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Appendix

1 Supporting Materials for Web

1.1 Coding for Bonus Disclosure

Lower numbers are always indicative of less disclosure but the scales are unique to each of the four elements and are not directly comparable. These four elements, and a sense of the guidelines we used for coding each, are as follows[1]:

1. *Process:* how well did the report explain the process and inputs. This process description normally includes things such as the metrics on which executives' performance is measured (e.g., earnings per share), predetermined targets for the relevant metrics (e.g., ''$2.02 per share was our ''threshold'' target''), and a mapping from performance to bonuses (e.g., ''achieving the threshold target would result in a bonus of $X for the CEO''). The coding scheme had four categories. **No information** for reports that said essentially nothing about the process. **Some information** reports mentioned, for example, metrics but with little other detail (e.g., ''our bonuses are based on earnings per share...''. A **more information** report described metrics and targets in more detail. Finally, reports that described these elements in great detail such that one could largely recreate the process were coded as **most information**. Reports in this category also often described how the metrics, targets and/or other inputs varied for each executive and did other things which conveyed exemplary precision.[2]
2. *Justification:* did the report justify and explain the rationale behind the elements in the process? For example, did they give a reason for using

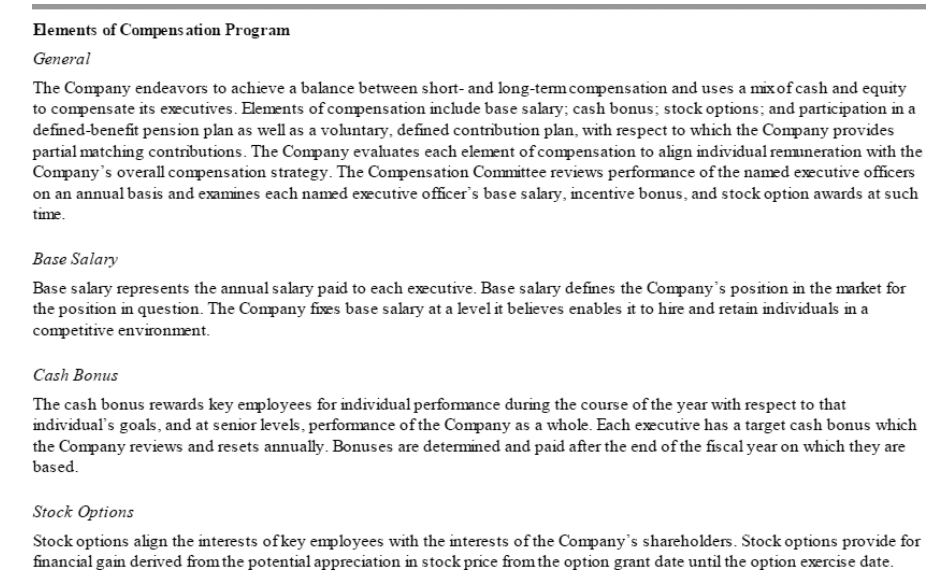
[1] While we had guidelines for each element, and certain things we were looking for to distinguish a category one from a category two for example, we were ultimately being cognizant of how much information each report conveyed to a educated, but non-expert, reader.

[2] We did not "punish" companies for not having thorough processes. If a report was clear that its process did not include these elements but did convey how things worked it would receive a high score.

the financial metrics they use (''we believe earnings per share is the best performance metric because...'') and/or explain where the performance targets came from? (''our threshold target assumes 5% growth over last year'') This variable was coded **no justification** or **justification** if it provided even minimal justification.

3. *Implementation:* this variable measured how well the report explained how the abstract process was applied to the most recent year. Some reports simply pointed to the annual bonus number in their ''summary compensation table'' (or said nothing at all). These reports fell into the **no implementation** category. Others said, for example, how the company did on the relevant performance metrics (from the process) in FY 2006. This level of detail was coded **some implementation**. Other companies went further and basically walked through the process from targets to performance to dollars with the past year's data. They fell into the **most implementation** category.
4. *General clarity:* the fourth element measured how well the discussion of annual bonuses met the ''plain English'' goal. This variable is simply the coders' (talented, but non-specialist, undergraduates) impression of how clear, comprehensible, and free of legalese and jargon the discussion was. My goal was to make this variable unconditional on amount of information provided. Reports were coded **least clear**, **medium clear** or **most clear**.

Here, I provide examples from three CD&A reports concerning annual performance bonuses to illustrate some of the variation and some of the coding. I begin with a report that discloses almost nothing and move toward an exemplary one.



Elements of Compensation Program

General

The Company endeavors to achieve a balance between short- and long-term compensation and uses a mix of cash and equity to compensate its executives. Elements of compensation include base salary; cash bonus; stock options; and participation in a defined-benefit pension plan as well as a voluntary, defined contribution plan, with respect to which the Company provides partial matching contributions. The Company evaluates each element of compensation to align individual remuneration with the Company's overall compensation strategy. The Compensation Committee reviews performance of the named executive officers on an annual basis and examines each named executive officer's base salary, incentive bonus, and stock option awards at such time.

Base Salary

Base salary represents the annual salary paid to each executive. Base salary defines the Company's position in the market for the position in question. The Company fixes base salary at a level it believes enables it to hire and retain individuals in a competitive environment.

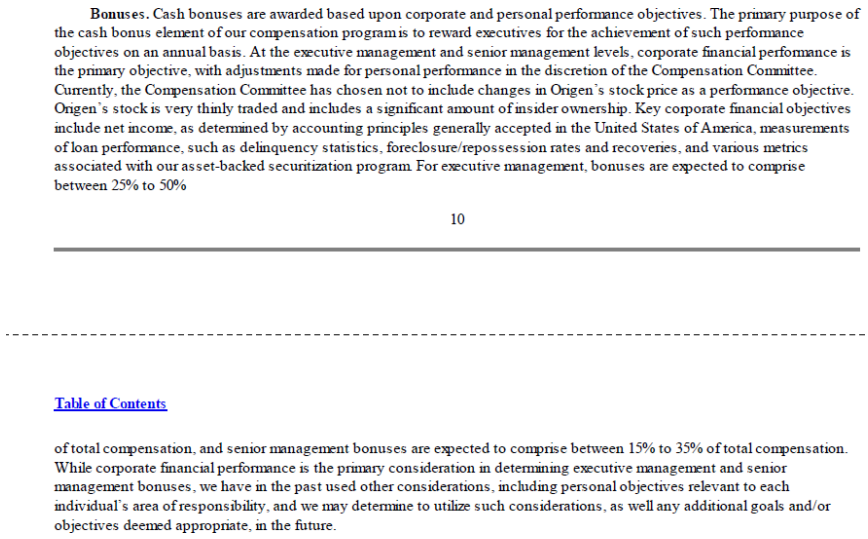
Cash Bonus

The cash bonus rewards key employees for individual performance during the course of the year with respect to that individual's goals, and at senior levels, performance of the Company as a whole. Each executive has a target cash bonus which the Company reviews and resets annually. Bonuses are determined and paid after the end of the fiscal year on which they are based.

Stock Options

Stock options align the interests of key employees with the interests of the Company's shareholders. Stock options provide for financial gain derived from the potential appreciation in stock price from the option grant date until the option exercise date.

Figure SI1. Bonus disclosure example one — Suffolk Bankcorp. This is an example of ''no information'' for the process coding. The section of interest is the ''cash bonus'' paragraph. It makes references to targets and goals, but says nothing more. This report was in the low categories for process, justification, and implementation since it said essentially nothing about them. Readers would be unable to reconstruct any of the company's annual bonuses for this fiscal year.



Bonuses. Cash bonuses are awarded based upon corporate and personal performance objectives. The primary purpose of the cash bonus element of our compensation program is to reward executives for the achievement of such performance objectives on an annual basis. At the executive management and senior management levels, corporate financial performance is the primary objective, with adjustments made for personal performance in the discretion of the Compensation Committee. Currently, the Compensation Committee has chosen not to include changes in Origen's stock price as a performance objective. Origen's stock is very thinly traded and includes a significant amount of insider ownership. Key corporate financial objectives include net income, as determined by accounting principles generally accepted in the United States of America, measurements of loan performance, such as delinquency statistics, foreclosure/repossession rates and recoveries, and various metrics associated with our asset-backed securitization program. For executive management, bonuses are expected to comprise between 25% to 50%

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of total compensation, and senior management bonuses are expected to comprise between 15% to 35% of total compensation. While corporate financial performance is the primary consideration in determining executive management and senior management bonuses, we have in the past used other considerations, including personal objectives relevant to each individual's area of responsibility, and we may determine to utilize such considerations, as well any additional goals and/or objectives deemed appropriate, in the future.

Figure SI2. Bonus disclosure example two — origin financial. This example (''Bonuses'' paragraph) provides more information than the first one, but still comes up well short of the exemplary one which follows. It does mention financial metrics that figure into bonuses such as net income and loan performance measures. It also provides some justification for why bonuses are based on, and not based on, certain metrics. Finally, it gives a rough sense ''25–50%'' of the amount that bonuses contribute to total compensation. On the other hand, the report lists many metrics without specificity about which are used, how good and bad performance is determined and other key pieces of information. This report was thus in the ''some information'' category for process and ''no implementation'' for implementation.

Annual Incentives. Our Executive Incentive Compensation Plan is intended to provide additional incentives for Executives to promote the best interests and profitable operation of the Company. In May 2006, the Committee developed a target for the Company's chief executive officer and chief financial officer for fiscal 2007 based on (i) return on net assets (35% of total incentive compensation award), (ii) net income (35% of total incentive compensation award), and (iii) subjective targets for each Executive (30% of total incentive compensation award), as follows:

	Objective Criteria		
Executive	Return on Net Assets (35%)	Net Income (35%)	Subjective Criteria (30%)
Andrew B. Schmitt, President and Chief Executive Officer	7.35%	$19,329,000	• Board Relations • Board Communications • Empowering Division Management • Execution of Company's Strategic Plans • Coordination with Board on Capital Allocation • Leadership, Stewardship, Honesty, Integrity at the Helm
Jerry W. Fanska, Senior Vice President —Finance	7.35%	$19,329,000	• Leadership • Timely, Accurate Financial Reporting • Communications • Reynolds Integration • SOX Compliance • Coordination with CEO and Board on Capital Allocation

In May 2006, the Compensation Committee also developed a target for Eric R. Despain, a Senior Vice President of the Company and President of the Mineral Exploration division, who participates in the Executive Incentive Compensation Plan, based on (i) the earnings before interest and income taxes of his particular division of the Company (70% of total incentive compensation award), and (iii) subjective targets for him (30% of total incentive compensation award), as follows:

	Objective Criteria		
Executive	Division Earnings Before Interest and Taxes (EBIT) (70%)		Subjective Criteria (30%)
Eric R. Despain, Senior Vice President and President, Mineral Exploration Division	$	17,436,000	• Leadership • Health, Safety & Environmental Compliance • Inventory Management • Personnel Development • Latin American Affiliate Liaison

In setting the targets, the Committee considered information in the Company's business plans and preliminary recommendations from the chief executive officer.

Figure SI3. Bonus disclosure example three — Layne Christiansen Corporation (1 of 3). This report is illustrative of the high end, and, when compared with the other examples, evinces the variance in these reports. On the first page the report explicitly details the criteria on which executives' annual performance is judged. It highlights a small number of metrics (e.g., return on net assets) that executives were actually evaluated on and how much performance on those metrics contributes to the total bonus (e.g., 35%). It also details the elements that contribute to the 30% subjective part of each bonus and shows how they vary by position. This report fell into the ''most information'' process category.

If the president and chief executive officer of the Company achieves 100% of his target goals, his incentive award under the plan will be 50% of his base salary. If he achieves more than 100% of his target goals, then for each 1% increase above the target goals, he will receive an additional 1.5% of his base salary (in addition to the 50% described above), but such percentage cannot exceed 100% of his base salary. If the president and chief executive officer achieves less than 100% of his target goals, then for each 1% decrease below the target, the 50% base salary percentage will be reduced by 1%, but if the president and chief executive officer achieves 80% or less of the targets, his base salary percentage will be zero. As for each of the Company's chief financial officer and senior vice president, if he achieves 100% of his target goals, his incentive award under the plan will be 37.5% of his base salary. If he achieves more than 100% of

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his target goals, then for each 1% increase above the target goals, he will receive an additional 1.5% of his base salary (in addition to the 37.5% described above), but such percentage cannot exceed 100% of his base salary. If such Executive achieves less than 100% of his target goals, then for each 1% decrease below the targets, the 37.5% base salary percentage will be reduced by 1%; provided, however that if the Executive achieves 80% or less of the targets, his base salary percentage will be zero. The chief executive officer advises the Committee on whether the subjective goals under this plan were achieved by these Executives.

Notwithstanding the foregoing, the amount of the incentive compensation award for a fiscal year for each executive under the Executive Incentive Compensation Plan may be increased or decreased in the sole discretion of the Committee by an amount not greater than one third of the incentive compensation award determined under the preceding provisions if 100% of the targets is achieved.

Figure SI4. Bonus disclosure example three — Layne Christiansen Corporation (2 of 3). These paragraphs detail exactly how meeting or not meeting targets maps into bonus amounts. This detail also contributes to the highest rating on the key process variable. Putting this all together, a reader could come very close to reproducing the bonuses if they had the data.

The payments received by the Executives for fiscal 2007 under the Executive Incentive Compensation Plan were paid in cash in the following amounts:

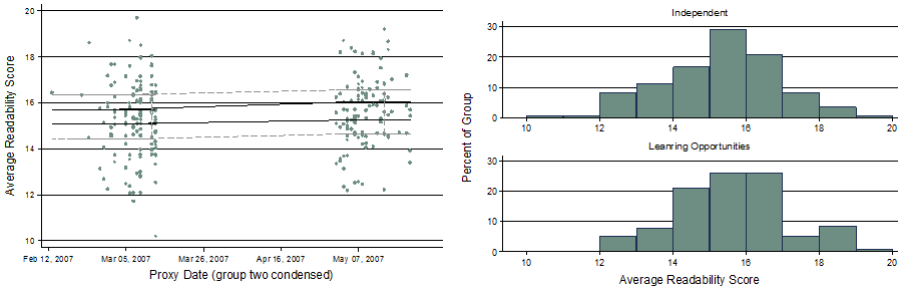
	Objective Criteria					
Executive	Return on Net Assets (35%)	Net Income (35%)	Division EBIT (70%)	Subjective Criteria (30%)	Discretionary Increase (1/3)	Total Incentive Award
Andrew B. Schmitt, President and Chief Executive Officer	$ 108,645	$114,333	—	$ 63,750	$ 95,575	**$382,303**
Jerry W. Fanska, Senior Vice President—Finance	$ 46,015	$ 48,423	—	$ 27,000	$ 40,479	**$161,917**
Eric R. Despain, Senior Vice President and President, Mineral Exploration Division	—	—	$ 112,434	$ 27,000	$ 46,478	**$185,912**

Mr. Schmitt and Mr. Fanska achieved approximately 131% of their return on net assets target, and pursuant to the formulas set forth above, their awards were increased to 73% and 55% of their base salaries, respectively. Such amounts were then weighted at 35% of their total incentive compensation award. Mr. Schmitt and Mr. Fanska achieved approximately 136% of their net income target, and pursuant to the formulas set forth above, their awards were increased to 77% and 58% of their base salaries, respectively. Such amounts were then weighted at 35% of their total incentive compensation award. Mr. Despain achieved approximately 152% of his Division EBIT target, and pursuant to the formula set forth above, his award was increased to 67% of his base salary. Such amount was then weighted at 70% of his total incentive compensation award.

Mr. Schmitt, Mr. Fanska and Mr. Despain each received full credit toward their incentive compensation award for achieving the subjective goals that were established for them by the Committee at the beginning of fiscal 2007.

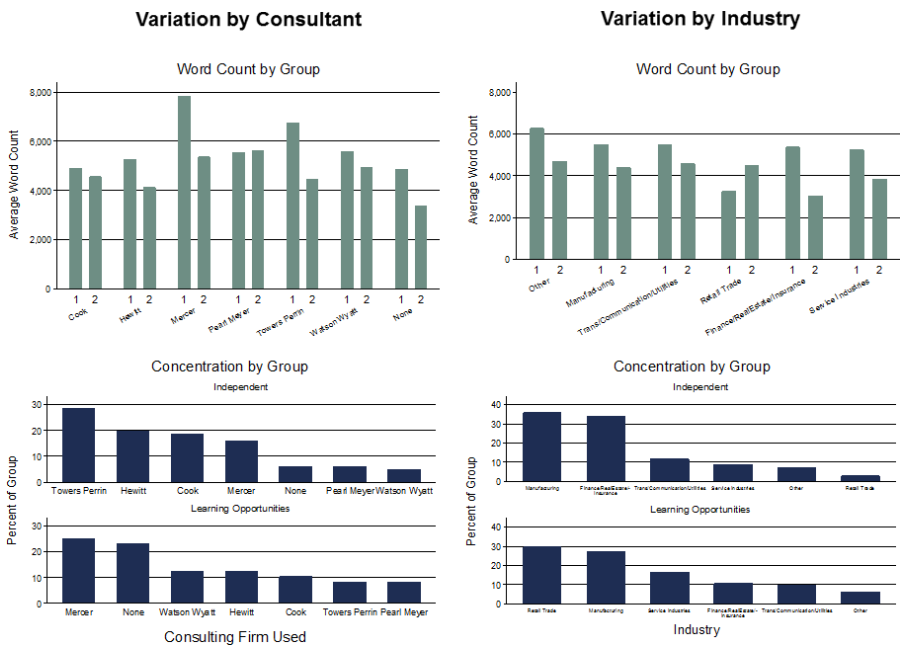
Pursuant to the provisions of the Executive Incentive Compensation Plan and as reflected in the table above, the awards to the Executives under the Executive Incentive Compensation Plan were increased by one third at the discretion of the Committee because of the exceptional performance achieved by the Company during fiscal 2007.

Figure SI5. Bonus disclosure example three — Layne Christiansen Corporation (3 of 3). This third excerpt shows what ''most implementation'' looks like. It shows what each executive made on each bonus criteria given the weighting and 2007 performance.



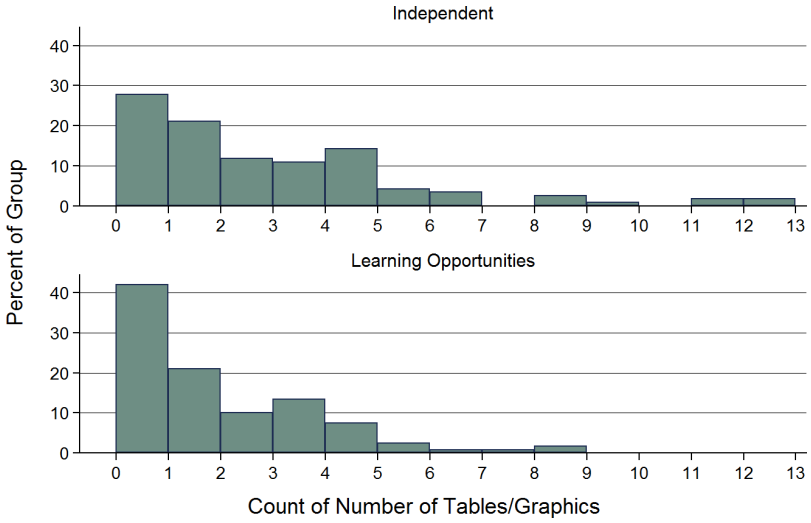
The dates in the second group have been altered to make the x-axis span similar to that in the first group for easier visual comparison. They actually span from early May to early July. The black lines denote the 40th–60th percentile. The grey lines denote the 25th–75th. These ranges apply to the entire group. The average readability scores reflect the average of five different automated readability metrics (see the data section) which are based on factors such as sentence length and syllables per word.

Figure SI6. Plot and histogram of average readability scores for first and second groups of policy adopters. These two figures are identical to those for word count (in the body of the paper) except they use the average readability score instead of word count. They also suggest very different results. Unlike the word count distributions which shifted downward and converged, the readability distributions shifted up (a tiny bit) and the variation did not change at all. It is not surprising to see less convergence when traits are harder to observe and learn from. Word count is much easier to mimic than is average readability.



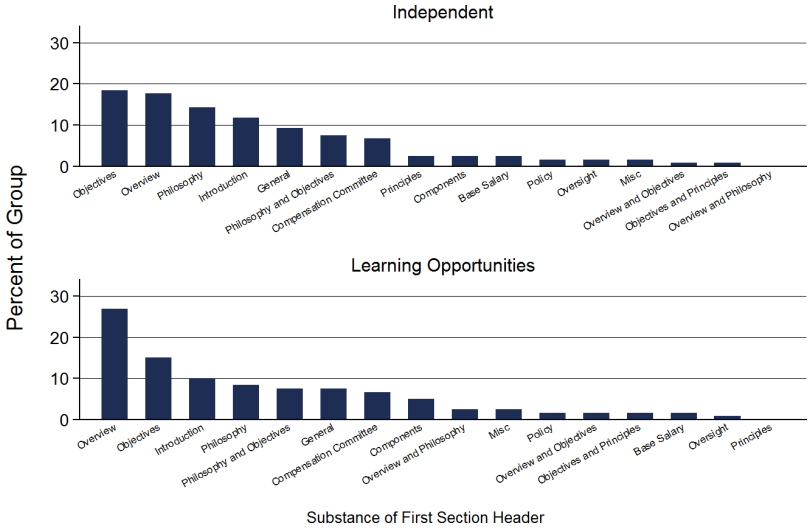
Consultancy information collected for those firms for which it was readily available in the Proxy Report. The NA group is likely smaller in reality. Industry data based on two digit SIC codes.

Figure SI7. Summary of word counts by consultancy/industry and group and distribution of consultancies/industries by group. The top half of the figure shows that CD&As got shorter across the board in the second group. The latter adopters' shorter reports were not the result of having a disproportionate number of firms in industries that tended to have shorter reports or that used consultancies that tended to produce shorter reports. The bottom half of the figure shows that the reduction in variance in the second group is not the result of having a less diverse composition of industries or consultancies represented in it. In fact, the data points in the second group came from a less concentrated set of industries and consultancies. Together, the figures strongly refute the very plausible alternative explanations that group composition drove the results.



Tables includes everything (graphics, tables, figures, two column lists) that was not text in either paragraph form or one column bulleted lists. $N = 238$ instead of 263 because I randomly coded 119 Group-One reports (out of 144) to make the groups evenly sized to enable simple count comparisons.

Figure SI8. Histogram of the number of tables and figures in the CD&A section by group. Firms varied widely in the number of tables and figures they used. Many used none or 1 while a few used more than 10. More importantly, as with the word counts, firms converged toward a common practice in the second group. In the first group, zero was the most popular option with about 28%. In contrast, in the second group, firms converged so that over 40% used zero tables.



I first collected the exact wording of the first section header and then eliminated small variations to get a more manageable "first section data" variable. Most of the first section codings were literally word for word. $N = 238$ instead of 263 because I randomly coded 119 Group-One reports (out of 144) to make the groups evenly sized to enable simple count comparisons.

Figure SI9. Histogram of the substance of the first section header in each CD&A. The behavioral pattern this table captures is similar to that we observed when using the tables policy. While there was not one standard way to begin a CD&A report, one option, starting ''overview'' became much more popular in the second group. As before, this convergence to one option, which appeared to be roughly as popular as a few other alternatives in the first group, suggests learning and diffusion.

Table SI1. Count models of number of tables and Probit models of having zero tables. The table summarizes three negative-binomial models for the number of tables and three probit models for ''zero tables'' option. The models show a strong Group-Two effect until a control for market cap is included. In the models controlling for consultants and industries, but not firm size, firms that had the opportunity to observe the first group's disclosures used fewer tables and were more likely, by 10--14%, to not use any at all, the firm size control makes these findings disapear.

	Model(l)			Model (2)			Model (3)		
Variable	Est.	SE	*p*	Est.	SE	*p*	Est.	SE	*p*
Model: negative binomial, number of tables									
Second group	0.48***	0.16	0.00	−0.40**	0.18	0.03	−0.11	0.20	0.58
Log(Marketcap)							0.18***	0.05	0.00
Consultants									
Cook				−0.43	0.36	0.23	−0.43	0.35	0.22
Hewitt				0.33	0.29	0.26	0.24	0.28	0.39
Mercer				0.79***	0.25	0.00	0.68***	0.24	0.01
Towers				0.29	0.27	0.28	0.17	0.27	0.52
Other				38*	0.21	0.06	0.39**	0.20	0.05
None				−0.35	0.37	0.34	−0.31	0.36	0.40
Industries									
Manufacture				0.61*	0.21	0.05	−0.59**	0.30	0.05
Trans/Comm				−0.58	0.36	0.11	−0.52	0.35	0.14
Retail				0.66*	0.36	0.07	−0.69**	0.35	0.05
Finance				−0.41	0.32	0.20	−0.22	0.32	0.48
Service				−0.54	0.35	0.13	−0.49	0.34	0.15
Constant	0.89***	0.11	0.00	1.14***	0.28	0.00	−2.91**	1.22	0.02
Pred. Prob: Zero Tables									
Gr.-One to Gr.-Two Δ	0.11			0.10			0.03		
(95% CI on Δ)	(0.04, 0.18)			(0.01, 0.18)			(−0.07, 0.12)		
N	238			238			238		
L-Likeli, χ^2(df), *p*	−446, 9.31(1), 0.00			−436, 29.7(12), 0.00			−430, 41.12(13), 0.00		

(*Continued*)

Table SI1. (*Continued*)

	Model(l)			Model (2)			Model (3)		
Variable	Est.	SE	p	Est.	SE	p	Est.	SE	p
Model: Probit, Zero Tables									
Second group	0.37**	0.17	0.03	0.43**	0.20	0.03	0.17	0.22	0.42
Log(Marketcap)							−0.17***	0.06	0.01
Consultants									
Cook				0.28	0.36	0.43	0.38	0.36	0.29
Hewitt				−0.40	0.34	0.25	−0.30	0.35	0.29
Mercer				−0.69**	0.32	0.03	−0.52	0.33	0.12
Towers				−0.07	0.31	0.82	0.21	0.32	0.51
Other				−0.40*	0.23	0.09	−0.39*	0.23	0.10
None				0.56	0.36	0.12	0.52	0.37	0.16
Industries									
Manufacture				0.06	0.38	0.89	0.01	0.39	0.98
Trans/Comm				0.23	0.43	0.60	0.21	0.44	0.63
Retail				0.02	0.41	0.95	0.03	0.42	0.94
Finance				0.24	0.40	0.54	0.08	0.40	0.84
Service				0.39	0.43	0.35	0.33	0.43	0.44
Constant	−0.42***	0.12	0.00	−0.48	0.40	0.21	3.35**	1.4	0.02
Pred. prob: zero tables									
Gr.-One to Gr.-Two Δ	0.14			0.16			0.07		
(95% CI on Δ)	(0.2, 0.26)			(0.02, 0.31)			(−0.10, 0.23)		
N	238			238			238		
L-Likeli, χ^2(df), p	−158, 5.05(1), 0.03			−150, 22.3(12), 0.03			−146, 30.4(13), 0.00		

$^{*}p \leq 0.10$; $^{**}p \leq 0.05$; $^{***}p \leq 0.01$. Predicted probabilities are the change in the probability (from Group-One to Group-Two) of not including any tables. Calculated using delta method (SPost in STATA 10.1 (Long and Freeze, **?**)). $N = 238$ instead of 263 because I randomly coded 119 Group-One reports (out of 144) to make the groups evenly sized to enable simple count comparisons.

Table SI2. Probit models for beginning with ‘‘overview’’ and including a list of compensation peers. The ‘‘overview’’ models show a strong Group-Two effect for all specifications. In contrast to the ‘‘use of tables’’ models (above), the peer list models do not show a Group-Two effect until the control for market cap is included. In the fully specified model, being in Group-Two increases the probability of disclosing peers from about 0.5 to 0.66.

	Model (1)			Model (2)			Model (3)		
Variable	Est.	SE	*p*	Est.	SE	*p*	Est.	SE	*p*
DV: Begin with Overview									
Second Group	0.31*	0.18	0.09	0.47**	0.22	0.03	0.64***	0.25	0.01
Log(Marketcap)							0.09	0.07	0.16
Consultants									
Cook				−0.46	0.45	0.31	−0.50	0.45	0.27
Hewitt				−0.20	0.40	0.62	−0.24	0.40	0.55
Mercer				−0.50	0.37	0.18	−0.58	0.38	0.12
Towers				−0.01	0.35	0.98	−0.07	0.35	0.84
Other				−0.26	0.25	0.29	−0.29	0.26	0.26
None				0.15	0.37	0.68	0.16	0.37	0.66
Industries									
Manufacture				−0.44	0.42	0.30	−0.42	0.43	0.32
Trans/Comm				0.32	0.46	0.49	0.33	0.46	0.48
Retail				−0.26	0.45	0.49	−0.27	0.46	0.56
Finance				0.41	0.42	0.34	0.51	0.43	0.24
Service				0.05	0.46	0.90	0.09	0.46	0.84
Constant	−0.93***	0.13	0.00	−0.86	0.41	0.04**	−2.92∗	1.54	0.06
Pred. probability									
Gr.-One to Gr.-Two Δ	0.09			0.13			0.18		
(95% CI on Δ)	(−0.01, 0.20)			(0.01, 0.25)			(0.04, 0.31)		
N	238			238			238		
L-Likeli, χ^2(df), *p*	−125, 2.95(1), 0.09			−116, 20.44(12), 0.06			−115, 22.39(13), 0.05		

(*Continued*)

Table SI2. (*Continued*)

	Model (1)			Model (2)			Model (3)		
Variable	Est.	SE	p	Est.	SE	p	Est.	SE	p
DV: Disclose Peers									
Second Group	−0.12	0.16	0.47	−0.03	0.19	0.90	0.48**	0.23	0.04
Log(Marketcap)						0.30***	0.07	0.00	
Consultants									
Cook				0.82**	0.36	0.02	0.73**	0.37	0.05
Hewitt				0.96**	0.36	0.04	0.92***	0.35	0.01
Mercer				0.77***	0.30	0.01	0.55*	0.31	0.08
Towers				0.79***	0.31	0.01	0.66**	0.33	0.05
Other				0.58***	0.22	0.01	0.59***	0.23	0.01
None				−0.22	0.36	0.53	−0.16	0.36	0.65
Industries									
Manufacture				0.22	0.36	0.54	0.31	0.38	0.42
Trans/Comm				0.50	0.41	0.23	0.61	0.43	0.16
Retail				0.50	0.40	0.22	0.52	0.42	0.22
Finance				0.23	0.38	0.54	0.59	0.40	0.14
Service				−0.00	0.41	0.99	0.10	0.43	0.82
Constant	0.17	0.11	0.13	−0.53	0.36	0.14	−7.3***	1.5	0.00
Pred. Probability									
Gr.-One to Gr.-Two Δ		−0.05			−0.01			0.18	
(95% CI on Δ)		(−0.17, 0.08)			(−0.16, 0.14)			(0.02, 0.36)	
N		246			246			246	
L-Likeli, χ^2(df), p		−169, 0.52(1), 0.47			−156, 26.63(12), 0.01			−145, 49.92(13), 0.00	

$*p \leq 0.10$; $**p \leq 0.05$; $***p \leq 0.01$. Predicted probabilities are the change in the probability (from Group-One to Group-Two) of not including any tables. Calculated using delta method (SPost in STATA 10.1 (Long and Freese, **?**)) $N = 238$ instead of 263 because I randomly coded 119 Group-One reports (out of 144) to make the groups evenly sized to enable simple count comparisons.