

ES Risks and Shareholder Voice

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Abstract

While shareholder proposals related to ES issues nearly always fail, we show that investors' support for these proposals contains information regarding future risks that firms face. Support levels are informative regarding the probability of negative tail returns that stem from future ES incidents. Examining the economic channels underlying this finding, we find that agency frictions contribute to proposal failure, leading to predictable tail events. Contrasting ES versus non-ES failed proposals within the same firm, we find that predictability is unique to ES initiatives; this is consistent with higher uncertainty regarding the value of ES initiatives exacerbating agency frictions.

Keywords: shareholder proposals, voting, mutual funds, environmental, social

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Abstract

While shareholder proposals related to ES issues nearly always fail, we find that investors' support for these proposals contains information regarding future risks that firms face. Support levels are informative regarding the probability of negative tail returns that stem from future ES incidents. Examining the economic channels underlying this finding, we find that agency frictions among shareholders contribute to proposal failure, leading to predictable tail events. Contrasting ES versus non-ES failed proposals *within the same firm*, we find that predictability is unique to ES initiatives; this is consistent with higher uncertainty regarding the value of ES initiatives exacerbating agency frictions.

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1. Introduction

Are proponents of environmental and social (ES) initiatives motivated by pecuniary or non-pecuniary factors? While discussions on ES issues have gained prominence in recent years, existing literature offers ambiguous conclusions. One line of the literature finds that ES initiatives can provide firms with important financial benefits. However, other studies highlight that these initiatives often have non-pecuniary motives, some of which may harm shareholder value.¹

The objective of this paper is to contribute to this debate by evaluating the extent of support among a heterogeneous set of shareholders across a broad set of ES initiatives. Our analysis is predicated on the core ideas of agency theory, which highlight the importance of focusing on incentives. We exploit the differences in incentives amongst a disperse group of shareholders who have ‘skin in the game’ and examine how the variation in support amongst them relates to future firm outcomes. The fact that each of these shareholders has ‘skin in the game’ contrasts with other approaches toward evaluating firms’ ES policies such as ES ratings, which are frequently conducted by intermediaries and which have recently been subject to extensive criticism due to data coverage problems and inconsistencies.²

Over the last decade, approximately 25% of all shareholder proposals have related to environmental and social issues. Strikingly, the majority of these proposals are sponsored by asset management companies. Contrasting ES proposals with more conventional shareholder proposals (which typically focus on governance issues), we find that ES proposals are unique in that the shareholder support is increasing rapidly but it almost never crosses the 50% threshold. Motivated by Benabou and Tirole (2010), we offer two competing hypotheses that focus on the variation in investors’ support across failed proposals and the informativeness of this support for the underlying firms’ future ES-related risks.

Our null hypothesis is that the majority of shareholders oppose ES shareholder proposals because these proposals are not motivated by value maximization. Rather, these proposals are sponsored

¹ Studies showing evidence of financial benefits include Servaes and Tamayo (2013), Hong and Liskovich (2016), Albuquerque, Koskinen, and Zhang (2017), and Lins, Servaes, and Tamayo (2017). In contrast, Krüger (2015), Masulis and Reza (2015), Cheng, Hong, and Shue (2016), and Cronqvist and Yu (2017) conclude the opposite.

² See for instance Gibson, Krueger, Riand and Schmidt (2020) and Berg, Koelbel, and Rigobon (2020).

by people wishing to further their own personal ethical agenda. The subset of shareholders who supports these initiatives are motivated by non-pecuniary motives, such as ethical considerations and altruistic preferences, and they view the firm as a channel for the expression of these values. Under this null hypothesis, shareholder voice expressed via votes on ES proposals does not contain information about future firm ES-related negative incidents.

Our alternative hypothesis is that agency issues (such as investor myopia and friendliness towards management) among certain shareholders contribute to opposition and the failure of ES proposals that are value relevant, i.e., proposals that lessen the probability of value destroying incidents (Benabou and Tirole (2010)). Because the proposals do not pass, management feels little pressure to implement the initiatives. The implication of these dynamics is that the failed ES proposals contain information about the ES risks that the firms face. A higher support in failed ES proposals predicts a greater number of negative ES incidents and a greater probability of negative tail returns in subsequent periods.

We distinguish between these hypotheses by taking advantage of the detailed data on shareholder proposals, which allows us to identify ES proposals, the specific focus of each proposal, and the proposal's sponsor. We also have the recommendation of the largest proxy advisory service company (ISS) on each proposal and the individual voting records of each mutual fund investor. Mutual funds are a major investor class with substantial ownership in nearly all publicly traded companies.³ We exploit the heterogeneity among mutual funds in our empirical tests.

Our findings show that, although the overwhelming majority of ES proposals fail, the level of support for these proposals is informative regarding the firm's future prospects. Consistent with our alternative hypothesis, among the ES proposals that did not pass, those with higher support predict a higher incidence of negative tail events in subsequent years. A one standard deviation increase in mutual fund support predicts a 9.6% higher probability of the firm's subsequent one-year alpha being in the lower 25th percentile. Moreover, higher mutual fund support also predicts lower abnormal returns

³According to Investment Company Institute Factbook 2018, mutual funds owns 31% of the US equity market as of 2017. For more information, see https://www.ici.org/pdf/2018_factbook.pdf.

within this tail, specifically an annualized 4-factor downside alpha that is 1.2% lower.

Several points related to this finding are worth highlighting. First, it is the degree of support, rather than the mere existence of an ES proposal, that predicts subsequent negative returns. This mitigates concerns related to sample selection, ensuring that results are not driven by the greater tendency of certain firms to receive ES proposals. Second, we measure alphas starting from the year after the voting takes place, meaning our results do not capture any near-term effects (such as divestments) occurring immediately after the voting. Third, the predictability (i.e., the informativeness of mutual fund support for future firm performance) arises only in the left tail of the alpha distribution, indicating that results are not simply capturing idiosyncratic volatility. Fourth, results are robust to a wide array of tests controlling for firm fixed effects, past incidents, past returns, and firms' ES scores.⁴

We conduct several analyses to pin down the channels underlying the predictability. To this end, we start by using RepRisk data to examine the relationship between the support rate on ES proposals and subsequent ES incidents, defined using negative news reports about the firm on specific environmental and social issues. Findings are consistent with inferences from the returns analysis: a one standard deviation increase in mutual fund support for failed ES proposals also predicts a 10.0% increase in the number of subsequent negative ES issues, as reported in the media. Importantly, we find that the negative annual alphas that we document are concentrated on days with negative ES news, indicating that the negative alpha results are directly related to the incidents. Moreover, the content of the proposal is linked to the type of subsequent incidents, for example, with support among environmental (social) proposals predicting environmental-related (social-related) incidents. These findings provide strong support that concerns expressed by a group of minority shareholders are informative about the ES risks that firms face.

Next, we contrast the informativeness of support (in terms of predicting subsequent firm outcomes) in failed ES versus failed non-ES proposals *for a given firm*. Our prediction is that the predictability should be stronger among failed ES proposals, compared to failed non-ES proposals. This

⁴ We also find no evidence suggesting that management 'voluntarily' implements failed proposals with relatively higher support. This is consistent with Ertimur, Ferri and Stubben (2010) who show that the implementation rate for failed proposals is negligible.

is due to value effects of ES initiatives being more uncertain, for example as discussed by Ilhan, Sautner and Vilkov (2020) and Barnett, Brock and Hansen (2020), and with such uncertainty exacerbating agency issues (see, e.g., Demsetz and Lehn (1985)). We show that the informativeness of mutual fund support is in fact unique to ES, consistent with our conjecture. In addition to providing evidence for the underlying mechanism, this finding also allays potential concerns regarding the role of time-varying omitted factors as these tests exploit variation within each firm- year.

In the second portion of the paper, we use the detailed records of mutual fund votes to provide direct evidence on the role of agency frictions in influencing votes, in ways that contribute to the observed predictability relations. Agency frictions may influence shareholders' votes through a number of economic channels. First, more short-term focused funds will be less supportive of ES proposals if these initiatives have short-run costs along with potential gains which are expected to be realized only over the long-run, and if uncertainty impedes the market's ability to incorporate these positive long-run impacts into price. Second, funds that are friendlier to management will oppose ES proposals as a way to appease managers who oppose these initiatives, particularly if such opposition provides quid pro quo type benefits.⁵ Cvijanović, Dasgupta, and Zachariadis (2016), Davis and Kim (2007), and Francis and Philbrick (1993) conclude that quid pro quo dynamics influence investor voting.

We find strong evidence that agency frictions are important determinants of votes in ES proposals, contributing to the failure of these proposals. Funds with longer horizons and funds that are less management friendly are significantly more likely to support the ES proposals. Moreover, the informativeness of mutual fund support for future firm ES-related risks is predominantly driven by the degree of support coming from these shareholders who are less prone to agency problems. When we split the mutual fund support into support from different groups, we find that a one standard deviation increase in support among long-horizon and non-management friendly funds predicts an annualized 4-factor downside alpha that is 2% lower, which is notably larger than the average 1.2% effect of average votes across all funds.

⁵ The fact that these initiatives are put on the firm's proxy as a shareholder proposal indicates that management opposed the initiative, and consistent with this management recommends against all these proposals.

In aggregate, our findings provide strong support for the alternative hypothesis: there is a set of ES proposals that are motivated by pecuniary factors, but agency issues contribute to many shareholders opposing these initiatives. The proposals do not achieve the minimum threshold support to pass, and management does not voluntarily implement the initiatives (as we confirm). The concerns expressed by these minority shareholders are then subsequently realized.

While the main analysis utilizes the full sample, to sharpen identification we also provide a complimentary test in which we repeat the analysis using a tight window around a quasi-natural experiment that arguably increased the perceived value of having strong environmental policies. We follow Liang and Renneborg (2017) and Dyck, Lins, Roth and Wagner (2018) and focus on the period around the April 2010 BP Deepwater Horizon oil spill. First, consistent with this event decreasing the uncertainty regarding the value of strong environmental policies, investors become increasingly likely after the BP event to vote for proposals on environmental issues. This tendency is stronger among investors who are more prone to agency issues. Second, the informativeness of fund support in predicting subsequent downside alphas and negative incidents is more pronounced in the post period, consistent with shareholders evaluating these proposals more diligently and voting for the most salient ones (and yet the proposals still not passing). In sum, this analysis provides added confidence in our conclusions.

Our paper is related to several streams of the literature. First and foremost, our findings contribute to the growing body of work that aims to understand whether ES initiatives have pecuniary or non-pecuniary motives. The existing literature offers mixed results. Our finding that investor support, in particular, the support by investors who are least sensitive to agency-related frictions, contains information about subsequent downside risk represents new evidence on the value-relevance of ES issues. Different from recent work which documents that high ES performance reduces firm betas (Albuquerque, Koskinen, and Zhang (2019), Lins, Servaes, and Tamayo (2017)), we find that failed ES

initiatives predict large downside alphas. Importantly, this predictability is restricted to initiatives that receive higher support from entities with skin in the game, i.e., from mutual fund investors.⁶

Second, our paper relates to the growing concerns regarding the efficacy of regulations pertaining to ES issues, and the focus on shareholder activism as a potential solution (Benabou and Tirole (2010), De Bettignies and Robinson (2018)). Thus far, most evidence on shareholder activism on ES issues has focused on private engagements.⁷ Our focus on shareholder proposals is motivated by the fact that these represent an alternative mechanism to influence firm policies. Moreover, different from engagements, proposals enable a broad group of firm owners to voice their opinions.

A closely related paper from the private engagements literature is a contemporaneous study by Hoepner et al (2020), which relies on proprietary data from a single institutional investor. They show that many of the engagements of this investor have been successful, which contrasts with our finding that ES proposals virtually always fail. They also find that *successful* engagements reduce downside risk, whereas we find that support for *failed* ES proposals predicts downside risks in the future. The contrast in findings arguably stems from several factors, which contribute to an increased understanding of the potential for private market solutions to ES issues. It is important to note that there are fundamental differences between these two forms of shareholder voice. First, shareholder proposals may represent more contentious issues, as evidenced by the fact that asset management companies bring proposals when private discussions fail (Krueger, Sautner and Starks (2018)). Second, unlike engagements, the potential for shareholder proposals to pass the 50% threshold and influence firm policies requires support across a disperse group of shareholders who likely have heterogeneous incentives. Unlike Hoepner et al (2020) who analyze the interactions between a single shareholder and management, our shareholder proposal setting enables us to examine the influence of this heterogeneity. Our finding that this form of activism has thus far been ineffective, despite the informativeness of investors' support for future firm outcomes, highlights the impact of these divergent incentives.⁸

⁶ Gantchev, Giannetti and Li (2020) document improvements in ES scores in the years following the ES incidents. Different from this study, we show the predictability of these negative incidents.

⁷ See for instance Dimson et al (2015, 2018), Hoepner et al (2018) and Barko, Cremers, and Renneboog (2019)

⁸ A number of papers study institutional ownership in low ES firms. Gibson et al (2019) and Bolton and Kacperczyk (2020) provide evidence of divestment mostly in Europe, consistent with Dyck et al (2018) and Liang and Renneborg (2017). Related

Finally, the paper contributes to the long-standing debate regarding the influence of short-termism on corporate policies. While short-termism has been highlighted as a major problem by several authors (e.g., Graham, Harvey, and Rajgopal, (2005), Asker, Farre-Mensa, and Ljungqvist (2015)), more recently Jiang (2018) and Kaplan (2018) argue that such arguments are unfounded. We provide new evidence on this debate by showing that short-termism among shareholders in fact plays a significant role in our setting of votes on ES issues, a setting that is characterized by high value uncertainty (we don't find significant effects for non-ES issues). This is consistent with the higher uncertainty providing shareholders with greater latitude to deviate from long-term shareholder value maximization and to be influenced by distortionary incentives.

2. Data and Measures

2.1. Data sources

Our main analysis compiles data from CRSP, Compustat and ISS Voting Analytics. ISS contains information on all shareholder proposals, across nearly all US publicly traded firms. This includes the specific focus of each shareholder proposal as well as the identity of the person, firm, or organization sponsoring the proposal. For each proposal, the data also report ISS's own recommendation, and the individual voting records of each mutual fund investor.

The ES proposals in our sample represent shareholder proposals that appear on the final proxy and are voted on by shareholders. The fact that a shareholder proposal is up for vote provides a strong signal that management opposes the initiative. As discussed by McCahery, Sautner, and Starks (2016) and Krueger, Sautner and Starks (2018), proposal sponsors (in particular, asset management companies) generally discuss issues with management prior to bringing a proposal, and the appearance of a proposal on the final proxy generally indicates that they have been unable to reach an agreement and the proposal contains somewhat contentious issues.

ISS categorizes proposals based on the issue. Our main analyses focus on the subset of proposals related to environmental and social (ES) issues, which ISS identifies by the resolution type "SRI".

to our paper, Starks, Venkat and Zhu (2017) show that investors with longer horizons prefer high ESG firms. Different from this paper, our focus is on "voice".

During our sample period, there are a total of 52 SRI categories with shareholder proposals. We refine this set in two ways. First, we review the more detailed proposal descriptions in ISS Voting Analytics (*Item Desc*) to check for potential inconsistencies and data errors. We identify a subset, a total of 10 categories, which either don't have clear association with ES issues (e.g., proposals titled "Report on Outsourcing") or appear to be a data error (e.g., proposals titled "Report on Pay Disparity" turns out to be about executive compensation as opposed to the gender pay gap)⁹. Second, we review the proposals for which the ISS classification is missing.¹⁰ We read through the ISS Voting Analytics brief (*AgendaGeneralDesc*) and detailed descriptions (*ItemDesc*), and select the ones which have the same keywords that our refined set of ES proposals have (e.g., "Climate Change", "Gender Pay Gap") or infer from reported information (e.g., "Glass Ceiling"). For the few ones with generic proposal titles (e.g., "Company Specific-Governance Related"), we make use of the detailed information in *ItemDesc*. In this way, we identify 13 additional categories. More detailed information on proposal classification as well as the complete list of all ES-related categories is available in Appendix Table A1. The most common ES proposals in our sample include 'Social Proposal' (164), 'Improve Human Rights Standards or Policies' (150), 'Report on Sustainability' (146), 'GHG Emissions' (122), and 'Climate Change' (101). Our final sample has 1,658 ES proposals in 55 categories. Throughout the paper, Non-ES proposals refer to all other shareholder proposals.

We also rely on the ISS Voting Analytics database to obtain the votes of mutual funds. ISS provides detail on whether each fund voted for, voted against, or abstained on each proposal in each firm-meeting. Throughout our main analyses, mutual fund support is defined as voting for the proposal, and all other actions (voting against and abstaining) are categorized together as being opposed.¹¹

Our sample period runs from 2004 to 2018. The beginning of our sample is dictated by the fact that mutual funds have only been required to report their votes to the SEC since 2003, and 2004 represents the first year with high quality data. We evaluate firm outcomes up to two years following the respective shareholder proposals, meaning we include shareholder proposals through 2016, and CRSP and

⁹ ISS classifies all other executive compensation related items as governance proposals.

¹⁰ In ISS, the resolution type information is missing nearly 40% of the time.

¹¹ About 20% of mutual fund votes are 'Abstain'. As we discuss later in Section 4, we find no significant differences between voting against and abstaining. We also find no meaningful differences in results if we exclude index funds from our sample.

Compustat data through 2018. Merging ISS votes data with CRSP and Compustat, we obtain a firm-year panel of 35,945 observations. This includes 1,196 firm-years with ES proposals (400 unique firms), 34,749 firm-years with no ES proposals (4,875 unique firms), and 2,733 firm-years with no ES proposals but with shareholder proposals on non-ES issues (1,010 unique firms).

For each proposal, ISS reports the name of the person or entity sponsoring the proposal. Based on name and extensive Google searches, we hand collect information about sponsor type and classify sponsors into three groups: asset management companies, religious groups, and other, where other includes unions, NGOs, and individuals. Appendix Table A2 lists the five most frequent sponsors within each sponsor type.

We complement our main data sources with data from RepRisk. RepRisk is an environmental, social, and corporate governance data science company, specializing in ESG and business-conduct risk research.¹² Beginning in 2007, RepRisk screens over 80,000 public sources (including media, regulatory, and commercial documents) in twenty different languages on a daily basis for adverse ESG incidents. Across these sources, they search for 28 mutually exclusive ESG issues that were defined in accordance with key international standards as set for example by the World Bank and OECD, plus three other categories more loosely named ‘other environmental’, ‘other social’, and ‘other governance’. These issues are then classified into subcategories of environmental (e.g., climate change), social (e.g., poor employment conditions), and governance (e.g., executive compensation). We use data on environmental and social subcategories. Examples of “S” issues classified by RepRisk include ‘poor employment conditions’, ‘occupational health and safety issues’, ‘human rights abuses and corporate complicity’, ‘discrimination in employment’, and ‘child labor’. Examples of “E” issues are ‘climate change’, ‘GHG emissions and global pollution’, ‘overuse and wasting of resources’, and ‘impacts on landscapes ecosystems and biodiversity’.¹³

Two points related to RepRisk data are worth noting. First, for any event that is covered by

¹² Highlighting the quality of Reprisk data, a wide array of entities, including banks, insurance companies, asset managers, and hedge funds, utilize Reprisk for their business decisions. Moreover, recent academic papers by Graham, Grennan, Harvey, and Rajgopal (2017), Li and Wu (2018), and Gantchev, Giannetti, and Li (2020) also rely on RepRisk

¹³ A full list of the 28 RepRisk issues, as well as more detail on RepRisk, can be found here: <https://www.reprisk.com/content/static/reprisk-methodology-overview.pdf>.

multiple news outlets, RepRisk eliminates these duplicates. Second, for any event that relates to multiple issues, for example ‘impacts on landscapes ecosystems and biodiversity’ and ‘occupational health and safety issues’ as in the case of BP Deepwater Horizon oil spill, RepRisk records both of these underlying factors. To obtain a more comprehensive measure of ES-related incidents, we take advantage of this level of detail in the data. For each firm-month, we use RepRisk data on the total number of issues, as reported in the media, that relate to negative environmental and social incidents.¹⁴ For further analyses, we also use the RepRisk’s finer categories on solely E issues and solely S issues.

Reprisk data covers 2,153 unique firms beginning in 2007, a total of 17,536 firm-years. Within this sample, RepRisk reports 28% of firm-years and 63% of unique firms as having a negative ES incident. Most common issues include environmental-related factors such as ‘Impacts on landscapes, ecosystems, and biodiversity’ and ‘Local pollution’, as well as social-related factors such as ‘Poor employment conditions’ and ‘Occupational health and safety issues’.

For descriptive purposes and for a robustness test, we also obtain MSCI KLD data, which represents a score for each firm-year that summarizes the firm’s ES profile. For each category, KLD summarizes a firm’s strengths and concerns. Our firm-year score represents the average of strengths minus concerns, across five main categories that are consistent with the definition of our ES proposals: product, community, employee relations, environment, and human rights. KLD data are available through 2014.

2.2. Descriptive statistics

Figure 1 shows the number of shareholder proposals per year, categorized by whether they relate to ES issues (blue bars) or other issues (orange bars). In the average year, there are 128 (median=133) ES proposals, with 23% of all shareholder proposals relating to ES issues. While the number of ES proposals varies over time, we do not observe a strong time trend. This is consistent with Grewal, Serafeim and Yoon (2016) who show that there was an upward trend in ES proposals between 1997 and 2002, but it has been relatively flat since then.

¹⁴ Later, we show the robustness of results when we use alternative measures (such as the number of events as opposed to the number of issues) constructed based on RepRisk.

A distinctive feature of ES proposals is that they hardly ever pass. Across our sample period, 15 ES proposals passed and 1,643 failed.¹⁵ In comparison, 1,376 non-ES proposals passed and 4,288 failed. Panel A of Figure 2 shows the level of support over time for these proposals. We plot both ISS support and average mutual fund support.

During the sample period, ISS support has increased dramatically; for instance, they recommended for less than 20% of ES proposals in 2004, compared to over 60% in 2016. Average support among mutual funds has also increased, from less than 5% in 2004 to approximately 20% since 2013, however the levels of support remain low. Panel B of Figure 2 highlights this divergence. We categorize all fund-votes across all ES proposals in our sample into four bins: both ISS and the fund supports (orange bars), both ISS and the fund are against (blue bars), only ISS supports (gray bars), and only the fund supports (yellow bars). There are very few cases in which only the fund supports (less than 3% of proposals each year). The category with the greatest growth is cases in which only ISS supports, and this coincides with a dramatic decrease in the percent of proposals that both ISS and the fund opposes.

Figure 3 depicts the frequency of each sponsor type. As shown in Panel A, 53% of the ES proposals are sponsored by asset management companies, compared to 21% by religious groups and 26% by all other entities. The finding that more than half of all ES proposals are sponsored by asset management companies is striking, as these firm owners have a fiduciary duty to maximize shareholder value.

Panel B of Figure 3 shows that asset management companies sponsor a total of around 3,000 proposals over our sample period, with ES proposals representing 23% of this set. Religious group sponsors, on the other hand, initiate far fewer proposals (less than 500) and ES issues are a greater 61% of all sponsored proposals. The remaining ‘other’ group sponsors a considerable amount of proposals (2,514 in total), however only 13% of their proposals are focused on ES issues.

¹⁵ Relative to Frammer (2016), we find a slightly lower number of passed ES proposals. The difference stems from a difference in sample, for example, with her analysis focusing on a somewhat broader category of ‘SRI proposals’, which appears to include some proposals that ISS does not identify as being related to either E or S issues. We have manually reviewed all shareholder proposals within our data to avoid misclassification. Further information on proposal classification is available in Appendix Table A1.

Figure A1 of the Appendix provides further detail on the types of issues on which ES proposals are focused. We categorize ES proposals into three groups: ‘*action*’ includes proposals that are focused on the firm making specific changes (e.g., changes in investment policies); ‘*disclosure*’ includes proposals that request the firm to provide more disclosure on their environmental and social policies; and, ‘*other*’ includes proposals related to all relatively rare issues, such as board oversight (e.g., to establish a committee) and proposals aimed at influencing suppliers (e.g., suppliers to adopt). Details on this classification are included in captions as well as in Appendix I. Disclosure proposals are the most common (866), and this is closely followed by action proposals (621). Both asset management companies and religious groups sponsor large numbers of both types of proposals.

Table 1 describes the characteristics of the firms receiving these ES proposals. We compare the 1,196 firm-years (400 unique firms) with ES proposals to two alternative samples: a broad sample of 34,749 firm-years (4,875 unique firms) with no ES proposals, and a subsample of 2,733 firm-years (1,010 unique firms) with at least one shareholder proposal but no ES proposals.¹⁶ Compared to all firm-years with no ES-proposals, we find that firm-years with ES-proposals tend to have a greater total number of proposals (13.4 versus 7.5, on average), including more shareholder proposals (2.6 vs 0.1, on average). The firms are also significantly larger (average market capitalization of \$46.4 billion, versus \$4.5 billion) and have higher ROA (0.16 versus 0.09). They have higher market-book (3.02 versus 2.80) but lower sales growth (0.06 versus 0.14). Finally, they have significantly lower ES scores: -0.7, versus -0.1 across all firms with no ES proposals and 0.0 for the subsample with at least one shareholder proposal. Similar conclusions hold when we compare to the subsample of firms with one or more shareholder proposals (but no ES proposals). In sum, there are some differences between firms with and without ES proposals. In the following sections, we address potential concerns arising from this in a number of ways: using control variables alongside a range of fixed effects, estimating effects on the extensive versus intensive margin (i.e., whether the results are driven by the presence of an ES proposal or by the level of support within these proposals), constructing subsamples that exploit within

¹⁶ The proposals are widely dispersed across firms. During our sample period, most firms have either 1 (38% of firms) or 2 (21% of firms) ES proposals. Only 4% of firms have a proposal in ten or more years across our entire sample period.

firm-year variation, and employing a quasi-natural experiment. Variable descriptions are provided in Appendix I.

3. Investor support for failed ES proposals and subsequent firm outcomes

3.1. Informativeness of shareholder votes on ES proposals

In this section, we conduct empirical tests examining the informativeness of shareholder votes across a broad group of investors, on ES-related issues. As discussed earlier, in stark contrast with non-ES proposals, the overwhelming majority of ES proposals do not pass. Moreover, prior literature suggests that failed shareholder proposals are unlikely to be voluntarily implemented by management, a fact that we confirm within our own data (as discussed in more detail later). Based on Benabou and Tirole (2010), we offer two competing hypotheses that focus on the variation in investors' support across ES proposals and examine the informativeness of this support for the underlying firms' ES-related risks.

Under the null hypothesis, ES shareholder proposals are motivated by non-pecuniary factors and thus the majority of shareholders, who are arguably focused on value maximization, oppose these proposals. It follows that shareholder votes on failed ES proposals do not contain information about future firm ES risks that firms face. In contrast, under the alternative hypothesis, at least a subset of ES proposals is motivated by pecuniary factors (relating to firm downside risk), but agency problems (such as myopia and friendliness towards management) among certain groups of shareholders contribute to opposition. Support among investors who are less prone to agency issues is informative, but opposition among remaining investors causes these proposals to fail, and thus management feels little pressure to implement the initiatives. As a result, concerns expressed via votes in failed shareholder proposals predict a higher probability of future firm incidents.

Before presenting our main empirical analyses, we present some anecdotal evidence. Valero Energy provides an illustrative example.¹⁷ On the proxy statement preceding the company's April 2011

¹⁷ Valero Energy Corporation is a Fortune 500 (ranked 24th as of December 2019) international manufacturer and marketer of transportation fuels, other petrochemical products, and power.

meeting, there was an ES shareholder proposal to provide a “Report on Accident Risk Reduction Efforts” (*ItemDesc*). ISS recommended voting for the proposal, and the proposal received a support rate of 43%. Consistent with the fact that the proposal did not exceed the 50% threshold level, we find no evidence of Valero generating such a report. Moreover, consistent with the presence of safety-related risks that were not being adequately addressed, in December 2012, the media reported that a subcontractor was killed and two others were severely burned following chemical exposure at Valero’s Memphis refinery. The incident then became the subject of a costly wrongful death and injury lawsuit.

3.1.1. Main results

The following analyses systemically evaluate the informativeness of shareholder votes on ES proposals. We use the full sample of firm-years with CRSP, Compustat, and ISS Voting Analytics data over our sample period. In the first set of regressions, the dependent variable, *Dummy downside tail return*, captures the likelihood that the company experiences a negative tail event, which we measure as a binary variable equal to one if the company’s 4-factor alpha lies in the lower 25th percentile. For each firm, we first estimate 4-factor alphas using the daily data, and then cumulate them into a buy-and-hold one-year alpha over fiscal year t . Our second dependent variable, *Downside tail return*, captures both the likelihood of a tail event and its magnitude in cases where it is realized. Specifically, the downside tail return equals this one-year alpha in cases where it is below the 25th percentile of alphas within the same year, and it equals zero otherwise.¹⁸ Finally, our third measure, *ES negative news*, is the natural logarithm of 1 + number of issues related to negative ES incidents, as measured by RepRisk based on media articles on ES issues during fiscal year t as reported in RepRisk. Further details on variable definitions are available in Appendix I.

In Panel A of Table 2, we regress these measures of firm downside tail events on measures of investor support for ES proposals (and non-ES shareholder proposals) over the prior two years. Independent variables of interest capture both the *presence* of different types of shareholder proposals and the *level of support* (conditional on the presence of a proposal). First, we include two dummy

¹⁸ Our focus on the 25th percentile is motivated by the fact that there are approximately 1,200 firm-years with failed ES proposals in our sample. The use of smaller tails, such as the 1% or 5% would effectively result in very few non-zero observations. Nevertheless, as discussed in more detail later, Internet Appendix A3 shows robustness across alternative specifications, including the use of a 10% tail.

variables, *Failed ES Proposal* and *Failed Non-ES Proposal*, which equal one if there was a failed ES proposal or a failed non-ES proposal, respectively, in year $t-2$ or $t-1$. Second, we interact each of these variables with the respective support rates, *Failed ES proposal* \times *Support for ES* and *Failed Non-ES Proposal* \times *Support for Non-ES*.¹⁹ In the case of multiple proposals for a single firm-year, we use the average support. We employ two measures of support: mutual fund support and ISS support. The baseline category represents firm-years with no failed shareholder proposals (either ES or non-ES). Regressions are OLS, with standard errors clustered at the firm level. Firm characteristics presented in Table 1 are used as control variables, and regressions include firm and year fixed effects.²⁰ The final sample used in regressions includes 31,244 observations. Because Reprisk data starts in 2007 and it does not cover all firms in the CRSP, Compustat universe, this analysis is based on a somewhat smaller sample of 16,901 firm-years.

Appendix Figure A2 shows the timeline of the analysis, which is depicted for the typical case of a firm with a December fiscal year end. As the figure shows, support rate variables are calculated at the $t-2$ and $t-1$ meetings, which in this case would occur in the spring. We calculate alphas and negative ES news starting from the beginning of fiscal year t , which is an average of eight months after the spring $t-1$ meeting. Skipping these months provides a number of important advantages, which help with the interpretation of findings. First, it ensures that we are not capturing the potential market reactions to the news covering the meeting. Second, following the vote outcome, some shareholders may decide to divest, as we later show in the paper. The timeline of the predictability analysis means that the dependent variable is not capturing the potential price impact of these trades.

Results are presented in Panel A of Table 2. Under our null hypothesis, we would not expect a significant relation between our independent variable of interest, *Failed ES proposal* \times *Support for ES*, and any of the dependent variables. Under our alternative hypothesis, we would expect this variable to be positively related to the probability of a low abnormal return (columns 1 – 2), negatively related to the size of the downside tail return (columns 3 – 4), and positively related to the incidence of negative

¹⁹ The correlation between the ES and non-ES dummies is 0.34, and the correlation between the mutual fund support rates for ES and non-ES proposals is 0.15.

²⁰ Because *Support for ES* is defined only for observations with at least one failed ES proposal, regressions include *Failed ES Proposal* \times *Support for ES*, but not *Support for ES* by itself. This is similarly the case also for Non-ES Proposals.

ES incidents as reported in RepRisk (columns 5 – 6).

Column 1 starts by focusing on the relation between mutual fund support for failed ES proposals over the past years and the probability of a low abnormal return, defined as alpha below the 25th percentile. Findings are consistent with our alternative hypothesis: *Failed ES proposal x Support for ES* is positive and statistically significant. A one standard deviation increase in mutual fund support predicts a 9.6% higher probability of having abnormal returns in the lower tail, within the subsample of firm-year observations with at least one failed ES proposal. Column 2 shows that ISS support similarly predicts the firm's alpha being in the left-hand tail (a one standard deviation increase in ISS support is associated with an 8.7% higher probability of left-tail alphas). This is consistent with ISS's stated objective being to support proposals that contribute positively to shareholder value, but these proposals not receiving sufficient support to pass and therefore not being implemented.

Columns 3 and 4 of Panel A demonstrate that these support levels relate not only to the likelihood of abnormal returns being in the left-hand tail, but also to the magnitude of these tail returns. The dependent variable in these columns is *Downside tail return*, as defined above. Findings indicate that a one standard deviation increase in mutual fund support predicts an annualized downside alpha that is 1.2% lower, significant at the 5% level, within the subsample of firm-year observations with at least one failed ES proposal.²¹

We conjecture that these relations between support for ES initiatives and subsequent tail returns are driven by the fact that proposals with greater support (but that are nevertheless not implemented) forecast a greater probability of a negative ES incident. Columns 5 - 6 examine this prediction by replacing the dependent variable with *ES negative news*. Consistent with predictions, across both specifications, failed ES proposals with higher investor support significantly positively predict future ES incidents. A one standard deviation increase in mutual fund support for ES proposals over years $t-2$ through $t-1$ predicts a 10% increase in the number of negative ES incidents in year t .²² Moreover, the

²¹ To accurately capture economic magnitudes, we focus on the standard deviation of fund support within the subsample of observations with an ES proposal. A one standard deviation increase in fund support (0.152) times the coefficient on fund support in column 3 of Table 2 (-0.076) equals -0.012.

²² Because the dependent variable represents $\ln(1+ES\ news)$, economic significance calculations are based on: $\ln(1 + ES\ news\ in\ state\ 2) - \ln(1 + ES\ news\ in\ state\ 1) = Coefficient * Std\ Dev$, where state 1 represents the sample average among firm-years that follow failed ES proposals and state 2 represents a one standard deviation increase in support for these proposals. Within

dummy for the existence of an ES proposal is not significant, showing once again that results are obtained from variation in the intensity of support.²³

Across all these specifications, we find no evidence that the presence of an ES proposal itself explains left-tail alphas or negative ES news, as reflected by the fact that the coefficient on the *Failed ES proposal* dummy is never significant in the predicted direction (and in some cases it even has the opposite sign). Results on left-tail alphas and negative ES news are obtained from proposals with higher levels of support, as indicated by the significant coefficient on *Failed ES proposal x Support for ES*. This shows that there are proposals motivated by pecuniary factors which receive more support and predict future downside returns and future negative ES incidents. The fact that the presence of an ES proposal itself is not related to neither left-tail alphas nor incidents mitigates concerns related to sample selection, ensuring that results are not driven by the greater tendency of certain firms to receive ES proposals and also experience negative tail events. It is useful to note that these regressions also include firm fixed effects, which control for potentially omitted time-invariant firm characteristics (for instance, correlated with firms' tendency to receive an ES proposal). This provides added assurance for our interpretations.

In addition to highlighting the predictive power of support for ES proposals, Table 2 also shows a striking contrast in the horse race between *Failed ES proposal x Support for ES* and *Failed Non-ES proposal x Support for Non-ES* for a given firm. None of the specifications provide any evidence that support for failed non-ES proposals predicts either subsequent alphas or negative ES news. Predictability relations that we document are unique to ES proposals. This contrast is consistent with the idea that, compared to failed non-ES proposals, support rates in failed ES proposals contain more information about subsequent firm incidents. This difference is consistent with the greater uncertainty regarding the value effects of ES initiatives, and consequently a greater influence of agency issues on

our sample, average ES news following firm years with failed ES proposals (i.e., state 1) equal 19.38, and the coefficient of interest (0.59) times the standard deviation of support (0.15) equals 0.091. Solving this equation, news conditional on a one standard deviation increase in support (i.e., state 2) equals 21.32, which represents a 10.0% increase.

²³ Hoepner et al's analysis of successful ES engagements focuses on firm raw returns, in particular, the volatility and lower tail of firm raw returns. In contrast, we focus on the idiosyncratic nature of firm incidents, as measured by downside alphas. Moreover, we complement our analysis with an incident measure from RepRisk to provide direct evidence.

ES votes.²⁴ In a world of perfect information, opposing a value-increasing course of action is likely to have adverse consequences (e.g., reputational costs). While no shareholder proposals could plausibly be characterized by perfect information, uncertainty is arguably higher on average for ES proposals (Ilhan, Sautner and Vilkov (2020) and Barnett, Brock and Hansen (2020)). This uncertainty stems from multiple sources, including for example future regulatory changes, litigation risk, and a lack of precise data on what policies will obtain desired objectives (e.g., to limit global warming). All of these factors make it difficult to ascertain the underlying value proposition behind many ES proposals²⁵ When uncertainty is higher, motivations behind an individual's decision are less clear; as a result, the individual has greater latitude to focus on objectives other than long-term value-maximization, thus leading to heightened agency issues. Later in the paper, we directly test the differential impact of agency issues on votes in ES versus non-ES proposals under environments with different informational uncertainty.

Panels B and C of Table 2 provide analyses to ensure the robustness of these results and the conclusions we draw. The specification in Panel A, which includes all firm-years, enables us to include firm fixed effects, thereby exploiting variation within the firm and allaying potential concerns regarding omitted factors. In Panel B, we extend the analysis to examine the role of time-varying omitted factors by exploiting the variation within a firm-year. For this purpose, we construct a subsample, using only firm-years with at least one failed ES proposal and at least one failed non-ES proposal. We again contrast the predictive power of support in failed ES vs failed non-ES proposals within a given firm. Results are qualitatively similar in this subsample, providing further evidence that our results are robust. Support for failed ES proposals significantly predicts both left-tail alphas and subsequent negative ES incidents. Consistent with prior results, we continue to find no consistent evidence of predictability for failed non-ES proposals. These results strengthen the interpretation of our main findings.

²⁴ The most common failed non-ES proposals include proposals related to compensation and the calling of special meetings, issues about which market participants have considerably more evidence and arguably a better ability to evaluate.

²⁵ A burgeoning literature offers ambiguous conclusions on the value effects of firms' ES performance. See, for instance, Masulis and Reza (2015), Cheng, Hong, and Shue (2019), Krüger (2015), Albuquerque, Koskinen, and Zhang (2019), Lins, Servaes, and Tamayo (2017), Cronqvist and Yu (2017), Riedl and Smeets (2017), Baker et al (2018), Barber, Morse and Yasuda (2019), Hong and Kostovetsky (2012), Edmans (2012), among many others.

Panel C shows a series of placebo tests. Because ES proposals relate to shareholders' efforts to lessen the probability of rare disasters, the support for these proposals should only be informative about future downside risks. There is no reason to expect a relation with upside returns. Alternatively, if our ES support measure is just proxying for idiosyncratic risk, then we would observe a relation between this support and both upside and downside returns. To test this, we estimate regressions similar to those in Panel A, with the exception that the dependent variable is firm upside tail returns, which represents the analog of downside tail returns but captures the right tail of returns. It is defined as the firm alpha if this alpha is above the 75th percentile (within a given fiscal year), and zero otherwise. Consistent with predictions, the coefficients on *Failed ES proposal* \times *Support for ES* are insignificant across all specifications, indicating that upside tail returns are not related to any of the measures of investor support rare variables.²⁶

3.1.2. Additional tests, relations between proposal support and firm outcomes

Appendix Table A3 provides several additional robustness tests. Panel A reports the results of six robustness tests for the main alpha result (as reported in column 1 of Panel A of Table 2). Columns 1 – 3 use the same dependent variable as main results in Table 2, *Downside tail return*, defined using the 4-factor alpha in year t . In columns 1 - 2, respectively, we control for the lagged *Downside tail return* and lagged *ES negative news*. The idea is that firms receiving ES proposals (along with relatively higher support rate) might have had large negative alphas or many incidents over the past year, and we might be capturing the time-series correlation between the dependent variable and these past events. Results confirm that this is not the case. In column 3, we control for the company's KLD ES score and find that the predictability that we document is over and above the information encapsulated in such scores.²⁷ Columns 4 – 5 employ alternative measures of the dependent variable. In column 4, we redefine the downside tail return measure using abnormal returns calculated based on size and BM-matched samples, and in column 5 we redefine the downside tail return based on the 10th percentile instead of the 25th percentile of the 4-factor alpha in year t . Results are robust across both these

²⁶ Inferences are similar if we instead use a dummy equal to one if the firm's 4-factor alpha is above the 75th percentile. We are unable to do a placebo test using RepRisk, because RepRisk collects information only on negative ES news.

²⁷ Due to shortening of sample period in some tests (RepRisk and KLD are available for shorter periods), statistical significance varies, however, coefficient estimate is comparable to the original result.

alternative specifications. Finally, in column 6 we re-estimate the regressions over a short window around the meeting date using a matched sample. For each firm with a failed ES proposal in the two years preceding year t , we select a matched firm (based on 4-digit SIC code and firm size) without such a proposal. We measure alphas one year before and after this window, such that regressions utilize only two observations per firm. Results are remarkably similar with this alternative approach.²⁸

Panel B provides robustness tests related to our measure of negative ES incidents, using specifications similar to those in Column 5 of Table 2, Panel A. As stated previously, in our main tests we take advantage of the richness of the RepRisk data to count the number of negative ES issues faced in each firm-month, recognizing that some events pertain to multiple issues. In column 1 of Panel B, we instead employ the number of events as our dependent variable; results are qualitatively similar. Columns 2 – 3 take advantage of RepRisk severity and reach classifications, which capture the nature of the incident (e.g., caused by negligence or intent, number of people affected, and consequences of incident) and the readership of the outlet in which the story was published, respectively. In each column, we focus on the subset of more salient issues, defined as the number of issues with medium or high severity and the number with medium or high reach, respectively. Consistent with earlier results, we again find a significantly positive relation.

For completeness, Panel C of Appendix Table A3 provides additional placebo tests. First, we find no significant relation when we replace the dependent variable with lagged alpha, indicating that firms with higher support in their failed ES proposals did not have worse alphas over the year prior to the meeting date when voting took place (column 1). We also find no significant results when we use idiosyncratic volatility or downside beta as dependent variables (columns 2 and 3). Our findings of significant relations between support for failed ES proposals and subsequent negative ES incidents are distinct from what has been documented in prior literature (e.g., Lins, Servaes, and Tamayo (2017)).

The finding that investor support for failed ES proposals is related to subsequent left-tail returns (and incidents) is consistent with our alternative hypothesis, that support rates for failed ES proposals

²⁸ In additional analyses, we examine whether the relations between support for failed ES proposals and subsequent firm outcomes are driven by a subset of the ES proposals, for example environmental versus social proposals, or action versus disclosure proposals. Results (untabulated) show that results are qualitatively similar across these subgroups.

are informative regarding the risks that firms face. This hypothesis is based on the premise that management does not voluntarily implement initiatives that fail to obtain the minimum threshold support. This premise is backed by both prior literature and in-depth examination of our sample. As noted by Krueger, Sautner and Starks (2018), the fact that the concern is being raised in the form of a shareholder proposal generally indicates that management has not voluntarily agreed to the initiative. Consistent with such opposition, Ertimur, Ferri and Stubben (2010) find an implementation rate of only 3.2% across a set of failed proposals. An in-depth examination of our sample yields similar conclusions. We manually examine all proposals with a support rate higher than 40%. Following Gantchev and Giannetti (2018), we review the proxy filing announcing the annual meeting at which the proposal is to be voted, the next meeting's proxy filing, and all 8-K reports between the two meetings. A close inspection reveals that only 1 proposal within our set has been implemented. As a supplementary test, we examine the changes in firms' ES scores in the year of voting and the year that follows. Had management implemented the proposal, one may expect to see a change in the firms' ES scores, however we confirm that this is not the case (Appendix Table A4).

3.2 Link between downside returns and incidents

Tables 3 and 4 examine in more depth the source of the predictability documented in Table 2. Table 3 examines abnormal returns in the days surrounding the negative ES incidents. Table 4 focuses on the link between proposal type, for example, whether the proposal relates to environmental issues or social issues, and the type of ES incident reported by RepRisk.

We begin by analyzing in more depth the source of the negative abnormal returns that tend to follow highly supported ES proposals (as shown in Table 2). We predict that the negative abnormal returns will be concentrated in the days on which negative ES incidents are publicly reported. Following the specification in Table 2, we focus on abnormal returns in year t , among the set of firms with failed ES proposals in the prior two years. We restrict the sample to the 346 firm-years with a failed ES proposal on which mutual fund support fell within the upper quartile. For each day during year t , we calculate the daily alpha from a four-factor model, and we compare average daily alphas across days with negative ES incidents versus without negative ES incidents. Results are consistent with predictions. The mean alphas on days with negative ES incidents is -0.17%, compared to an average

alpha of 0.01% on all other days, with the difference being significant at the 5% level. Row 2 shows that conclusions are similar if we restrict the sample to firms with a failed ES proposal that garnered high support within the past one year, instead of the past two years.

In sum, the negative abnormal returns are concentrated around the days in which the negative ES events occur. While at least a subset of mutual fund investors recognize these ES-related risks, which they voice via their votes, the market at large does not seem to fully incorporate these effects into price at the time of these votes. In untabulated results, we examine the abnormal returns around the time of the shareholder meeting and conclude that the significant negative abnormal returns occur around the time of the negative ES incidents, and not around the time of the shareholder meeting.²⁹

Table 4 provides a different perspective on the tightness of the link between mutual fund support on the ES proposals and the subsequent firm risks. We have interpreted results to this point as indicating that ES issues voiced by a subset of investors contain information about company downside risks. The implication is that the nature of the proposal should relate to the nature of subsequent ES incidents. To examine this conjecture directly, we separately categorize both proposals and the subsequent incidents as reported in RepRisk as either “E” or “S”, as discussed in Section 2. Table 4 shows regressions similar to those previously reported in Columns 4 – 6 of Table 2, with the exception that the dependent variable equals either the natural logarithm of 1 + number of “E” incidents (Columns 1 – 3) or the natural logarithm of 1 + number of “S” incidents (Columns 4 – 6). Analogously, the independent variable of focus is either *Failed E Proposal* \times *Support for E*, or *Failed S Proposal* \times *Support for S*. Results in Table 4 provide strong evidence that concerns expressed by a group of minority shareholders are informative about the specific E and S risks that firms face.

Our findings provide an informative contrast when viewed relative to prior literature. Given the growing concerns regarding the efficacy of regulations on ES issues, activism is receiving increasing attention as a potential solution (Benabou and Tirole (2010), De Bettignies and Robinson (2018)). Thus far, most studies on shareholder activism focus on private engagements. While the engagement

²⁹ This is also consistent with Cunat, Gine, and Guadalupe (2012) who argue that only vote outcomes that pass the 50% threshold on the margin have significant abnormal returns.

literature highlights the efforts of a few large investors to achieve change (Dimson et al (2015, 2018), Hoepner et al (2018) and Barko, Cremers, and Renneboog (2019)), our findings show that votes are informative regarding the ES risks but shareholder proposals have been ineffective as a form of shareholder activism. One potential contributing factor is that shareholder proposals can represent more contentious issues, as evidenced by the fact that asset management companies bring proposals when private discussions fail (Krueger, Sautner and Starks (2018)). A second potential contributing factor is that, unlike private engagements, the potential for shareholder proposals to pass the 50% threshold and influence firm policies requires support across a disperse group of shareholders, who likely have heterogenous incentives. In the next section of the paper, we examine whether distorted incentives due to agency issues contribute to the opposition of these initiatives by certain types of shareholders.

4. Evidence for funds' agency-related frictions

Tables 2 – 4 show that virtually none of the ES proposals pass but the mutual fund support rate in failed ES proposals subsequently predicts negative alphas stemming from negative ES incidents. This raises the question of what leads so many funds to vote against these initiatives. We posit that agency-related frictions contribute to the lack of support among investors. In this section, we test specific hypotheses regarding these frictions.

4.1. Funds' tendencies to vote for ES proposals

This subsection focuses on the extent to which investors' varying incentives explain their votes on ES issues. We focus on two agency-related frictions: investor myopia, and investor friendliness towards management.

Our focus on investor myopia is motivated by the idea that ES initiatives are likely to entail upfront costs, with potential benefits that are only realized over the long run.³⁰ To the extent that uncertainty regarding the value effects of ES initiatives impedes the market's ability to fully incorporate these potential long-run impacts into price promptly, short-term investors will tend to be less supportive

³⁰ Upfront costs can arise due to costly new investments or heightened disclosure, which can hurt the firm's competitive edge and lead to adverse market reactions.

of these initiatives.

The second agency-related friction on which we focus is funds' friendliness towards management. The motivations for mutual funds to support management stem from multiple factors, including, for example, efforts to win more business from companies (e.g., the management of company pension plans) and incentives to maintain open communication channels (e.g., to obtain higher-quality information on the firm). As shown by Davis and Kim (2007) and Cvijanović, Dasgupta, and Zachariadis (2016), variation in the relevance of such factors causes variation in funds' friendliness toward management. This leads to the prediction that mutual funds that are friendlier toward management will be more likely to oppose ES initiatives in order to appease managers.

Table 5 examines the influence of both these factors on voting in ES shareholder proposals. Columns 1 – 2 focus on investors' myopia, and columns 3 - 5 focus on investors' friendliness toward management. The sample consists of mutual funds' votes on shareholder proposals related to ES issues, in annual and special meetings over the 2004 – 2016 period. The unit of observation is firm meeting \times proposal \times mutual fund. The dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal in the firm meeting, and zero if the fund votes against or abstains. Regressions are OLS, with standard errors clustered at the fund level. Regressions include standard control variables that have been shown in prior literature to relate to mutual fund voting, along with a wide array of fixed effects including firm, sponsor type, proposal category, and year.³¹ All explanatory variables are defined in Appendix I.

Looking first at columns 1 – 2, we use two alternative proxies for fund horizon. First, we use fund flow-performance sensitivity. This measure of short-termism directly incorporates investor preferences, i.e., the extent to which the fund investors increase or decrease their positions in response to performance. As originally argued by Shleifer and Vishny (1997), funds with high flow-performance sensitivity are reluctant to invest in companies that may experience poor performance in the short-run, even if these companies have strong long-term prospects. This measure has been employed by Giannetti

³¹ For proposal category fixed effects, we use ISS's category code (*AgendaItemID*). The full list of category codes for the ES proposals in our sample is reported in Appendix Table A1.

and Kahraman (2017) and Hombert and Thesmar (2014), among others. Second, we use fund turnover. Turnover is a commonly used metric of a short horizon, as funds that hold securities for short periods rationally seek to maximize firm performance over similar time frames.

Using either proxy for fund horizon, results in columns 1 and 2 indicate that more short-term funds are significantly less likely to vote for ES proposals. A one standard deviation increase in flow-performance sensitivity is associated with a 5.6% decrease in the propensity to vote for an ES proposal. This is after controlling for a variety of firm characteristics, the recommendation of ISS, and also firm fixed effects, sponsor type fixed effects (asset management, religious group, or other), proposal category fixed effects, and year fixed effects. Mutual funds who tend to experience greater inflows when performance is higher (and outflows when performance is lower) are more concerned with the short-term performance of every firm in their portfolio. As such, they are less likely to support firm initiatives that will only contribute positively to value over the long-run, with the possibility of negative repercussions in the shorter term.

Results also show that ES funds are 33% more likely to vote for ES proposals.³² While the sign and significance of this effect is presumably not surprising, the magnitude is remarkable. Relative to the unconditional mean of the dependent variable of 13.5%, this represents a nearly 2.5 magnitude increase. The other most economically significant variable is the ISS recommendation, which is consistent with findings in prior literature. Even after controlling for all other observable factors, mutual funds are 27% more likely to vote for a proposal that ISS supports.

Columns 3 - 5 focus on funds' incentives to be friendly toward management. Fund-management friendliness is defined as the percent of proposals on which the fund voted for, among the subset of past proposals on which ISS recommended against. We focus on proposals where ISS recommends against management in order to identify arguably more contentious cases. Consistent with certain mutual funds having incentives to be friendly toward management and thus not supporting initiatives that management opposes, we find that greater fund-management friendliness is associated

³² ES funds are the funds which have one of ES related words ("environment", "environmentally", "climate", "green", "social", "socially", "responsible") in their reported names.

with a significantly lower probability of voting for ES proposals. Column 3 shows that a one standard deviation increase in friendliness is associated with a 22.0% lower likelihood of voting for the shareholder proposal.

Subsequent columns explore this finding further, by relating it to the extent of management's short-term focus. Building on Benabou and Tirole's argument regarding the effects of managerial myopia, we conjecture that the effects of funds' friendliness toward management will be strongest in cases where management has the highest short-term focus. Our measures of managerial short-termism are based on Hayn (1995) and Burgstahler and Dichev (1997), who find a discontinuity in firms' earnings, with firms being significantly more likely to have values just above zero than just below zero. To capture management short-termism, we first introduce a dummy equal to one if the firm's net income (NI) in the past year is just above zero, specifically between 0 and \$10 million. Alternatively, we also use the percent of the past five years in which NI was within this narrow band just above zero.

Columns 4 – 5 of Table 5 include both fund management friendliness and the interaction between this variable and management short-termism. Consistent with results in column 3, the coefficient on fund-management friendliness continues to be significantly negative. Incremental to this and consistent with predictions, the significantly negative coefficients on the interaction terms indicate that the lower likelihood of management-friendly funds to vote for ES proposals is pronounced among cases where management is under more short-term pressure. In economic terms, one standard deviation in management short-termism decreases funds' propensities to vote for the ES proposals by 4.2%, relative to the -22.0% effect from column 3.

As noted above, regressions reported in Table 5 all include firm, year, sponsor type, and proposal type fixed effects. Appendix Table A5 shows similar specifications in which we include additional fixed effects. Panel A shows that results are robust to including fund family fixed effects, which is consistent with Iliev and Lowry (2005)'s findings that fund families do not always vote as a block, particularly on contentious issues.³³ Panel B shows that results are also qualitatively similar after

³³ Recently, Bolton, Li, Ravina, Rosenthal (2018) and Bubb and Catan (2018) place fund companies on a political scale from left (socially oriented investors) to right (greedy) according to the patterns in their votes. Their methodology is agnostic as to

including fund fixed effects, where we isolate intra-fund dynamics. Finally, in unreported analyses, we examine whether agency issues affect funds' decision to vote 'abstain' versus 'against', and we do not find significant effects.

Results in this subsection show the extent to which fund short-termism and fund-management friendliness contribute to funds' lack of support for ES issues, despite their significant relation with firm downside risk. Results to this point focus on shareholders' use of voice as a channel to express their opinion on ES-related initiatives. Shareholders also tend to divest when they are displeased with a firm (e.g., Parrino, Sias, and Starks (2003), Admati and Pfleiderer (2009), Edmans and Manso (2011)). Appendix Table A6 provides evidence consistent with this phenomenon in our setting. We calculate the portfolio weight of each firm that a given fund holds and regress the change in portfolio weight (during the quarter of the shareholder vote) on the fund's vote on the ES shareholder proposal. Funds who support these failed initiatives indeed reduce their investments in the firm in the quarter of the shareholder vote, consistent with these shareholders being concerned about firms' prospects.³⁴

While this analysis provides evidence for divestments supporting the overall economic mechanism, it is also important to highlight that the relation between mutual fund support in failed ES proposals and subsequent downside alphas (Table 2) is not driven by the divestments effects discussed here. As described in Section 2 and shown in Internet Appendix Figure A2, we measure alphas in the fiscal year *following* the year of the shareholder vote (that is, after divestments take place). Moreover, Table 3 highlights that the predictability results arise only on days with negative ES incidents, and Table 2 shows that predictability results are unique to ES initiatives – had divestments been the main underlying mechanism, we would expect to find similar results also for failed non-ES proposals. These results ensure that predictability results are not driven by divestments.

4.2. Are predictability results driven by mutual funds that are less agency prone?

This subsection focuses on tying together the predictability results in Tables 2 – 4 with the

where ideology comes from and what it represents. In contrast, our approach links differences in voting behavior to economic incentives driven by differences in fund horizons and concerns about confronting management.

³⁴ In economic terms, funds that supported the ES proposals reduced their portfolio weights in the corresponding stock by approximately 25% more than the non-supporting funds.

voting results in Table 5. Tables 2 - 4 show that fund support for failed ES proposals contains information about the ES risks that firms face. This raises the question of why more funds do not support these initiatives. Table 5 provides an answer to this question, showing that opposition is significantly stronger among more agency-prone investors (e.g., funds who are short-term oriented and friendly toward management). Together, these findings imply that the predictability results, i.e., the finding that fund support on failed ES proposals predicts subsequent firm outcomes, should be driven by the votes of funds that are less susceptible to agency frictions.

To test this prediction, we estimate regressions of *Downside tail return* and *ES negative news* on voting support for ES proposals among long-horizon, non-management friendly mutual funds. Similar to Table 2, the sample in Table 6 consists of a firm-year panel and the specification is similar. The main independent variable of interest in this case is *Failed ES proposal* \times *Support by long horizon, non-management friendly funds*, which represents funds that are long-term oriented (defined as flow performance sensitivity below the sample median) and non-management friendly (defined as propensity to vote with management when ISS recommends against is below the sample median). *Support by long horizon, non-management friendly funds* is defined as the total support by these funds as a fraction of: total number of funds voting (in column 1 and 3) or total number long horizon, non-management friendly funds (in column 2 and 4). In the same vein, we also introduce *Failed ES proposal* \times *Support by short horizon, management friendly funds*, where *short horizon, management friendly funds* include funds with both flow performance sensitivity and management friendliness above the sample median, and it is calculated analogously to the long horizon, non-management friendly measure. Regressions use the same set of control variables as in Table 2 along with firm and year fixed effects.

Results are consistent with predictions. When we split the mutual fund support into support from different groups of funds, we find that predictability results are solely driven by support from long horizon and non-management friendly funds. Higher support among this set of funds that are least influenced by agency factors significantly predicts both subsequent left-tail alphas and subsequent negative ES incidents. A one standard deviation increase in support among this group of funds predicts an annualized downside alpha that is 2.0% lower, within the subsample of firm-year observations with at least one failed ES proposal. As expected, this is notably larger than the average 1.2% effect of

average votes across all mutual funds (as reflected in Table 2). Taken together with Table 5, results provide strong support for the hypothesis that support among long-term oriented and non-management friendly investors for ES shareholder proposals is informative, but agency frictions among remaining investors contribute to the failure of these proposals.

5. Auxiliary tests for addressing identification concerns

As with nearly all empirical analyses, endogeneity can be a concern. In our setting, one potential concern is that firm-years with higher ES support are correlated with omitted factors that contribute to left-tail alphas through alternative mechanisms. Results in earlier analyses greatly mitigate such concerns and provide substantial confidence in our conclusions. First, support for ES proposals predicts not only subsequent left-tail alphas but also subsequent negative ES incidents, consistent with our economic story. Second, the predictability of downside alphas arises on days with ES incident reports, and the predictability of ES incidents relates to the subject of the ES proposal, with more environmental-oriented (social-oriented) proposals predicting greater frequency of subsequent environmental (social) incidents. Third, our findings are robust to a wide range of robustness tests. For instance, we contrast the predictive power of support rate for failed ES vs failed non-ES proposals within the same firm, and we show that predictability results arise solely for ES proposals. Also, we confirm that findings are robust to controlling for company ES scores as well as past alphas and past incidents measured prior to the shareholder meetings. These findings provide strong evidence that other firm characteristics potentially omitted from the regression analyses are unlikely to generate the results.

To complement these findings, this section provides two additional tests. In section 5.1, we employ a quasi-natural experiment that generates exogenous variation in support for environmental proposals, and in section 5.2, we include a broader panel consisting of mutual fund votes on all shareholder proposals and compare voting patterns in ES versus non-ES proposals *within the same firm*.

5.1 Quasi-natural experiment

This subsection employs a quasi-natural experiment to provide added confidence in our conclusions. Following Liang and Renneborg (2017) and Dyck, Lins, Roth and Wagner (2018), we focus on the period around the April 2010 BP Deepwater Horizon oil spill, which arguably increased

the perceived value of having strong environmental policies. Table 7 examines both the changes in investor voting (Panel A) and the changes in the predictability of this voting for subsequent firm outcomes (Panel B), surrounding this event.

The BP Deep Horizon oil spill represented a fundamental shock to the level of uncertainty surrounding the value of strong ES policies. The event both attracted attention to and provided substantial information on the costs of environmental-related disasters. The magnitude of this disaster should lead more investors to support environmental initiatives in other firms. This represents our first prediction: we predict that overall voting support on shareholder proposals related to E initiatives will be higher after the BP event.

Our second prediction with regards to voting relates to the differential impact among different types of shareholders. The hypothesis for which we find support throughout the paper is that investors who are more short-term oriented and friendlier toward management prioritize objectives other than long-term value-maximization when voting on ES proposals, and that this behavior is facilitated by the high information uncertainty surrounding ES proposals. Because the BP event represented a negative shock to this uncertainty, these more agency-prone investors should be more affected by this shock. In sum, our second prediction is that the increased tendency of shareholders to vote for E proposals will be pronounced among investors who are more short-term oriented and friendlier toward management.³⁵ Panel A of Table 7 tests these predictions. The sample consists of a firm meeting \times proposal \times mutual fund panel. Across all columns, the dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal in the firm meeting, zero otherwise. *After* equals 1 if the firm meeting occurred in the 12 months after April 2010, and it equals 0 if the meeting is 12 months before April 2010 (April 2010 is skipped). *Short-horizon, management-friendly fund* is a dummy variable that equals 1 if both FPS and management friendliness are larger than their sample medians. *E proposal* equals 1 for environmental proposals. The main variables of interest are: *Failed E proposal* \times *After* and *Failed E proposal* \times *After* \times *Short-horizon, management-friendly fund*. We compare E (treatment) versus non-

³⁵ It is possible that the BP event also increased the likelihood of shareholder proposals related to these issues or resulted in changes in the focus of the wording of these proposals. Such effects would be consistent with private ordering (i.e., the ability of individual parties to achieve change without government intervention), but it would nevertheless not be effective unless sufficient shareholders vote for the proposals. Our empirical tests focus on this voting.

E (control) proposals in column 1, and we compare E (treatment) versus non-ES (control) proposals in column 2.

Regressions include control variables used in prior regressions as well as sponsor type fixed effects.³⁶ The inclusion of sponsor type fixed effects means that we are contrasting the tendency of funds to vote for E proposals before versus after the BP spill, within proposals brought by a given sponsor type, either asset management companies, individuals, or other. We find significant support for both predictions. First, we find that on average all funds increase their support for E proposals after the BP event, as indicated by the significantly positive coefficient on *E proposal* \times *After*. Second, this increase is significantly greater among more agency-prone funds, as indicated by the significantly positive coefficient on the triple interaction term.

Panel B builds on this finding, by examining the change in the informativeness of mutual fund support, in terms of predicting subsequent downside tail returns and future negative E incidents. To the extent that the BP event caused more investors to prioritize the merit of the E proposals over agency factors, the votes should become more informative of company environmental risks. (This prediction is conditional on votes still not receiving sufficient votes to pass, and we verify that this is in fact the case.) Results support this prediction. We form a sample of all firm-year observations, and we regress both left-tail alphas and negative E news on measures of mutual fund voting support. Our independent variable of interest is a triple interaction, *Failed E Proposal* \times *Support for E* \times *After*. Consistent with predictions, the coefficient is significantly negative in the alpha regressions, indicating that after the BP spill, voting support became significantly more informative of negative abnormal returns. Analogously, column 2 shows a significantly positive coefficient on this triple interaction term, indicating that after BP, voting support also become significantly more informative of a higher number of negative E incidents.

In sum, this quasi-natural experiment analysis provides added support for our conclusions. The high information uncertainty surrounding the value of ES proposals can facilitate the tendency of

³⁶ In these regressions, we omit firm, year and (finer) proposal category fixed effects as there is not sufficient variation within these fixed effect groups during the event window.

investors to base their votes on factors other than the long-term value of the initiative. Decreases in such uncertainty, for example as occurred around the BP event, change investors' voting behavior. Effects are greatest among investors more prone to agency factors such as short-termism and friendliness toward management; they were previously less likely to support E proposals, and they become more likely to support these initiatives on the margin. This change in voting behavior causes aggregate vote outcomes to become more informative about firm downside risk: the initiatives still receive insufficient support to pass, but vote support becomes a stronger negative predictor of future left-tail alphas and ES incidents.

5.2. *Votes in ES versus non-ES shareholder proposals, within-firm*

An alternative means of addressing identification concerns, in particular those related to sample selection and omitted variables, is to exploit within firm variation. While Table 5 focuses on the tendency of different types of funds to vote for ES proposals within the sample of firm-years with ES proposals, in this section, we broaden the votes sample to include all shareholder proposals of the same firm. In addition to enabling comparisons within a given firm and mitigating endogeneity concerns, this analysis also allows us to compare the differential effects of agency issues in votes of ES versus non-ES shareholder proposals.

We expect agency issues to be more pronounced among ES proposals, and prior results provide evidence consistent with this conjecture. Tests in this subsection provide further evidence. Table 2 showed that the informativeness of voting support in failed shareholder proposals was concentrated within ES proposals: higher levels of mutual fund support for failed *ES proposals* predicted significant downside tail risk, but similar effects did not exist for failed *non-ES proposals*. This contrast is consistent with differences in the extent of uncertainty surrounding these proposals, combined with agency issues being exacerbated in environments with greater uncertainty (Demsetz and Lehn, 1985)). Arguably, the value effects of ES initiatives are more uncertain; therefore, shareholders can have greater latitude to let agency-related factors influence their votes. In this section, we directly test this idea by examining the votes in ES and non-ES shareholder proposals.

Table 8 shows voting regressions similar to those in Table 5, where the dependent variable is *Vote For*, which equals one if the mutual fund voted for a proposal, and zero otherwise. The key

difference vis-à-vis Table 5 is that the sample is broadened to include all ES and non-ES proposals, a total of 7,322 shareholder proposals and the over 1 million votes on these proposals.

Independent variables of interest include *ES proposal* dummy, agency proxies, and interaction terms between the ES proposal dummy and each agency proxy. As in earlier parts of the paper, agency proxies include *Fund horizon* (column 1) and *Fund mgmt friendliness* \times *Mgmt short-termism* (columns 2-3). All regressions include year as well as firm and sponsor type fixed effects. Firm and sponsor fixed effects are important as they allow us to estimate the differences in fund voting between ES and non-ES proposals for a given firm, within the set of proposals brought by the same sponsor type (e.g., asset management companies). Additionally, time fixed effects remove time-series variation.

The first finding from Table 8 is that mutual funds are an average 10% less likely to vote for ES proposals, even after controlling for the ISS recommendation and all the fixed effects. Second, consistent with earlier results, support for ES proposals is significantly lower when agency-related frictions are strongest. In column 1, the coefficient on *ES Proposal* \times *Fund short-termism* is significantly negative, highlighting the effects of fund managers' incentives. In columns 2 and 3, the coefficient on *ES Proposal* \times *Fund management friendliness* \times *Management short-termism* is significantly negative, showing the interplay between agency-related frictions of fund managers and firm managers.

Findings also highlight the smaller influence of these agency-related frictions among non-ES proposals. The coefficient on fund short-termism (which captures effects among the non-ES proposals) is insignificant at conventional levels in column 1, and *Fund management friendliness* \times *Management short-termism* is only significant in one of the two specifications. The finding that agency frictions matter significantly more for ES initiatives provides further support for our alternative hypothesis.

6. Proposal Heterogeneity

If the disparities in funds' likelihoods of voting for ES proposals are driven by short-termism or fund friendliness, as results to this point suggest, then the differences should be greatest within the subsample of ES proposals that are more likely to be value-increasing. The idea is that value-decreasing initiatives are expected to receive little support from any group of investors, e.g., from either long-term value focused funds or more short-term, management-friendly funds. In contrast, we would expect a

disparity among proposals that are value-increasing, with agency-prone funds not being strongly supportive (due to their distorted incentives) but long horizon and non-management friendly funds being significantly more supportive.

We test this conjecture in Table 9, using two proxies for the likelihood that a proposal is value-increasing. First, we subset by whether the proposal is sponsored by an asset management company. Compared to other proposal sponsors, asset management companies have a strong fiduciary duty to maximize returns for their investors.³⁷ Second, we proxy by whether a proposal is supported by ISS, a test that is motivated by the fact that ISS's stated objective is to support proposals that contribute positively to shareholder value. We note that these categorizations are correlated, but not perfectly so.

We estimate regressions where the sample consists of mutual funds' votes in shareholder proposals related to ES issues. The dependent variable equals one if the mutual fund voted for the proposal and zero otherwise, and we include controls used in prior regressions, as well as firm, year, and proposal category fixed effects. Some specifications also include sponsor type fixed effects. The first thing to note is that our proxies for proposal quality relate positively to the overall tendency of mutual funds to support these issues. The ISS recommendation is particularly strong: mutual funds are an average 27% more likely to vote for ES proposals on which ISS recommends *For*. Funds are also significantly more likely to vote for ES proposals that are sponsored by an asset management company.

Incremental to all funds being more likely to support proposals sponsored by asset management companies and supported by ISS, our main prediction is that the wedge between the support rates of different groups of shareholders will be greater in these cases. Column 1 of Table 9 focuses on the prediction that the differences in voting behavior between short-term versus long-term focused funds will be concentrated within proposals on which ISS recommends *For*. These proposals are more likely to have merit, whereas proposals on which ISS recommends against are less likely to have merit and thus less likely to be supported by any fund. Results support our prediction. The wedge between long and short-term funds' propensities to vote for ES proposals is entirely concentrated within the subset of

³⁷ In our main specifications, all religious affiliated entities are included in the non-asset management company category. Results are qualitatively similar if we instead include religious funds with the asset management companies.

proposals on which ISS recommends *For*. Column 2 shows similar results when we use the identity of the sponsor as a proxy for proposal merit.

Columns 3 – 4 test similar ideas, but focus on the effects of fund – management friendliness. Looking first at Column 3, the difference in support rates between friendly versus non-friendly funds is almost entirely concentrated within proposals on which ISS recommends *For* (management friendly funds being less likely to support). Column 4 shows similar effects when we condition on the proposal being sponsored by an asset management company. Finally, columns 5-6 test the further prediction that the effects of fund management friendliness should be strongest when management is more myopic, which following earlier analyses we define as last year's NI being in a narrow band above zero. The variables of interest are the triple interaction terms, *Asset Management Sponsor* \times *Fund management friendliness* \times *Mgmt short-termism* and *ISS For* \times *Fund management friendliness* \times *Mgmt short-termism*. We find that both coefficients are significantly negative as predicted.

In sum, across proposals that are less likely to be value-increasing, we find evidence of all shareholders voting against, with investor' specific characteristics and incentives not playing an important role. In contrast, within the sample of proposals that are more likely to be value-increasing, the wedge between fund types is widest. Both fund horizon and management friendliness are significant determinants of their lower level of support within this subsample.

7. Conclusion

Environmental and social issues are a topic of increasing focus, within regulatory, academic and executive circles, in part because various factors make it difficult for firms and investors to choose the 'right' course of action. First, the objective of many of these initiatives may be unclear, for example whether they are motivated by pecuniary or non-pecuniary factors such as ethical considerations or altruistic preferences. Second, among proposals that are motivated by pecuniary factors, the underlying value proposition generally relates to mitigating the likelihood of rare negative events. It is difficult to estimate changes in low probability events and even harder to estimate the associated monetary benefits. Third, when the value effects of an initiative are highly uncertain, individuals can be easily distorted by agency issues. In a perfect information world, opposing a value-increasing course of action is likely to

have adverse consequences. At a minimum, there would be some reputation costs. In contrast, when uncertainty is higher, shareholders can have greater latitude to deviate from long-term shareholder value maximization and be influenced by distortionary incentives such as short-termism or incentives to appease management.

Our results highlight the extent to which mutual funds, as a group, identify the heterogeneity in ES proposals. Proposals with higher investor support, but which management opposes, and which do not pass, are informative about subsequent negative firm outcomes. Such support predicts subsequent negative abnormal returns stemming from ES-related negative incidents. Examining the detailed records of individual mutual funds, our results highlight the ways in which myopia among mutual funds and funds' concerns about confronting management contribute to the failure of these ES initiatives.

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Appendix I: Variable descriptions

Variable Label	Definition
Proposal variables	
ES proposal	A dummy variable that equals one if the proposal relates to environmental or social (ES) issues. Detailed information about proposal classification is provided in Appendix Table A1
ISS for	A dummy variable that equals one if ISS recommends for the proposal
Asset mgmt sponsor	A dummy variable that equals one if the proposal is sponsored by an asset management company
Religious group sponsor	A dummy variable that equals one if the proposal is sponsored by a religious group (including religious funds)
Other sponsor	A dummy variable that equals one if the proposal is sponsored by individuals, union, or NGOs
Mutual Fund variables	
Vote For	A dummy variable that equals one if the fund votes for the proposal
FPS	Flow-performance sensitivity estimated from 36 month rolling regressions where fund flows are regressed on average 4-factor alpha in the past 12 months. It is divided by 100 in regressions.
Turnover	Rolling average of fund's past 12-month turnover ratio; turnover ratio is defined as the minimum (of aggregated sales or aggregated purchases of securities) divided by fund's average past 12-month total net assets
Fund-mgmt friendliness	Historical average of fraction (in %) of management-sponsored proposals that fund supports when ISS recommends against until time t
ES fund	A dummy variable that equals one if the fund has one of ES related words ("environment", "environmentally", "climate", "green", "social", "socially", "responsible") in its reported name
Log TNA	Natural logarithm of fund's total net assets as of month-end (in billions)
Fund alpha	Average monthly 4-factor alpha estimated from past 12 month rolling regressions
$\Delta\text{PortWeight}$	Quarterly change in portfolio weight of a stock in a fund from Q_{t-1} to Q_t
Firm variables	
Dummy Downside Tail Return	A dummy variable that equals one if the firm's 12-month 4-factor alpha over fiscal year t lies in the lower 25 th percentile of alphas within the same year, and it is zero otherwise. We first estimate 4-factor alpha in the daily data, and then cumulate the daily alphas over the 12-month period into a buy-and-hold 12-month alpha.
Downside Tail Return	For each firm, we cumulate the daily 4-factor alphas over fiscal year t into a buy-and-hold 12-month alpha. The downside tail return equals this 12-month alpha in cases where it is below the 25 th percentile of alphas within the same year, and it equals zero otherwise.
Upside Tail Return	For each firm, we cumulate the daily 4-factor alphas over fiscal year t into a buy-and-hold 12-month alpha. The upside tail return equals this 12-month alpha in cases where it is above the 75 th percentile of alphas within the same year, and it equals zero otherwise.
ES negative news	Natural logarithm of one plus the total number of negative environmental and social issues, as reported in the media. Data provided by RepRisk and is available from January 2007
High ES negative	A dummy variable that equals 1 if <i>ES negative news</i> of the firm is above the 90 th percentile within the same year, and it's zero otherwise.
Support for 'X'	Average support across all 'X' proposals in a given company over a 2-year period. Support is calculated as taking the average of: (i) mutual fund shareholder votes or (iii) ISS recommendations. 'X' = {ES, non-ES, E, S}
Failed 'X' Proposal	A dummy variable that equals 1 if the firm has at least one failed 'X' proposal over a 2-year period. 'X' = {ES, non-ES, E, S}
Log MV	Natural logarithm of market capitalization defined as price times shares outstanding as of fiscal year-end (in millions)

IVOL	Idiosyncratic volatility of firm's ε over 12-months where ε is the residual is estimated from regressing daily stock returns on 3 Fama-French along with Momentum factor
M/B	Market value of equity divided by book value of equity as of fiscal year-end. Book Equity is the book value of stockholders' equity, plus balance sheet deferred taxes and investment tax credit (if available), minus the book value of preferred stock. Depending on availability, we use the redemption, liquidation, or par value (in that order) to estimate the book value of preferred stock. Stockholders' equity is the value reported by Moody's or Compustat, if it is available. If not, we measure stockholders' equity as the book value of common equity plus the par value of preferred stock, or the book value of assets minus total liabilities (in that order). Market equity is price times shares outstanding.
ROA	Earnings before interest, tax, depreciation and amortization (EBITDA) as of fiscal year-end divided by previous year's total assets
Dividend yield	Common plus preferred dividends divided by the sum of market value of common stocks and book value of preferred stocks, as of fiscal year-end
Past firm return	12-month buy-and-hold stock (raw) return
Cash	Sum of cash and cash equivalents divided by total assets, as of fiscal year-end
Sales growth	Growth rate of sales over the fiscal year
Amihud illiquidity	12-month average of daily illiquidity ratio: $1000\sqrt{ Return /(Dollar\ Trading\ Volume)}$
Inst ownership	Total number of shares held by 13F institutions divided by stock's total shares outstanding, as of (calendar) quarter-end
Earning mgmt EPS (NI) 1yr	A dummy variable that equals to one if EPS in the most recent fiscal year before the annual shareholder meeting was between 0 and 0.1 (Net Income, NI, between 0 and \$20 million)
Earning mgmt EPS (NI) 5yr	The fraction of years where the EPS was between 0 and 0.1 (Net Income, NI, between 0 and \$ 20 million) in the most recent past five years before the annual shareholder meeting
ES score	Equal-weighted average of company's net strength (strengths minus concerns) across ES-related KLD categories. To be consistent with our definition of ES proposals, we use the KLD categories of "product", "community", "employee relation", "environment", and "human rights". Available annually and through 2014
Δ ES Score	Change in firms' ES scores during, either the fiscal year the voting took place or the year after

Figure 1: Number of ES and non-ES proposals over time

The sample includes all firms with one or more shareholder proposals voted over the 2004 – 2016 period. For each year, we tabulate the total number of ES versus non-ES proposals.

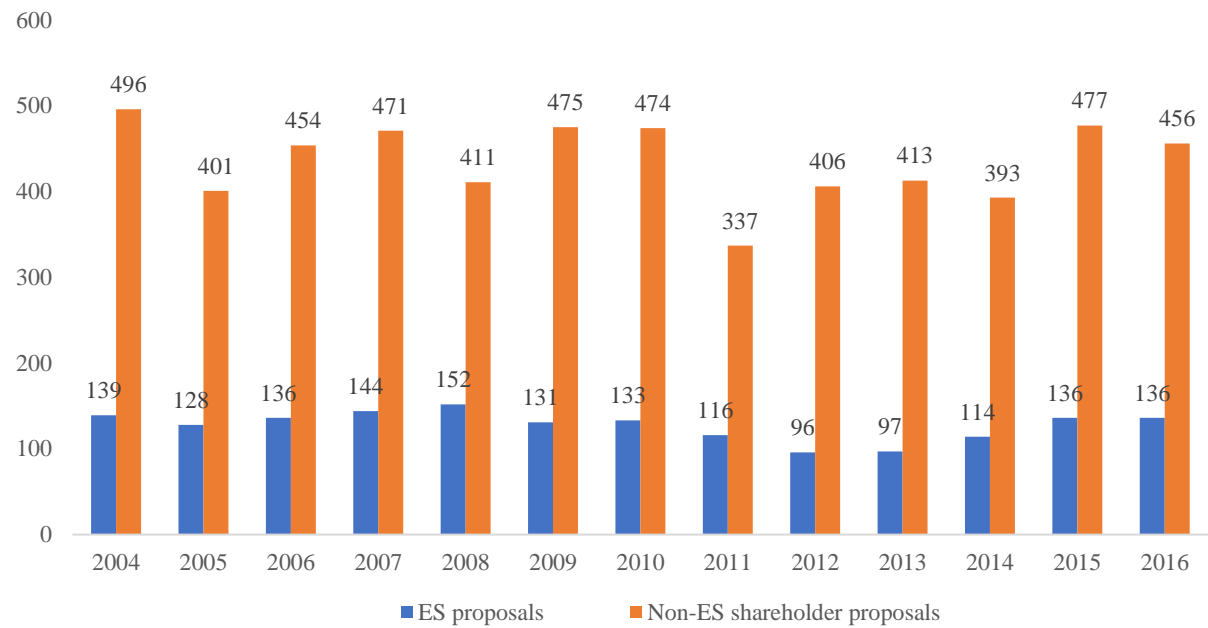
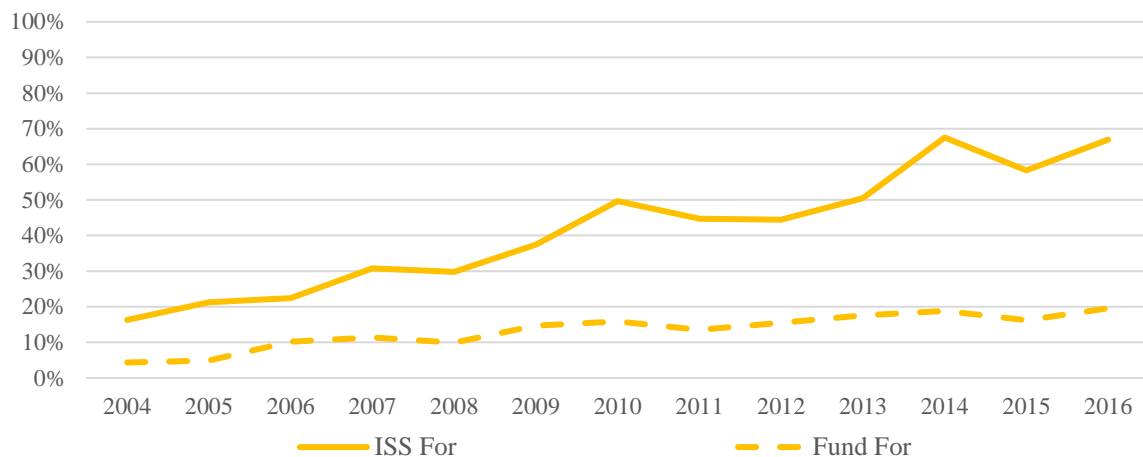


Figure 2: Distribution of fund votes and ISS recommendations on ES proposals over time

The sample includes all firms with one or more ES shareholder proposals, over the 2004 – 2016 period. In Panel A, for each year, the solid line shows the percent of proposals on which ISS recommends support for the proposal. The dashed line shows the average percent of mutual funds that vote in favor of each proposal. Panel B categorizes all mutual fund votes on ES proposals each year into one of four categories: both ISS and the fund supports (orange bars), both ISS and the fund are against (blue bars), only ISS supports (gray bars), and only the fund supports (yellow bars). Each year, we tabulate the percent of votes that fall into each category.

Panel A: Fund and ISS support rate over the sample period



Panel B: Distribution of fund votes, conditional on ISS recommendation

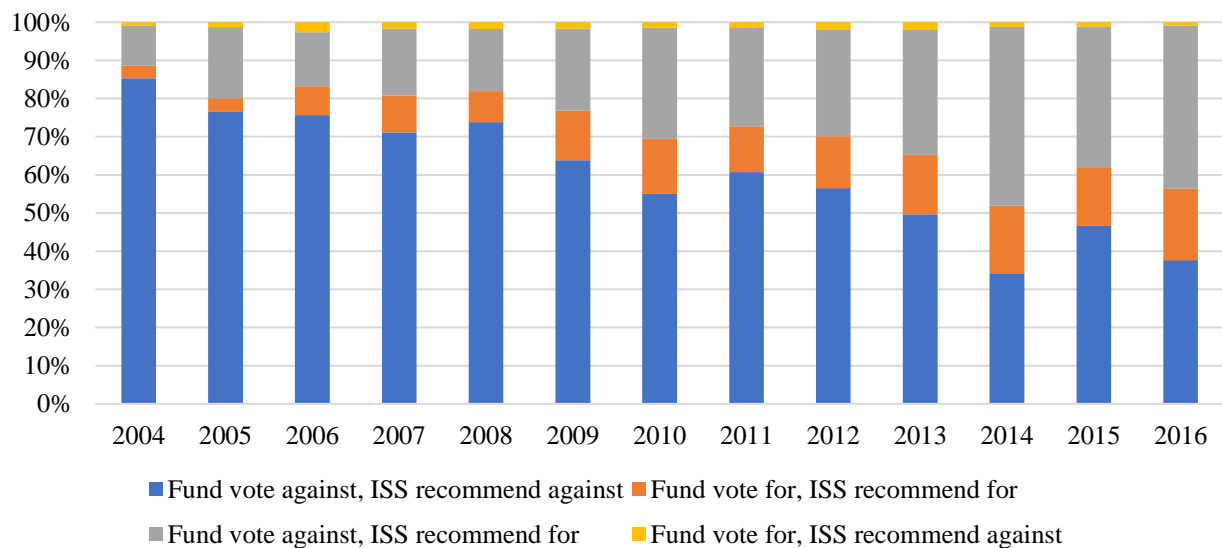
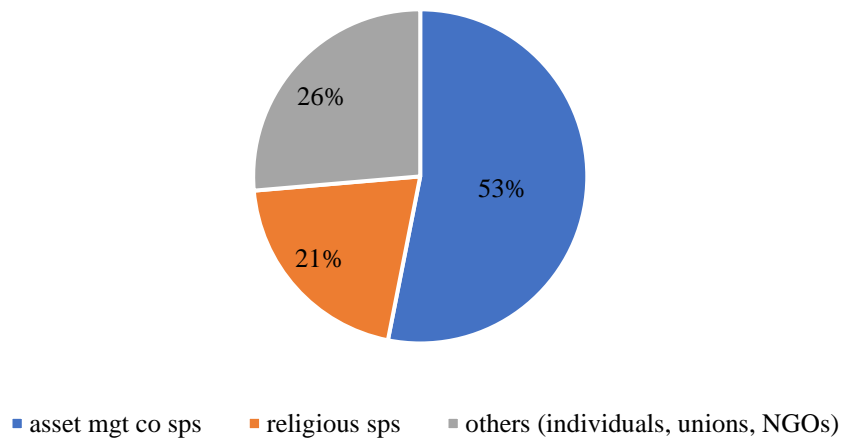


Figure 3: Proposals by sponsor types

The sample in Panel A includes all firms with one or more ES shareholder proposals, over the 2004 – 2016 period, and it shows the percent that are sponsored by an asset management company, by a religious sponsor, and by others (which includes individual, unions, and NGOs). Panel B includes both ES (blue bars) and non-ES (orange bars) proposals over this period, and it shows the number of each proposal type that are sponsored by asset management companies, by religious sponsors, and by others. Finally, it tabulates the percent of all shareholder proposals (by each sponsor type) that relate to ES issues.

Panel A: Distribution of ES Proposals, by sponsor type



Panel B: Distribution of ES and Other Shareholder Proposals, by sponsor type

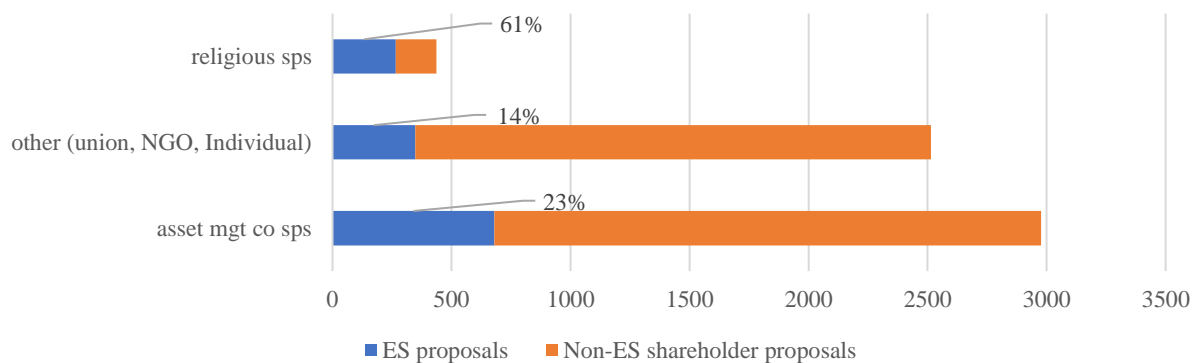


Table 1: Descriptive statistics

The table shows the descriptive statistics for our sample, presenting statistics at the firm-year level. The first column includes 1,196 firm-years with one or more ES proposals. Column 2 includes 34,749 firm-years in which there are no ES proposals, and column 3 shows the difference between column 1 and column 2, with asterisks ***, **, and * denoting significance level of the difference at the 1%, 5%, and 10% levels, respectively. Column 4 includes the subset of 2,733 firm-years from column 2 in which there are one or more shareholder proposals (none of which pertain to ES issues), and column 5 shows differences between columns 1 and 3, with asterisks similarly denoting significance levels. Variables related to the number of proposals represent the total number of each proposal type at the annual shareholder meeting. All variables are defined in the Appendix I. Past return and Amihud illiquidity are calculated in the 12 months preceding the meeting date. Institutional ownership is as the quarter end before the meeting date. All other variables are measured as of the last fiscal year-end before the meeting date. *ES score* is based on the more limited 2004 – 2014 sample period, due to data availability.

	All ES firms-years #unique firms = 400 # firm-yrs =1,196 Average	All Non-ES Firms-years #unique firms = 4,875 # firm-yrs = 34,749 Average Avg. Diff		Non-ES firms-years with 1+ SH props #unique firms = 1,010 # firm-yrs =2,733 Average Avg. Diff	
#Proposals	13.42	7.53	5.89***	11.13	2.28***
#Shr proposals	2.63	0.12	2.51***	1.53	1.11***
#ES proposals	1.39	0.00	1.39***	0.00	1.39***
MV (Millions)	46,374.34	4,468.47	41,905.87***	22,378.52	23,995.83***
M/B	3.02	2.80	0.22*	2.80	0.22
ROA	0.16	0.09	0.06***	0.12	0.03***
Dividend yield	0.02	0.01	0.01***	0.02	0.00
Cash	0.11	0.18	-0.07***	0.12	-0.01*
Sales growth	0.06	0.14	-0.08***	0.08	-0.02*
Past firm return	0.13	0.13	-0.00	0.14	-0.01
Amihud illiquidity	0.02	0.10	-0.08***	0.03	-0.01***
Inst ownership	0.71	0.66	0.05***	0.72	-0.01*
IVOL	0.02	0.02	-0.01***	0.02	-0.00***
ES Score	-0.70	-0.11	-0.59***	0.02	-0.68***

Table 2: Support for failed ES proposals and subsequent firm outcomes

This table shows the relation between voting support for failed shareholder proposals and subsequent firm outcomes. The sample includes all firm-years, with sufficient data to calculate all variables. Sample sizes in columns 5 to 6 are smaller, due to the requirement of RepRisk data to determine ES negative news. In Panel A, the dependent variable in columns 1 – 2 is *Dummy Downside Tail Return*, which equals one if the firm's 12-month 4-factor alpha in fiscal year t lies in the lower 25th percentile of alphas within the same year, and it is zero otherwise. In columns 3-4, dependent variable is *Downside Tail Return*, which equals the firm's 12-month 4-factor alpha in fiscal year t if alpha is below the 25th percentile of alphas within the same year, and it is zero otherwise. The dependent variable in columns 5-6 is *ES negative news*, which equals the natural logarithm of one plus the total number of negative news reports on environmental and social news of the firm in fiscal year t . Independent variables include *Failed ES Proposal*, a dummy variable that equals 1 if the firm has at least one failed ES proposal from $t-1$ to $t-2$, and *Failed Non-ES Proposal* is a dummy variable which equals 1 if the firm has at least one failed non-ES proposal from $t-1$ to $t-2$. *Support for ES* (*Support for non-ES*) equals the average support rate in firm's failed ES proposals (failed non-ES proposals) from $t-1$ to $t-2$. Timeline of the regression is explained in Figure A2. Columns 1, 3 and 5 use average mutual fund shareholder support; columns 2, 4 and 6 use average ISS support. The baseline category includes firm-year observations with no failed shareholder proposals (either ES or non-ES), which includes both firm-years with no shareholder proposals and firm-years in which all shareholder proposals passed. All other variables are defined in Appendix I. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. Specifications in Panel B are similar, with the exception that the sample is restricted to firm-years with at least one failed ES proposal and one failed non-ES proposal (therefore *Failed ES (non-ES) Proposal* dummy variables are omitted). Regressions in Panel C are similar to those in Panel A, with the exception that the dependent variable is *Upside Tail Return*, equal to the firm's 12-month 4-factor alpha in fiscal year t if alpha is above the 75th percentile of alphas within the same year, and it's zero otherwise. Control variables included in the Panel A regressions are also included in Panels B and C, but are not tabulated to conserve space. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: All firms

<i>Support Measure:</i>	Dep't Var = Dummy if 4-factor alpha below 25 th pctl		Dep't Var = 25 th pctl tail of 4-factor alpha		Dep't Var = ES negative news	
	Fund support	ISS support	Fund support	ISS support	Fund support	ISS support
	(1)	(2)	(3)	(4)	(5)	(6)
Failed ES Proposal × Support for ES	0.158** [1.983]	0.047* [1.826]	-0.076** [-2.216]	-0.026** [-2.294]	0.590*** [2.938]	0.150** [2.241]
Failed ES Proposal	-0.027 [-1.561]	-0.023 [-1.407]	0.015* [1.927]	0.014** [1.967]	0.009 [0.166]	0.039 [0.782]
Failed Non-ES Proposal × Support for Non-ES	0.024 [0.726]	0.028 [1.547]	-0.007 [-0.443]	-0.010 [-1.273]	0.113 [1.169]	0.111** [1.985]
Failed Non-ES Proposal	0.019 [1.076]	0.007 [0.432]	-0.007 [-0.866]	-0.002 [-0.259]	0.037 [0.814]	-0.004 [-0.090]
Cash	0.012 [0.329]	0.011 [0.316]	-0.011 [-0.607]	-0.011 [-0.593]	0.058 [0.936]	0.056 [0.903]
Sales growth	-0.001 [-0.114]	-0.001 [-0.117]	0.000 [0.046]	0.000 [0.049]	-0.020 [-1.481]	-0.020 [-1.475]
MB	-0.000 [-0.133]	-0.000 [-0.122]	0.000 [0.213]	0.000 [0.205]	-0.000 [-0.225]	-0.000 [-0.187]
ROA	-0.005 [-0.139]	-0.005 [-0.143]	0.011 [0.547]	0.011 [0.548]	-0.128* [-1.919]	-0.129* [-1.933]
Dividend yield	0.113 [0.688]	0.112 [0.682]	-0.096 [-1.126]	-0.096 [-1.121]	0.833*** [2.653]	0.822*** [2.615]
Log MV	-0.066*** [-9.510]	-0.066*** [-9.503]	0.038*** [10.877]	0.038*** [10.873]	0.095*** [6.428]	0.096*** [6.490]
Amihud illiquidity	-0.046 [-0.970]	-0.045 [-0.963]	0.028 [1.149]	0.028 [1.143]	0.181** [2.265]	0.181** [2.268]

Inst. Ownership	0.027 [1.571]	0.027 [1.570]	-0.004 [-0.483]	-0.004 [-0.486]	-0.102*** [-2.705]	-0.103*** [-2.741]
IVOL	1.727*** [4.651]	1.727*** [4.648]	-1.199*** [-5.825]	-1.198*** [-5.819]	0.666 [1.039]	0.696 [1.086]
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	31,244	31,244	31,244	31,244	16,901	16,901
R-squared	0.171	0.171	0.203	0.203	0.743	0.743

Panel B: Subsample of firms with at least one failed ES and one failed non-ES shareholder proposal

<i>Support Measure:</i>	Dep't Var = Dummy if 4-factor alpha below 25 th pctl		Dep't Var = 25 th pctl tail of 4-factor alpha		Dep't Var = ES negative news	
	Fund support	ISS support	Fund support	ISS support	Fund support	ISS support
	(1)	(2)	(3)	(4)	(5)	(6)
Support for ES Prop	0.240** [2.488]	0.057* [1.943]	-0.091** [-2.327]	-0.022* [-1.831]	0.625* [1.676]	0.184 [1.616]
Support for Non-ES Prop	0.081 [1.124]	0.062* [1.732]	-0.020 [-0.693]	-0.015 [-1.015]	-0.228 [-0.756]	0.102 [0.693]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	856	856	856	856	758	758
R-squared	0.075	0.075	0.101	0.100	0.274	0.274

Panel C:Upside Tail Return

<i>Support Measure:</i>	Dep't Var = 75 th pctl tail of 4-factor alpha			
	All firms		Subsample of firms with at least one failed ES and one failed Non- ES proposals	
	Fund support (1)	ISS support (2)	Fund support (3)	ISS support (4)
Failed ES Proposal × Support for ES	0.046 [0.878]	0.024 [1.398]	0.041 [0.632]	0.019 [0.932]
Failed ES Proposal	0.006 [0.480]	0.003 [0.236]		
Failed Non-ES Proposal × Support for Non-ES	0.005 [0.218]	-0.000 [-0.029]	-0.065 [-1.324]	-0.013 [-0.526]
Failed Non-ES Proposal	-0.002 [-0.145]	0.000 [0.041]		
Controls	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes		
Year Fixed Effects	Yes	Yes		
Observations	31,244	31,244	856	856
R-squared	0.148	0.148	0.042	0.041

Table 3: Abnormal returns on days of negative ES incidents

This table shows the link between the results reported in Table 2 on downside alphas and incidents, by examining daily alphas around the negative ES incidents. In row 1, the sample consists of the 346 firm-years for which the firm had a failed ES proposal within the prior two years and for which mutual fund support for the proposal fell within the upper quartile. For each of these firm-years, we calculate the alpha for each day during year t , using a four-factor model with the three Fama-French factors plus momentum. We average these alphas across all firm-days with negative ES incidents as reported by RepRisk (a total of 206 firm-years, shown in Column 1) and across all firm-days without negative ES incidents (a total of 346 firm-years, shown in Column 2). Columns 3 and 4 show the difference in these alphas and the associated t-statistic. Row 2 is similar, but the sample is restricted to the 266 firm-years for which there was an ES proposal that garnered support within the top quartile within the past one year (instead of the past two years). ***, **, and * designate significance at the 1, 5, and 10% significance levels.

	Mean daily alpha on days <u>with</u> ES incidents	Mean daily alpha on days <u>without</u> ES incidents	Diff	t-stat
Support for ES over past 2 years > 75 th pctl	-0.17%	-0.01%	-0.16% **	2.00
Support for ES over past year > 75 th pctl	-0.16%	-0.01%	-0.15% *	1.80

Table 4: Relation between specific proposal type and specific news type

This table examines the relation between support for failed environmental proposals (social proposals) and subsequent negative environmental (social incidents). Specifications are similar to columns 4 – 6 of Table 2, with the exception that the dependent variable is *Environmental* (“E”) *negative news* in columns 1 – 3 and *Social* (“S”) *negative news* in columns 4 – 6. Analogously, independent variables of interest represent *Failed E Proposal* \times *Support for E* in columns 1 – 3, and *Failed S Proposal* \times *Support for S* in columns 4 – 6. Regressions include all control variables previously used in Table 2, plus firm and year fixed effects. Regressions are OLS, with standard errors clustered at the firm level. All variables are defined in Appendix 1. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Support Measure:</i>	Dep’t Var = E Negative News		Dep’t Var = S Negative News	
	Fund support	ISS support	Fund support	ISS support
	(1)	(2)	(3)	(4)
Failed E Proposal \times Support for E	0.561** [2.061]	0.138* [1.806]		
Failed S Proposal \times Support for S			0.725*** [2.981]	0.239*** [2.650]
Failed E Proposal	-0.018 [-0.255]	0.010 [0.151]		
Failed S Proposal			-0.032 [-0.545]	-0.013 [-0.229]
Failed non-ES Proposal	0.016 [0.389]	-0.025 [-0.571]	0.050 [1.190]	-0.002 [-0.053]
Failed non-ES Proposal \times Support for non-ES	0.082 [1.003]	0.095** [1.965]	0.068 [0.748]	0.103** [2.015]
Cash	0.042 [0.895]	0.042 [0.902]	0.036 [0.632]	0.035 [0.603]
Sales growth	-0.006 [-0.544]	-0.006 [-0.560]	-0.014 [-1.193]	-0.014 [-1.185]
MB	0.000 [0.267]	0.000 [0.295]	0.000 [0.148]	0.000 [0.175]
ROA	-0.117** [-2.336]	-0.118** [-2.351]	-0.061 [-1.043]	-0.064 [-1.081]
Dividend yield	0.486** [2.202]	0.481** [2.181]	0.747*** [2.720]	0.737*** [2.695]
Log MV	0.060*** [5.614]	0.061*** [5.664]	0.075*** [5.553]	0.076*** [5.616]
Illiquidity	0.138*** [2.579]	0.139*** [2.599]	0.167** [2.407]	0.168** [2.431]
Inst. ownership	-0.085*** [-2.990]	-0.086*** [-3.037]	-0.075** [-2.141]	-0.075** [-2.143]
Idiosyncratic Volatility	-0.096 [-0.208]	-0.077 [-0.166]	0.890 [1.603]	0.916* [1.653]
Firm Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	16,901	16,901	16,901	16,901
R-squared	0.717	0.717	0.739	0.739

Table 5: Role of funds' horizon and friendliness toward management, in ES proposal votes

The sample consists of mutual funds' votes in shareholder proposals related to ES issues during our sample period. Regressions are OLS, with standard errors clustered at the fund level. In each column, the dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal, and it's zero otherwise. *Vote For* is regressed on a measure of fund short-termism in columns 1 and 2. Column 1 uses *flow-performance sensitivity (FPS)* as the proxy for short-termism; this is estimated from 36 month rolling regressions where fund flows are regressed on average 4-factor alpha in the past 12 months. Column 2 uses *Turnover* as the proxy for short-termism; this is defined as the rolling average of fund's past 12-month turnover ratio, where turnover ratio represents the minimum (of aggregated sales or aggregated purchases of securities) divided by fund's average past 12-month total net assets. In column 3, the independent variable of interest is *fund-management friendliness*, defined as the historical average of fraction (in %) of management-sponsored proposals that the fund supports when ISS recommends against, until time *t*. In columns 4 and 5, fund-management friendliness is interacted with *Management short-termism*. This is defined either as a dummy equal to one if NI (net income) over the past year was between 0 and \$20 million (column 4) or as the percent of the past five years in which NI was fell within this band just above zero. All other explanatory variables are defined in Appendix I. Regressions include firm, sponsor type, proposal category, and year fixed effects. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent variable: Vote For				
	<i>Fund Short-termism proxy =</i>		<i>Mgmt Short-termism proxy =</i>		
	Flow-perf. sensitivity	Fund turnover	NI near 0 in		
	(1)	(2)	(3)	past 1 year	past 5 years
Fund short-termism	-0.128*** [-2.912]	-0.008* [-1.693]			
Fund mgmt friendliness			-0.310*** [-15.416]	-0.265*** [-14.761]	-0.266*** [-14.727]
Fund mgmt. friendliness × mgmt short-termism				-0.669*** [-4.333]	-0.618** [-2.240]
Mgmt short-termism				-0.063*** [-4.207]	-0.076*** [-2.915]
ES fund	0.330*** [2.877]	0.321*** [2.815]	0.302** [2.324]	0.361*** [2.964]	0.361*** [2.964]
ISS for	0.269*** [26.031]	0.270*** [25.350]	0.254*** [20.661]	0.253*** [19.460]	0.253*** [19.441]
Fund alpha	0.808** [2.452]	0.594** [1.998]	1.113** [2.512]	0.874** [2.289]	0.872** [2.283]
Log TNA	-0.026*** [-14.810]	-0.025*** [-12.900]	-0.028*** [-12.625]	-0.022*** [-11.678]	-0.022*** [-11.667]
Cash	-0.019 [-1.630]	-0.026** [-2.326]	-0.005 [-0.349]	0.042** [2.411]	0.041** [2.321]
Sales growth	-0.014*** [-2.700]	-0.017*** [-3.283]	-0.035*** [-5.144]	-0.023*** [-3.205]	-0.024*** [-3.282]
M/B	0.001*** [2.626]	0.001*** [3.060]	0.000 [0.226]	-0.000 [-1.421]	-0.000 [-1.250]
ROA	0.073*** [3.640]	0.072*** [3.601]	0.098*** [3.933]	0.179*** [5.620]	0.170*** [5.372]
Dividend yield	0.021 [0.233]	0.022 [0.249]	-0.173 [-1.416]	-0.050 [-0.388]	-0.073 [-0.569]
Log MV	0.007** [2.161]	0.008** [2.391]	0.004 [1.110]	0.010** [2.201]	0.009** [2.129]
Past firm return	0.003 [0.962]	0.002 [0.814]	-0.002 [-0.491]	0.002 [0.565]	0.002 [0.467]
Amihud illiquidity	0.831** [2.179]	0.922** [2.545]	0.796* [1.681]	1.405*** [2.814]	1.431*** [2.874]
Inst ownership	-0.000 [-0.055]	0.001 [0.113]	0.007 [0.841]	-0.010 [-0.998]	-0.011 [-1.065]
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes

Sponsor Type Fixed Effects	Yes	Yes	Yes	Yes	Yes
Proposal Category Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	298,515	309,867	194,845	146,443	146,443
R-squared	0.209	0.208	0.219	0.222	0.221
%(Dep.var=1)	13.53%	13.36%	13.72%	12.55%	12.55%

Table 6: Are predictability results driven by funds that are less agency prone?

This table shows the relation between support by long horizon, non-management friendly mutual funds on failed shareholder proposals and subsequent firm outcomes. The sample includes all firm years, with sufficient data to calculate all variables. Sample sizes in columns 3 and 4 are smaller, due to the requirement of RepRisk data to determine ES negative news. The dependent variable in columns 1 – 2 is *Downside Tail Return*, and in columns 3 – 4 it is *ES negative news*. The independent variable of interest is *Failed ES Proposal* \times *Support by long horizon, non-management friendly funds*. *Long horizon, non-management friendly funds* are the funds that are both long-term oriented (defined as flow performance sensitivity below the sample median) and non-management friendly (defined as propensity to vote with management when ISS recommends against is below the sample median). *Support by long horizon, non-management friendly funds* is the total support by long horizon, non-management friendly funds as a fraction of: total number of funds voting (in column 1 and 3) and total number long horizon, non-management friendly funds (in column 2 and 4). In the same vein, we also introduce *Failed ES proposal* \times *Support by short horizon, management friendly funds*, whereby *short horizon, management friendly funds* include funds with both flow performance sensitivity and management friendliness above the sample median. All other variables are defined in Appendix I. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Dept' Var =</i>	25 th pct tail of 4-fact alpha	25 th pct tail of 4-fact alpha	ES Negative News	ES Negative News
	(1)	(2)	(3)	(4)
<i>Support rate in ES props calc'd across:</i>	Among all voting funds	Within each group	Among all voting funds	Within each group
Failed ES Prop \times Support by long horizon, non-mgmt friendly funds	-0.550*** [-2.849]	-0.338*** [-3.056]	2.317** [2.001]	1.346** [2.150]
Failed ES Prop \times Support by short horizon, mgmt friendly funds	0.047 [0.144]	0.129 [0.732]	0.135 [0.086]	-0.255 [-0.307]
Failed ES Proposal	0.024*** [2.752]	0.023** [2.571]	0.001 [0.023]	0.008 [0.159]
Failed Non-ES Proposal	-0.010 [-1.164]	-0.010 [-1.181]	0.049 [0.978]	0.050 [0.986]
Failed Non-ES Proposal \times Support for non-ES	0.000 [0.010]	-0.000 [-0.006]	0.104 [1.036]	0.107 [1.056]
Cash	-0.013 [-0.729]	-0.013 [-0.734]	0.127* [1.959]	0.128** [1.972]
Sales growth	0.000 [0.068]	0.000 [0.055]	-0.004 [-0.290]	-0.004 [-0.287]
MB	0.000 [0.118]	0.000 [0.083]	0.001 [0.554]	0.001 [0.561]
ROA	0.011 [0.523]	0.011 [0.523]	-0.079 [-1.151]	-0.079 [-1.159]
Dividend yield	-0.083 [-0.969]	-0.092 [-1.066]	0.638** [2.323]	0.638** [2.315]
LogMV	0.038*** [10.804]	0.039*** [10.914]	0.080*** [5.590]	0.080*** [5.573]
Illiquidity	0.026 [1.062]	0.020 [0.804]	0.229*** [3.322]	0.229*** [3.315]
Inst. ownership	-0.005 [-0.600]	-0.005 [-0.586]	-0.103*** [-2.711]	-0.103*** [-2.708]
IVOL	-1.194*** [-5.764]	-1.173*** [-4.903]	1.416** [2.175]	1.411** [2.164]
Firm Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	30,687	30,687	15,204	15,204
R-squared	0.204	0.203	0.740	0.740

Table 7: Impact of BP oil spill on predictability and mutual fund voting

This table tests the impact of the BP oil spill on the predictability of future firm outcomes and mutual fund voting. The BP oil spill occurred in April 2010. April 2010 is not included in the regressions. In Panel A, the dependent variable is *Vote For*, which equals one if the mutual fund votes for the proposal, and it is zero otherwise. *Short horizon, mgmt friendly fund* is a dummy variable that equals 1 if both FPS and management friendliness are larger than sample median within the same year. *E proposal* equals 1 for environmental proposals. Regressions use an event window of 24 months around April 2010. Columns 1 and 2, respectively, compare between E vs non-ES, and E vs non-ES. Regressions include the control variables used in Table 5. In Panel B, we examine the change in the predictability of future firm outcomes. In the pre (post) period, support rate variables are calculated over the 24-months window before (after) April 2010. Using the support rate variables, we then examine predictability in 4-factor alphas in the following 12 months. The dependent variable is either *Downside Tail Return*, which equals the firm's 12-month 4-factor alpha if alpha is below the 25th percentile of alphas within the same period, and it's zero otherwise; or *E negative news*, which equals the natural logarithm of one plus the total number of negative news reports on environmental incidents of the firm. *Failed E (or non-ES) Proposal* is a dummy variable which equals 1 if the firm has at least one failed E (or non-ES) proposal during the 24-month period. *Support for E (or non-ES)* equals the average mutual fund support in firm's failed E (or non-ES) proposals during the 24-month period. Regressions include the control variables included in column 1 of Table 2. Variable definitions are available in Appendix I. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Votes regressions

VARIABLES	E vs non-E (1)	E vs non-ES (2)
Failed E proposal × After	0.053*** [4.913]	0.072*** [5.602]
Failed E prop × After × Short horizon, mgmt friendly fund	0.048** [2.175]	0.043* [1.695]
Short horizon, mgmt friendly fund	-0.108*** [-6.420]	-0.127*** [-6.372]
Failed E proposal	-0.105*** [-11.777]	-0.142*** [-12.791]
ISS for	0.415*** [27.579]	0.394*** [25.631]
Failed E proposal × Short horizon, mgmt friendly fund	-0.028 [-1.570]	-0.002 [-0.118]
Short horizon, mgmt Friendly Fund × After	-0.015 [-0.724]	-0.013 [-0.528]
After	-0.053*** [-3.081]	-0.063*** [-3.206]
Controls	Yes	Yes
Sponsor type Fixed Effects	Yes	Yes
Observations	115,971	93,748
R-squared	0.220	0.253
%(Dep.var=1)	32.92%	37.92%

Panel B. Predictability regressions

	25 th pct tail of 4-factor alpha	E negative news
	(1)	(2)
Failed E Proposal * Support for E * After	-0.411* [-1.683]	1.286* [1.815]
Failed E Proposal * After	-0.034 [-0.570]	0.182 [1.035]
Failed E Proposal * Support for E	0.347** [2.192]	-2.275*** [-4.926]
Failed E Proposal	-0.045 [-1.199]	1.214*** [10.877]
Failed non-ES Proposal * Support for non-ES * After	-0.132 [-1.606]	0.488* [1.663]
Failed non-ES Proposal * After	0.069* [1.790]	0.029 [0.227]
Failed non-ES Proposal * Support for non-ES	0.064 [1.193]	-0.171 [-0.918]
Failed non-ES Proposal	-0.064** [-2.334]	0.226** [2.559]
After	-0.069*** [-9.584]	0.059** [2.310]
Controls	Yes	Yes
Observations	5,233	3,204
R-squared	0.104	0.336

Table 8: Role of fund characteristics, a comparison of ES versus non-ES proposals

The sample consists of mutual funds' votes in all shareholder proposals (ES and non-ES) during our sample period. Regressions are OLS, with standard errors clustered at the fund level. In each column, the dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal, and it's zero otherwise. *Vote For* is regressed on a measure of fund short-termism in column 1, which we define as mutual *fund flow-performance sensitivity (FPS)*. In columns 2 and 3, *Vote For* is regressed on a proxy for fund-management friendliness times management short-termism. All explanatory variables are defined in Table 5 and Appendix I. Controls previously used in Table 5 are included, but not tabulated to conserve space. Regressions also include firm, sponsor type, and year fixed effects. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent Variable = Vote For		
	Fund short-termism =	Management Short-termism =	
	FPS (1)	NI Past 1y (2)	NI Past 5y (3)
ES Proposal	-0.100*** [-26.681]	-0.096*** [-21.033]	-0.095*** [-20.788]
ES prop × Fund short-termism	-0.147** [-2.518]		
Fund short-termism	0.016 [0.225]		
ES × Fund mgmt friendliness × Management short-termism		-0.322** [-2.308]	-0.854*** [-2.926]
Fund mgmt friendliness		-0.537*** [-17.108]	-0.543*** [-17.137]
Management short-termism		-0.009 [-0.899]	0.076*** [2.636]
ES × Fund mgmt friendliness		0.203*** [8.886]	0.206*** [8.920]
ES × Management short-termism		-0.160*** [-9.794]	-0.315*** [-15.606]
Fund mgmt friendliness × Management short-termism		0.014	0.492**
ISS for	0.385*** [42.249]	[0.138] 0.359*** [30.488]	[2.393] 0.359*** [30.431]
ES fund	0.009 [0.032]	0.198** [2.414]	0.198** [2.415]
Controls	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Sponsor Type Fixed Effects	Yes	Yes	Yes
Observations	1,116,635	532,227	532,227
R-squared	0.279	0.279	0.279
%(Dep.var=1)	33.37%	31.88%	31.88%

Table 9: Heterogeneity amongst ES proposals

The sample consists of mutual funds' votes in shareholder proposals related to ES issues during our sample period. Regressions are OLS, with standard errors clustered at the fund level. In each column, the dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal, and it's zero otherwise. *Vote For* is regressed on a proxy for the quality of the proposal item \times *Fund Characteristic*. In columns 1, 3, and 5, *ISS For* represents the measure of proposal quality; this is a dummy equal to 1 if ISS recommended for the proposal and zero otherwise. In columns 2, 4, and 6, *Asset mgmt co sponsor* represents the measure of proposal quality; this is a dummy equal to 1 if an asset management company sponsored the proposal and zero otherwise. We also use two different *Fund characteristics*: *Fund Horizon* which we measure as fund flow-performance sensitivity in columns 1 and 2, and fund-management friendliness in columns 3-6. In columns 5-6, we additionally interact fund-management friendliness with *Mgmt short-termism*, which is a dummy equal to one if NI over the past year was between 0 and \$20 million, zero otherwise. All regressions include firm, year and proposal category fixed effects. Columns 1, 3 and 5 also include sponsor type fixed effects. All explanatory variables are defined in Appendix I. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

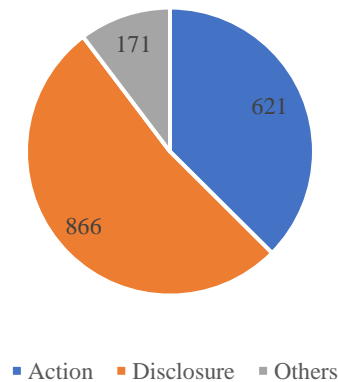
<i>Fund Characteristic =</i>	Dependent variable: Vote For					
	Fund Horizon		Fund Mgmt Friendliness			
	(1)	(2)	(3)	(4)	(5)	(6)
ISS for \times Fund characteristic	-0.288*** [-2.679]		-0.672*** [-14.504]		-0.638*** [-14.741]	
Asset mgmt co. sponsor \times Fund characteristic		-0.071** [-2.250]		-0.105*** [-4.763]		-0.066*** [-3.534]
Asset mgmt co. sponsor \times Fund characteristic \times Mgmt short-termism						-0.551** [-2.153]
ISS for \times Fund characteristic \times Mgmt short-termism					-0.449* [-1.715]	
Fund characteristic	-0.022 [-0.848]	-0.100*** [-2.640]	-0.029*** [-2.608]	-0.259*** [-13.759]	-0.026** [-2.367]	-0.234*** [-13.277]
Asset mgmt co. sponsor		0.008*** [4.474]		0.010*** [4.408]		0.007*** [2.810]
ISS for	0.272*** [25.877]	0.269*** [26.044]	0.277*** [21.313]	0.254*** [20.661]	0.275*** [20.127]	0.254*** [19.480]
Mgmt short-termism					-0.052*** [-3.946]	-0.031* [-1.954]
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Proposal Category Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Sponsor Type Fixed Effects	Yes		Yes		Yes	
Observations	298,515	298,515	194,845	194,845	146,443	146,443
R-squared	0.210	0.209	0.226	0.219	0.229	0.222
%(Dep.var=1)	13.53%	13.53%	13.72%	13.72%	12.55%	12.55%

Internet Appendix

Figure A1. Summary statistics on proposal types

We classify ES proposals into 3 categories: Action, Disclosure, and Others. For this classification, we use the variable *ItemDesc* made available by ISS. Disclosure ES proposals have one of the following words in *ItemDesc*: “Report”, “Disclose”, “Provide information”, “Publish”. Action ES proposals have one of the following words in *ItemDesc*: “Add”, “Adjust”, “Adopt”, “Apply”, “Commit”, “Develop”, “Endorse”, “Formulate”, “Implement”, “Include”, “Increase”, “Institute”, “Identify”, “Inform”, “Institute”, “Invest”, “Label”, “Link”, “Minimize”, “Phase in”, “Place”, “Purchase”, “Reduce”, “Reformulate”, “Cease”, “Discontinue”, “Divest”, “Exclude”, “Eliminate”, “End”, “Prohibit”, “Remove”, “Amend” Improve”. The third category include the type of proposals that are rare. These include proposals related to board oversight (“Establish Committee” “Board Oversight”, Require Director Nominee) or proposals aiming to influence suppliers (“Suppliers to Adopt”, “Suppliers to Disclose”). Panel A shows the distribution of 3 proposal types in the full sample, Panel B reports this information conditioned on sponsor type.

Panel A: Types of ES proposals



Panel B: Types of ES proposals, by sponsor

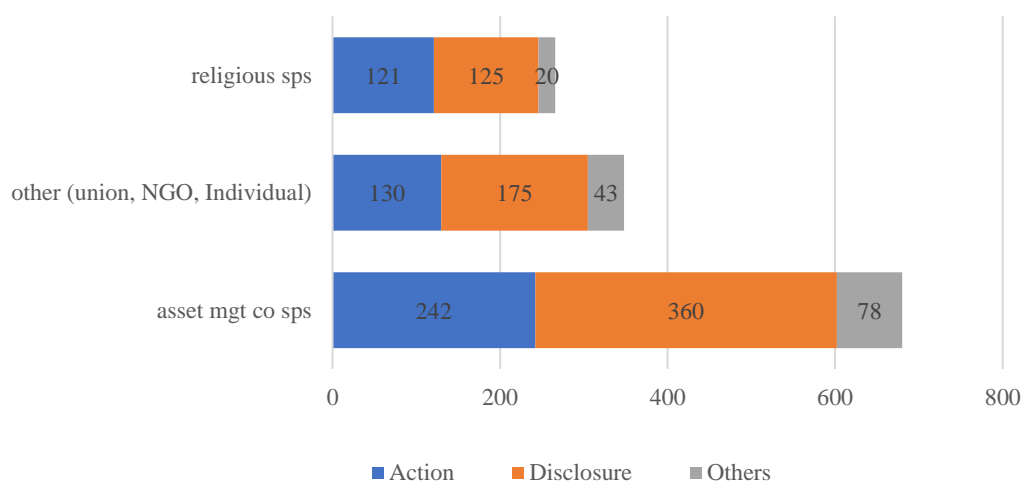


Figure A2. Timeline of the predictability analysis

This figure shows the timing at which the dependent variables (*Downside/UpSide Tail Return* and *ES negative news*) are measured relative to primary independent variables of interest (*ES proposal*, *ES support*, *Non-ES proposal*, and *Non-ES support*) for the typical case of a firm with a December fiscal-year end, in regressions reported in Tables 2, 3, 4, 6, and Panel A of Table 7.

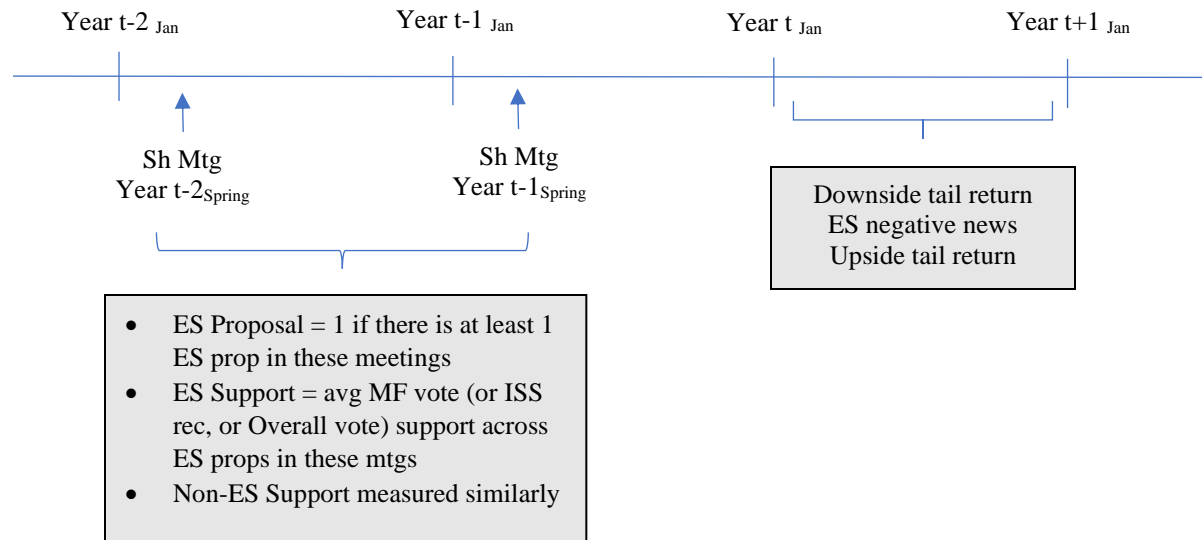


Table A1. List of ES proposals

Our sample includes shareholder proposals that are related to environmental and social issues. In ISS, such proposals are identified by the *resolution type* “SRI” (Flammer (2015) and Cao, Liang and Zhan (2019)). There are a total of 52 voted categories (variable *AgendaGeneralDesc*) marked as “SRI”. We refine this set in two steps. In the first step, we review the more detailed proposal descriptions (*Item Desc*) to check for potential inconsistencies and data errors. We identify a subset, a total of 10 categories out of 52, which either don’t have clear association with ES issues (e.g., “Report on Outsourcing”, “Seek Sale of Company/Assets”) or appear to be a data error (e.g., proposals titled “Report on Pay Disparity” turns out to be about executive compensation as opposed to gender pay gap). The complete set of *AgendaGeneralDesc* for these 10 categories is: “Avoid Export of U.S. Jobs”, “Charitable Contributions”, “Company-Specific Board-Related”, “Disclose Prior Government Service”, “Plant Closures”, “Political Activities and Action”, “Political Contributions Disclosure”, “Report on Outsourcing”, “Report on Pay Disparity”, and “Seek Sale of Company/Assets”. In the second step, we review the proposals with missing *resolution type*. In ISS, the resolution type information is missing quite often, nearly 40% of the time. To this end, we read through the brief (*AgendaGeneralDesc*) and detailed descriptions (*ItemDesc*), and select the ones which have the same keywords that our refined set of ES proposals have (e.g., “Climate Chang”, “Human Rights Risk Assessment”, “Gender Pay Gap”), or infer from reported information (e.g., “Glass Ceiling”). For the few ones with generic proposal titles (e.g., “Company Specific-Governance Related”), we make use of the detailed information in *ItemDesc*. In this way, we identify 13 additional items. The complete list of *AgendaGeneralDesc* for these 13 categories is: “Climate Change Action”, “Climate Change”, “Human Rights Risk Assessment”, “Human Rights-Related”, “Require Environmental/Social Issue Qualifications for Director Nominees”, “Link Executive Pay to Social Criteria”, “Gender Pay Gap”, “Glass Ceiling”, “Labor Issues - Discrimination and Miscellaneous”, “Tobacco - Related - Prepare Report”, “Sever Links with Tobacco Industry”, “Company Specific-Governance Related”, and “Company-Specific -- Shareholder Miscellaneous. The table shows the final list of our ES shareholder proposal categories. Columns 1 to 3, respectively, report the unique ISS category code (*AgendaItemID*), title description (*AgendaGeneralDesc*) and the number of proposals in each category during our sample period. Column 4 shows the percent of proposals within the category that ISS supported.

ISS category code	Proposal description	# proposal s	ISS support rate
S0999	Social Proposal	164	0.166
S0414	Improve Human Rights Standards or Policies	150	0.342
S0777	Report on Sustainability	146	0.852
S0743	GHG Emissions	122	0.824
S0742	Climate Change	101	0.559
S0811	Adopt Sexual Orientation Anti-bias Policy	92	0.786
S0731	Community- Environmental Impact	75	0.632
S0736	Genetically Modified Organisms (GMO)	54	0
S0890	Animal Welfare	41	0.116
S0911	Anti-Social Proposal	40	0
S0510	Link Executive Pay to Social Criteria	37	0.108
S0735	Health Care - Related	35	0
S0812	Report on EEO	33	0.781
S0779	Renewable Energy	32	0.452
S0730	Report on Environmental Policies	31	0.258
S0781	Recycling	29	0.5
S0411	MacBride Principles	28	0
S0725	Weapons - Related	28	0
S0206	Establish Environmental/Social Issue Board Committee	24	0.048
S0703	Tobacco - Related - Miscellaneous	23	0.043

S0709	Nuclear Power - Related	23	0.043
S0427	Data Security, Privacy, and Internet Issues	23	0.565
S0891	Animal Testing	22	0
S0738	Product Safety	22	0.571
S0740	Environmental - Related Miscellaneous (INACTIVE)	20	0.2
S0224	Require Environmental/Social Issue Qualifications for Director Nominees	20	0.7
S0727	Review Foreign Military Sales	19	0
S0892	Animal Slaughter Methods	19	0
S0417	Workplace Code of Conduct (For Reporting Purposes Only) (INACTIVE)	17	0.471
S0729	Review Drug Pricing or Distribution	16	0.125
S0412	Human Rights Risk Assessment	16	0.857
S0744	Hydraulic Fracturing	16	1
S0734	Review Tobacco Marketing	14	0
S0602	Fair Lending	14	0.429
S0423	Operations in High Risk Countries	13	0.5
S0425	China Principles (INACTIVE)	12	0
S0710	Facility Safety	12	0.417
S0205	Establish Other Governance Board Committee	9	0
S0415	Vendor Standards (For Reporting Purposes Only) (INACTIVE)	9	0.333
S0814	Glass Ceiling (INACTIVE)	9	0.333
S0778	Wood Procurement	8	0.375
S0733	Reduce Tobacco Harm to Health	7	0
S0780	Energy Efficiency	6	0.5
S0704	Tobacco - Related - Prepare Report	5	0
S0741	Operations in Protected Areas	5	0.4
S0817	Gender Pay Gap	5	0.75
S0708	Toxic Emissions	2	0
S0745	Climate Change Action	2	0
S0815	Labor Issues - Discrimination and Miscellaneous	2	0
S0737	Toxic Substances (INACTIVE)	2	0.5
S0352	Company Specific-Governance Related	1	0
S0416	Human Rights-Related [country] (INACTIVE)	1	0
S0711	Nuclear Safety (INACTIVE)	1	0
S0732	Sever Links with Tobacco Industry	1	0
S0810	Company-Specific -- Shareholder Miscellaneous	1	N/A

Table A2. Top 5 Sponsors from each sponsor type

This table shows the most common sponsors of ES shareholder proposals during our sample period, within each of the three categories of sponsors: asset management companies, religious groups, and other. ‘Other’ includes NGOs, unions, and individuals.

Shareholder Name	Sponsor type	# ES proposals
Asset management companies		
New York City Pension Funds		150
Harrington Investments		48
Calvert Investments		48
Trillium Asset Management		45
Walden Asset Management		44
Religious groups		
Mercy Investment Program		23
Province of St. Joseph of the Capuchin Order		23
Unitarian Universalist Association of Congregations		17
Mercy Investment Program		17
Sisters of St. Dominic of Caldwell		15
Other (NGO, Union, individuals)		
People for the Ethical Treatment of Animals (PETA)		76
You Sow		55
The Humane Society of the United States		20
Trinity Health (a not-for-profit catholic health care system)		16
Jing Zhao		10
The National Center for Public Policy Research		10

Table A3. Predictability regressions, extended tests

Panel A presents robustness tests for the regressions shown in column 1 of Panel A of Table 2, Panel B presents robustness tests for the regressions shown in column 5 of Panel A of Table 2, and Panel C reports additional placebo tests. In Panel A, the dependent variable in columns 1-3 is *Downside Tail Return*, which equals the firm's 12-month 4-factor alpha in fiscal year t if alpha is below the 25th percentile of alphas within the same year, and zero otherwise. In columns 1-3, respectively, we include lagged downside tail return, lagged negative news from RepRisk, and lagged company ES score from KLD as additional control variables. Columns 2-3 use relatively shorter sample periods as RepRisk starts in 2007 and KLD is available through 2014. For these variables, we use the most recent information available in $t-1$ before the annual shareholder meeting date. In column 4, we replace alpha with abnormal returns based on size and BM-matched samples. In column 5, we use an alternative measure of Downside Tail Return, which is based on the 10th percentile of alphas within the same year. In column 6, we use a short window around the meeting date. For each firm with a failed ES proposal in the two years preceding year t , we select a matched firm (based on 4-digit SIC code and firm size) without such a proposal. The sample consists of the one year prior to this window and the one year following. Failed ES proposal equals one for the treatment sample in the year following the ES proposal, and we interact this with the level of support in each proposal. In Panel B, in column 1 we use an alternative measure of negative ES incidents, which is based on the number of negative ES events rather than the number of issues. One event can consist of multiple issues, as explained in the text. In columns 2 and 3 we restrict negative ES incidents to those with medium or high severity, and to those with medium or high reach, respectively, as defined more fully in the text of the paper. Panel C includes three placebo tests. In column 1, the dependent variable is the downside tail return measured over the 12 months *prior* to the meeting month. Columns 2 and 3 use measures of other forms of risk that do not specifically capture downside returns. Column 2 uses idiosyncratic volatility (estimated from the 4-factor model including 3 Fama-French factors and Momentum) as the dependent variable, and column 3 uses downside beta, which is defined following Ang, Chen, and Xing (2006). Unless specified otherwise (i.e., column 1), independent variables include *Failed ES (non-ES)*, which is a dummy variable that equals 1 if the firm has at least one failed (non-ES) ES proposal from $t-1$ to $t-2$, and *support for ES (Support for non-ES)*, which equals the average support rate in firm's failed ES proposals (failed non-ES proposals) from $t-1$ to $t-2$. We use average mutual fund support throughout. For the control variables, we use the most recent information available in $t-1$ before the annual shareholder meeting date. Control variables used in column 1 of Table 2 are included, but they are omitted for reporting purposes, and all other variables are defined in Appendix I. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Robustness tests related to tail risk results

Test:	Control for lagged dept variable	Control for lagged negative ES news	Control for lagged KLD ES Score	Alternative measure of downside tail return	Alternative measure of downside tail return	Using short window
	25 pct tail of 4-fact alpha	25 pct tail of 4-fact alpha	25 pct tail of 4-fact alpha	25 pct tail of 4-fact AR from size and BM- matched samples	10 pct tail of 4-fact alpha	25 pct tail of 4-fact alpha
Dep't Variable	(1)	(2)	(3)	(4)	(5)	(6)
FailedES*Support for ES	-0.080** [-2.346]	-0.078* [-1.865]	-0.075* [-1.839]	-0.048* [-1.667]	-0.054** [-2.426]	-0.072** [-2.161]
Failed ES	0.015** [2.011]	0.005 [0.499]	0.008 [0.931]	0.001 [0.087]	0.013** [2.410]	0.013 [1.404]
Failed nonES *	-0.006 [-0.370]	-0.018 [-0.740]	-0.007 [-0.357]	-0.016 [-1.174]	-0.008 [-0.498]	-0.007 [-0.214]
Support for non-ES	-0.008 [-0.969]	-0.003 [-0.228]	-0.007 [-0.750]	0.005 [0.847]	0.002 [0.313]	-0.006 [-0.435]
Proposal	-0.095*** [-14.83]					
Lag dep't var						
Lag negative ES news		-0.010*** [-2.971]				

Lag ES score			-0.002*			
			[-1.725]			
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	30,367	14,014	21,927	31,244	31,244	5,788
R-squared	0.213	0.216	0.217	0.297	0.240	0.280

Panel B: Robustness tests related to alternative definitions of negative ES news

<i>Dep't variable:</i>	#ES events	# ES issues with medium or high severity	# ES issues with medium or high reach
	(1)	(2)	(3)
Failed ES Proposal × MF Support for ES	0.506*** [3.330]	0.367** [1.989]	0.427** [2.161]
Failed ES Proposal	-0.004 [-0.101]	0.006 [0.075]	0.017 [0.186]
Failed Non-ES Proposal × MF Support for Non-ES	0.064 [0.797]	0.015 [0.318]	0.027 [0.512]
Failed Non-ES Proposal	0.061 [1.601]	0.059 [1.453]	0.069 [1.596]
Controls	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Observations	16,901	16,901	16,901
R-squared	0.778	0.680	0.705

Panel C: Additional Placebo Tests

Test	Alternative dept var, lagged downside risk	Alternative dept var, to capture idiosyncratic risk	Alternative dept var, to capture systematic risk
Dep't Variable	Alpha over 12 mths prior to mtg dt	Idiosyncratic volatility	Downside beta
	(1)	(2)	(3)
Failed ES Proposal *	-0.000	0.000	-0.073
Support for ES	[-0.017]	[0.063]	[-0.977]
Failed ES Proposal	-0.006	-0.000	0.011
	[-0.821]	[-0.048]	[0.626]
Failed nonES Proposal *	-0.026	0.000	0.037
Support for non-ES	[-1.454]	[0.202]	[0.789]
Failed non-ESProposal	0.003	0.000	-0.003
	[0.417]	[0.822]	[-0.148]
Controls	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	30,367	31,244	31,244
R-squared	0.252	0.675	0.438

Table A4. Support for failed ES proposals and subsequent ES scores

This table shows the relation between voting support for failed ES shareholder proposals and subsequent changes in firms' ES scores. Dependent variable, $\Delta ES\ Score$, is the change in firms' ES scores during t (the fiscal year when the voting took place) in columns 1 and 3. Analogously, in columns 2 and 4, $\Delta ES\ Score$ is defined as the change occurring in the next fiscal year, $t+1$. Independent variables include *Failed ES Proposal*, a dummy variable that equals 1 if the firm has at least one failed ES proposal from $t-1$ to $t-2$, and *Support for ES* equals the average support rate in firm's failed ES proposals from $t-1$ to $t-2$. Columns 1-2 use average mutual fund shareholder support; columns 3- 4 use average ISS support. All other variables are defined in Appendix I. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Dep't Var = Change in ES Score, measured over	(1) $\Delta ES\ Score_t$	(2) $\Delta ES\ Score_{t+1}$	(3) $\Delta ES\ Score_t$	(4) $\Delta ES\ Score_{t+1}$
	MF support		ISS Support	
Failed ES Proposal for ES	0.524	-0.305	0.121	-0.052
× Support for ES	[1.215]	[-0.614]	[0.805]	[-0.302]
Failed ES Proposal	-0.131	0.013	-0.100	-0.012
	[-1.170]	[0.095]	[-0.928]	[-0.096]
Cash	0.052	0.042	0.052	0.042
	[0.522]	[0.351]	[0.518]	[0.350]
Sales growth	-0.018	0.135***	-0.018	0.135***
	[-0.670]	[4.411]	[-0.674]	[4.416]
MB	0.003	-0.004	0.003	-0.004
	[0.758]	[-0.872]	[0.763]	[-0.878]
ROA	0.067	0.023	0.066	0.024
	[0.675]	[0.176]	[0.664]	[0.189]
Dividend yield	0.281	0.384	0.277	0.386
	[0.589]	[0.564]	[0.580]	[0.568]
Log MV	0.074***	-0.030	0.074***	-0.030
	[2.827]	[-0.952]	[2.834]	[-0.958]
Illiquidity	0.062	-0.516**	0.062	-0.516**
	[0.375]	[-2.494]	[0.374]	[-2.495]
Inst. ownership	-0.040	-0.102	-0.041	-0.102
	[-0.539]	[-0.971]	[-0.547]	[-0.966]
Idiosyncratic Volatility	-1.450	0.320	-1.448	0.317
	[-1.382]	[0.238]	[-1.380]	[0.236]
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	18,454	15,310	18,454	15,310
R-squared	0.126	0.134	0.126	0.134

Table A5. Votes regression, extended robustness tests

This table presents the results of robustness checks for the regressions shown in Table 5. Panel A and B includes family and fund fixed effects, respectively. Control variables used in column 1 of Table 2 are included, but they are omitted for reporting purposes. The dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal and, it's zero otherwise. Regressions are OLS, with standard errors clustered at the fund level. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Controlling for fund family fixed effects

	Dependent variable: Vote For				
	<i>Fund Short-termism proxy =</i>		(3)	<i>Mgmt Short-termism proxy =</i>	
	Flow-perf. sensitivity	Fund turnover		NI near 0 in past 1 year	NI near 0 in past 5 years
	(1)	(2)		(4)	(5)
Fund Short-termism	-0.102*** [-3.128]	-0.011*** [-4.195]			
Fund Mgmt friendliness			-0.108*** [-10.148]	-0.076*** [-7.147]	-0.076*** [-7.208]
Fund Mgmt. friendliness × Mgmt short-termism				-0.681*** [-5.520]	-0.535** [-2.562]
Mgmt short-termism				-0.046*** [-3.158]	-0.018 [-0.696]
Firm FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Fund Family FE	Yes	Yes	Yes	Yes	Yes
Sponsor Type FE	Yes	Yes	Yes	Yes	Yes
Proposal Category FE	Yes	Yes	Yes	Yes	Yes
Observations	298,511	309,862	194,840	146,437	146,437
R-squared	0.384	0.383	0.405	0.392	0.392
%(Dep.var=1)	13.53%	13.36%	13.72%	12.55%	12.55%

Panel B. Controlling for fund fixed effects

	Dependent variable: Vote For				
	<i>Fund Short-termism proxy =</i>		(3)	<i>Mgmt Short-termism proxy =</i>	
	Flow-perf. sensitivity	Fund turnover		NI near 0 in past 1 year	NI near 0 in past 5 years
	(1)	(2)		(4)	(5)
Fund Short-termism	-0.062** [-2.097]	-0.023*** [-5.042]			
Fund Mgmt friendliness			-0.066*** [-7.338]	-0.037*** [-3.932]	-0.038*** [-4.079]
Fund Mgmt. friendliness × Mgmt short-termism				-0.668*** [-5.810]	-0.372* [-1.847]
Mgmt short-termism				-0.045*** [-3.103]	-0.020 [-0.765]
Firm FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes
Sponsor Type FE	Yes	Yes	Yes	Yes	Yes
Proposal Category FE	Yes	Yes	Yes	Yes	Yes
Observations	298,307	309,671	194,515	146,138	146,138

R-squared	0.434	0.431	0.471	0.457	0.457
%(Dep.var=1)	13.53%	13.36%	13.72%	12.55%	12.55%

Table A6. Divestment regressions

The sample consists of mutual funds which have ownership in companies with at least one failed ES shareholder proposal. Dependent variable, $\Delta PortWeight$, is the quarterly change in portfolio weight of a stock (of a fund) from Q_{t-1} to Q_t whereby ownership is measured as of quarter-end. Voting takes place in Q_{t-1} . Regressions are at the fund-proposal level. Main independent variable is *Vote For*, which equals one if the mutual fund votes for the proposal, and it's zero otherwise. Columns 4 to 6 include *ISS For*, a dummy variable which equals 1 if ISS recommends support for the proposal, and it's zero otherwise. All other explanatory variables are defined in Appendix I. Regressions are OLS, with standard errors clustered at the fund level. All regressions include firm, year, sponsor type and proposal category fixed effects. Columns 3 and 6 also include fund fixed effects. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent variable: quarterly change in portfolio weight from Q_{t-1} to Q_t					
	(1)	(2)	(3)	(4)	(5)	(6)
Vote For	-0.017*** [-2.875]	-0.016*** [-3.101]	-0.012** [-2.495]	-0.013** [-2.086]	-0.010* [-1.916]	-0.007 [-1.264]
ISS For				-0.016*** [-4.894]	-0.016*** [-5.388]	-0.016*** [-5.211]
ES fund	0.039*** [2.899]	0.010 [0.953]		0.038*** [2.829]	0.008 [0.783]	
Fund alpha	0.856** [2.387]	0.504 [1.432]	0.681* [1.810]	0.849** [2.367]	0.499 [1.420]	0.676* [1.795]
Log TNA	0.010*** [7.682]	0.009*** [5.365]	0.008* [1.729]	0.010*** [7.750]	0.009*** [5.380]	0.008* [1.753]
Cash	-0.148*** [-3.867]	-0.146*** [-3.805]	-0.143*** [-3.709]	-0.138*** [-3.588]	-0.135*** [-3.513]	-0.132*** [-3.434]
Sales growth	0.011 [0.693]	0.013 [0.814]	0.015 [0.944]	0.014 [0.863]	0.016 [0.991]	0.018 [1.116]
M/B	0.003*** [3.901]	0.003*** [4.034]	0.003*** [4.145]	0.003*** [3.929]	0.003*** [4.065]	0.003*** [4.174]
ROA	-0.397*** [-7.664]	-0.401*** [-7.745]	-0.387*** [-7.567]	-0.401*** [-7.724]	-0.405*** [-7.809]	-0.391*** [-7.628]
Dividend yield	-0.374* [-1.680]	-0.348 [-1.575]	-0.389* [-1.799]	-0.359 [-1.613]	-0.332 [-1.505]	-0.374* [-1.731]
Log MV	-0.103*** [-12.399]	-0.098*** [-11.870]	-0.095*** [-11.633]	-0.103*** [-12.372]	-0.098*** [-11.838]	-0.095*** [-11.604]
Past firm return	0.072*** [6.259]	0.075*** [6.557]	0.080*** [7.047]	0.071*** [6.185]	0.074*** [6.481]	0.079*** [6.972]
Amihud illiquidity	0.517 [0.730]	0.346 [0.494]	0.334 [0.478]	0.367 [0.519]	0.191 [0.273]	0.182 [0.261]
Inst ownership	-0.054* [-1.647]	-0.046 [-1.409]	-0.039 [-1.197]	-0.053 [-1.633]	-0.045 [-1.395]	-0.038 [-1.183]
Fund Fixed Effects			Yes			Yes
Fund Family Fixed Effects		Yes			Yes	
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year FE Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Sponsor Type Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Proposal Category Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	284,092	284,087	283,918	284,092	284,087	283,918
R-squared	0.036	0.049	0.101	0.036	0.049	0.101

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