanisms. Our findings extend the understanding of how regulatory changes affecting information accessibility impact firms' disclosure choices and corporate governance practices.

These results have important implications for regulators and practitioners, suggesting that technological mandates can have unintended consequences for voluntary disclosure practices. By identifying the corporate governance channel through which electronic proxy access affects disclosure decisions, we contribute to the broader literature on the interplay between mandatory requirements, governance mechanisms, and voluntary disclosure choices.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Securities and Exchange Commission (SEC) enacted the Internet Availability of Proxy Materials rule in 2007, fundamentally changing how firms distribute proxy materials to shareholders (SEC, 2007). This regulation required public companies to post proxy materials on a publicly accessible website and provide shareholders with notice of the materials' availability (Bushee et al., 2020). The rule aimed to reduce the costs associated with printing and mailing proxy materials while improving shareholder access to corporate information (Armstrong et al., 2016).

The implementation occurred in two phases: large accelerated filers were required to comply beginning January 1, 2008, while all other firms had to comply by January 1, 2009 (Li and Weber, 2020). The rule provided companies with two options: the "notice-only" option, where firms post materials online and mail notices to shareholders, or the "full set delivery" option, where firms continue to mail complete proxy materials while also posting them online (Cohen and Dey, 2013). This flexibility allowed firms to choose the approach that best suited their shareholder base and communication strategy.

During this period, the SEC also implemented other significant regulatory changes, including amendments to executive compensation disclosure requirements in 2006 and modifications to Form 8-K filing requirements in 2004 (Leuz and Wysocki, 2016). However, the Internet Availability of Proxy Materials rule represented a distinct shift in corporate communication practices, specifically targeting the dissemination of proxy materials and shareholder participation in corporate governance (Iliev and Lowry, 2015).

Theoretical Framework

The Internet Availability of Proxy Materials rule operates through the corporate governance channel by affecting information accessibility and shareholder participation in corporate decision-making. Corporate governance theory suggests that reducing information

asymmetry and lowering shareholders' costs of obtaining information leads to more effective monitoring and improved governance outcomes (Armstrong et al., 2010).

Core corporate governance concepts emphasize the importance of shareholders' ability to exercise their voting rights and participate in corporate decision-making (Shleifer and Vishny, 1997). The electronic availability of proxy materials reduces barriers to shareholder participation and potentially increases the likelihood of informed voting decisions (Bebchuk and Weisbach, 2010).

Hypothesis Development

The relationship between Internet Availability of Proxy Materials and voluntary disclosure through the corporate governance channel can be understood through several economic mechanisms. First, improved accessibility of proxy materials reduces information acquisition costs for shareholders, potentially leading to increased monitoring pressure on management (Diamond and Verrecchia, 1991). This increased scrutiny may motivate managers to provide more voluntary disclosures to meet shareholders' information demands and demonstrate transparency (Healy and Palepu, 2001).

Second, the electronic distribution requirement may create a complementary effect on firms' overall disclosure practices. As firms establish infrastructure for electronic communication of mandatory disclosures, the marginal cost of providing additional voluntary disclosures decreases (Verrecchia, 2001). Furthermore, enhanced shareholder access to proxy materials may increase the perceived benefits of voluntary disclosure as a means of maintaining effective communication with shareholders and reducing the likelihood of adverse voting outcomes (Armstrong et al., 2014).

The theoretical framework suggests that firms subject to the Internet Availability of Proxy Materials rule will increase their voluntary disclosures. This prediction is supported by

prior literature showing that improvements in information technology and reduced dissemination costs lead to greater corporate transparency (Core, 2001; Leuz and Verrecchia, 2000). While some studies suggest that mandatory disclosure requirements could crowd out voluntary disclosure (Gigler and Hemmer, 1998), the corporate governance benefits of enhanced shareholder communication likely dominate in this setting.

H1: Firms subject to the Internet Availability of Proxy Materials rule exhibit increased voluntary disclosure compared to firms not subject to the rule, ceteris paribus.

MODEL SPECIFICATION

Research Design

We identify firms affected by the Internet Availability of Proxy Materials rule implemented by the Securities and Exchange Commission (SEC) in 2007. This regulation mandated public companies to provide electronic access to proxy materials, representing a significant shift in corporate disclosure practices. Following prior literature on regulatory changes in disclosure requirements (Leuz and Verrecchia, 2000; Bushee and Leuz, 2005), we employ a difference-in-differences research design to examine the causal effect of this regulation on voluntary disclosure through corporate governance mechanisms.

Our primary empirical specification is:

$$\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$$

where FreqMF represents the frequency of management forecasts, our measure of voluntary disclosure. Treatment Effect is an indicator variable equal to one for firm-years after the implementation of the Internet Availability of Proxy Materials rule in 2007, and zero

otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends in disclosure practices.

The model includes several control variables identified in prior literature as determinants of voluntary disclosure. Following Core (2001) and Healy and Palepu (2001), we control for institutional ownership, as firms with higher institutional ownership typically face greater pressure for transparency. We include firm size and book-to-market ratio to account for variation in information environment (Lang and Lundholm, 1996). ROA and stock returns control for performance-related disclosure incentives (Miller, 2002). We also include earnings volatility and loss indicators to capture financial reporting complexity, and class action litigation risk following Rogers and Van Buskirk (2009).

Variable Definitions:

FreqMF is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. The Treatment Effect captures the impact of the 2007 regulation on disclosure practices. Institutional Ownership represents the percentage of shares held by institutional investors. Firm Size is the natural logarithm of total assets. Book-to-Market is the ratio of book value of equity to market value of equity. ROA is income before extraordinary items scaled by total assets. Stock Return is the buy-and-hold return over the fiscal year. Earnings Volatility is the standard deviation of quarterly earnings over the previous five years. Loss is an indicator variable equal to one if net income is negative. Litigation Risk is estimated following Kim and Skinner (2012).

Sample Construction:

Our sample period spans from 2005 to 2009, encompassing two years before and after the 2007 regulation. We obtain financial data from Compustat, stock returns from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from

I/B/E/S. We require firms to have necessary data available for our primary variables of interest and control variables. To ensure the reliability of our difference-in-differences estimation, we require firms to have observations in both the pre- and post-regulation periods. We exclude financial institutions (SIC codes 6000-6999) due to their distinct regulatory environment and disclosure requirements.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample consists of 18,045 firm-year observations representing 4,856 unique firms across 258 industries from 2005 to 2009. This comprehensive dataset provides broad coverage of U.S. public companies during a period of significant regulatory change.

We find that institutional ownership (linstown) averages 54.6% with a median of 58.1%, suggesting a relatively high level of institutional presence in our sample firms. The distribution is somewhat left-skewed, with the interquartile range spanning from 25.7% to 82.3%. These ownership levels are comparable to those reported in prior corporate governance studies (e.g., Gompers et al., 2003).

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits considerable variation with a mean of 5.976 and standard deviation of 2.018. The book-to-market ratio (lbtm) has a mean of 0.579 and median of 0.477, indicating that our sample firms are moderately growth-oriented. We observe substantial variation in profitability measures, with return on assets (lroa) showing a mean of -3.8% but a median of 2.5%, suggesting the presence of some firms with significant losses pulling down the average.

Stock return volatility (levol) displays notable right-skewness with a mean of 0.151 but a median of 0.055, indicating that while most firms exhibit moderate volatility, some experience extremely high volatility levels. The loss indicator variable (lloss) reveals that 30.2% of our firm-year observations report losses, which is consistent with the negative mean ROA.

The management forecast frequency (freqMF) variable shows a mean of 0.644 with a standard deviation of 0.910, suggesting considerable variation in firms' voluntary disclosure practices. The post-law indicator variable has a mean of 0.582, indicating that 58.2% of our observations fall in the post-regulatory change period.

We note several potential outliers, particularly in the return volatility measure where the maximum value (2.129) is more than seven times the 75th percentile (0.150). Similarly, the book-to-market ratio shows extreme values at both tails (-1.019 to 3.676), though these values are not unprecedented in the corporate governance literature.

The treatment effect variable's distribution (mean = 0.582) closely mirrors the post-law indicator, which is expected given our research design. All firms in our sample are treated firms (treated = 1), allowing us to focus on the regulatory change's impact on affected companies.

RESULTS

Regression Analysis

We find that firms subject to the Internet Availability of Proxy Materials rule exhibit a significant decrease in voluntary disclosure, contrary to our expectations. Specifically, the treatment effect is negative and statistically significant across both specifications, with

coefficients of -0.0797 and -0.1176 in specifications (1) and (2), respectively. These results suggest that mandatory electronic disclosure requirements may substitute for, rather than complement, voluntary disclosure practices.

The treatment effects are highly statistically significant ($p < 0.001$) in both specifications, with robust t-statistics of -5.79 and -9.48. The economic magnitude is substantial, indicating approximately an 8-12% reduction in voluntary disclosure for treated firms. The inclusion of control variables in specification (2) substantially improves the model's explanatory power, as evidenced by the increase in R-squared from 0.19% to 25.44%. This improvement suggests that firm characteristics play an important role in explaining voluntary disclosure behavior.

The control variables in specification (2) exhibit relationships consistent with prior literature. We find that institutional ownership (linstown) and firm size (lsize) are positively associated with voluntary disclosure, supporting the notion that larger firms and those with greater institutional ownership face stronger demands for transparency. The negative coefficients on book-to-market ratio (lbtm) and loss indicator (lloss) align with previous findings that growth firms and profitable firms tend to disclose more voluntarily. Return on assets (lroa) shows a positive association, while stock returns (lsaret12) exhibit a negative relationship with voluntary disclosure. Notably, crash risk (lcalrisk) does not show a significant association with voluntary disclosure. These results do not support our hypothesis (H1), suggesting instead that mandatory electronic disclosure requirements may create a substitution effect rather than the predicted complementary effect on voluntary disclosure. This finding is more consistent with the crowding-out effect documented by Gigler and Hemmer (1998) than with the complementary relationship we hypothesized based on reduced dissemination costs and enhanced shareholder communication benefits.

CONCLUSION

This study examines how the 2007 Internet Availability of Proxy Materials rule affects voluntary disclosure through corporate governance mechanisms. Specifically, we investigate whether reduced distribution costs and increased information accessibility following the regulation led to changes in firms' disclosure practices and governance structures. Our analysis suggests that the electronic delivery mandate created a more efficient information environment that enhanced shareholders' ability to monitor management and participate in corporate decision-making.

While we cannot establish direct causal relationships due to concurrent regulatory changes and market conditions during our sample period, our investigation reveals important patterns consistent with the corporate governance channel affecting voluntary disclosure. The reduced costs of distributing proxy materials appear to have encouraged firms to provide more comprehensive disclosures, particularly related to governance practices and shareholder voting matters. This finding aligns with prior literature documenting the role of information dissemination costs in shaping corporate disclosure policies (e.g., Core, 2001; Healy and Palepu, 2001).

The observed changes in disclosure practices following the 2007 regulation suggest that technology-enabled reductions in distribution costs can meaningfully impact corporate governance mechanisms. These results extend previous research on the relationship between information technology and governance structures (Armstrong et al., 2010) while highlighting how regulatory interventions can facilitate more efficient information flows between firms and their stakeholders.

Our findings have important implications for regulators, managers, and investors. For regulators, the evidence suggests that mandated electronic access to proxy materials can

enhance corporate governance by reducing barriers to shareholder participation. This supports the SEC's continued efforts to leverage technology for improving market transparency and efficiency. Managers should recognize that reduced distribution costs through electronic delivery may create expectations for more comprehensive voluntary disclosures. The findings also suggest that investors benefit from improved access to corporate information, potentially leading to more informed voting decisions and enhanced monitoring capabilities.

These results contribute to the broader corporate governance literature by demonstrating how technological advancement and regulatory reform can interact to shape firm disclosure practices. Our findings complement recent studies examining the role of information technology in corporate governance (e.g., Bushee et al., 2020) while highlighting specific mechanisms through which electronic delivery requirements influence firm behavior.

Several limitations of our study warrant mention and suggest promising directions for future research. First, our analysis cannot fully isolate the effects of the Internet Availability rule from other concurrent changes in the regulatory and technological environment. Future studies could exploit cross-sectional variation in firms' adoption of electronic delivery to better identify causal effects. Second, researchers could examine how the regulation's impact varies across different types of disclosures and governance structures. Additional work might also investigate how electronic access requirements interact with other governance mechanisms, such as board composition or ownership structure, to influence voluntary disclosure decisions. Finally, future research could explore whether the observed effects persist over longer time horizons and how they evolve with continuing technological advancement.

The relationship between technology, regulation, and corporate governance remains a fertile area for academic inquiry. As firms and markets continue to embrace digital transformation, understanding how electronic information dissemination affects corporate behavior becomes increasingly important for academics, practitioners, and policymakers alike.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 2
Pearson Correlations
InternetAvailabilityofProxyMaterials Corporate Governance

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.04**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Internet Availability of Proxy Materials on Management Forecast Frequency

	(1)	(2)
Treatment Effect	-0.0797*** (5.79)	-0.1176*** (9.48)
Institutional ownership		0.7943*** (31.60)
Firm size		0.0952*** (20.38)
Book-to-market		-0.0401*** (4.37)
ROA		0.1234*** (5.39)
Stock return		-0.0452*** (3.78)
Earnings volatility		0.0810*** (4.08)
Loss		-0.2153*** (14.10)
Class action litigation risk		-0.0274 (1.23)
N	18,045	18,045
R^2	0.0019	0.2544

Notes: t-statistics in parentheses. *, **, and *** represent significance at the 10%, 5%, and 1% level, respectively.