Mutual Fund Disagreement and Firm Value: Passive vs. Active Voice*

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Abstract

We develop a novel measure of disagreement in voice between active and passive mutual funds using their proxy votes that captures shareholder conflicts in public firms. We show that the disagreement in voice between passive and active mutual funds destroys firm value and suggest that the firm value loss is due to conflicting incentives between the two groups of mutual funds. Using Federal Open Market Committee announcements with press conferences as events that create scope for investors to make informed votes and interpret news differently for individual firms, we show that such value-destroying effect of disagreement is likely causal.

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1. Introduction

Understanding how conflicts of interests between managers and shareholders affect firm performance has been a prominent topic of corporate governance. How conflicts of interests among shareholders affect firm value is generally known in the context of conflicts between majority and minority, and inside and outside shareholders, but these types of shareholders are typically not present in widely held public firms.[1] While prior work shows that there are differences in preferences and beliefs among institutional investors such as mutual funds, which creates opportunities for conflicts among important shareholders in most public firms, the implications of such conflicts are not well understood.[2] In this paper, we construct a measure of conflicts among shareholders of public firms using disagreement in mutual funds' proxy votes and examine the consequences of the disagreement for firm value.

The rise of index fund ownership is transforming corporate governance of public firms.[3] The ways in which passive asset managers monitor and engage with their portfolio companies have become a key component of public firms' governance. Differences in governance practices between active and passive mutual funds is an area of active research and public policy debate.[4] Index funds are often criticized for lacking incentives to monitor (Bebchuk and Hirst, 2019), and some propose that "lawmakers consider restricting passive

[1] See surveys by Shleifer and Vishny (1997), Morck (2000), Holderness (2003), Bebchuk and Weisbach (2010), Edmans (2014), or Edmans and Holderness (2017), and empirical evidence in Bena and Xu (2017).

[2] See Hayden and Bodie (2008) for a comprehensive overview of different sources of shareholder heterogeneity. For example, shareholders may have different tax considerations (Desai and Jin, 2011), business ties (Cvijianovic, Dasgupta, and Zachariadis, 2016), time horizons (Bushee, 1998; Gaspar, Massa, and Matos, 2005), special interests (Agrawal, 2012; Mullins and Schoar, 2016), or social, political or environmental views (Bubb and Catan, 2020; Bolton et al., 2020). Li, Maug, and Schwartz-Ziv (2020) show that shareholders may interpret the same information differently.

[3] The fraction of equity mutual fund assets held by indexers become greater than 50% in 2019. See, for example, https://www.wsj.com/articles/index-funds-are-the-new-kings-of-wall-street-11568799004.

[4] For example, Bebchuk and Hirst (2019), Fisch et al. (2019), and Kahan and Rock (2020). See the SEC chairman Jay Clayton statement and the 2018 SEC Roundtable on index funds' approach to engage with companies (https://www.sec.gov/news/public-statement/statement-claytoniac-091318 and https://www.sec.gov/files/proxy-round-tabletranscript-111518.pdf, respectively).

funds from voting at shareholder meetings" (Lund, 2018). On the other hand, since passive managers have to hold their shares, they engage with portfolio companies via voice while active managers can exit. The differences between active and passive funds can thus be a source of conflicts affecting most public firms.

Anecdotally, statements by the biggest index fund managers suggest that they disagree with active managers on corporate policies of their portfolio companies. At the same time, the most prominent active managers disagree with the passive managers and are explicitly refereeing to proxy votes.[5] A notable example of an area of dissenting views between the two groups of mutual funds are environmental, social and governance (ESG) issues. ESG is one of the key trends in investing over the past few years with the 2021 proxy season seeing a record number of shareholder proposals on ESG (Smith, 2021). BlackRock, the worlds' largest passive asset manager, is viewed as one the biggest proponents of ESG investing.[6] On the other hand, Warren Buffett and Charlie Munger, stewards of Berkshire Hathaway, are not leading the charge on ESG investing and argue that "*companies shouldn't assign investors' cash to social causes*" (Winck, 2020). A possible reason driving these opposite views is that "green" assets have lower expected returns because of investors' tastes for "green" assets (Pástor, Stambaugh, and Taylor, 2021; Pástor, Stambaugh, and Taylor, 2022). In this

[5] Larry Fink, CEO of BlackRock, in his letter to public company CEOs from 2015 states: "*It is critical, however, to understand that corporate leaders' duty of care and loyalty is not to every investor or trader who owns their companies' shares at any moment in time, but to the company and its long-term owners. Successfully fulling that duty requires that corporate leaders ...resist the pressure of short-term shareholders ...and most importantly that they articulate their strategy for sustainable long-term growth*." Jack Bogle, Vanguard founder, in an interview said: " *Traditional index funds are the last, best hope for corporate governance, because they're the only true, long-term investors. Corporate governance should be based on long-term factors affecting the corporation, not a bunch of traders who want you to report higher earnings, gonna try and get on your board for a minute, and in a moment, I don't know how they're this smart to do it, but realign the entire company and then all will be well. It just doesn't happen. In fact, the reverse is more likely to happen.*" Charlie Munger, the vice chairman of Berkshire Hathaway Inc. said at the annual meeting of Daily Journal Corp., "*we've had this enormous transfer of voting power to these passive index funds. That is going to change the world I don't know what the consequences are gonna be, but I predict it will not be good*."

[6] See, for example, https://seekingalpha.com/article/4493181-blackrock-a-buy-if-youre-bullish-on-passive-investing-and-esg and https://www.institutionalinvestor.com/article/b1tkr826880fy2/The-Trillion-Dollar-Fantasy.

case, active asset managers, whose aim is superior financial performance, would disagree with passive managers on ESG matters due to their inherently different objectives. The consequences of such disagreements in voice for mutual funds' portfolio companies are not well understood.

In this paper, we investigate whether the conflicts between passive and active mutual funds measured by their disagreement in voice affects firm value. Recent theories show that the lack of homogeneity and cohesiveness in decision making by groups leads to inefficiencies, suggesting that disagreement and conflicts among shareholders might be detrimental to firms' valuations (Garlappi, Giammarino, and Lazrak, 2017; Donaldson, Malenko, and Piacentino, 2020). On the other hand, shareholder diversity may be beneficial if decision makers have complementary skills or information (Jehn, Northcraft and Neale, 1999; Erhardt, Werbel, and Shrader, 2003; Hamilton, Nickerson, and Owan, 2012). We find evidence consistent with disagreement between passive and active mutual funds being value destroying.

For our analyses, we develop a novel measure that captures the conflicts between active and passive mutual funds using the disagreement in their voting decisions on 330 thousand unique proposals during 2003-2018. Corporate voting is an important way in which shareholders voice their opinions and exert influence over the decisions of a firm's management (McCahery, Sautner, and Starks, 2016; Edmans and Holderness, 2017). Specifically, we rely on mutual funds' voting decisions to capture the difference with which passive and active funds, as two separate groups, vote in accordance with management's preference over every voting item. The difference in the approval rates of management between the passive and active funds is a measure of conflicts between the two fund groups: "*Unequal approval of management by mutual funds*". The disagreement is high, when most passive funds vote with management while most active funds vote against management: "*Stronger approval of management by passive mutual funds*", and vice versa: "*Stronger*

approval of management by active mutual funds". In addition, we follow Cookson and Niessner (2020) and construct a continuous measure of cross-group disagreement in voice between passive and active funds by computing the weighted standard deviation of the average approval rate of management across the two groups.

To assess the value impact of active vs. passive funds conflicts, we analyze the cumulative abnormal returns associated with disagreements in voice around shareholder meeting outcome disclosure dates. Valuation effects may have been incorporated in prices before the meeting if the overall vote support is anticipated (Cuñat, Gine, and Guadalupe, 2012). Therefore, we mainly focus on viable proposals, that is, when the vote outcome is not perfectly anticipated. We call a proposal to be viable if the overall vote support is between 45% and 55%. We find that, when proposals are viable, the disagreement in voice between passive and active funds is value-destroying: relative to proposals with equal approval rates of management by active and passive mutual funds, the presence of disagreement decreases firm value by about 2.2%. The value loss we document does not differ depending on whether the unequal approval of management comes from the stronger support from passive or active mutual funds and is mostly driven by say-on-pay proposals and proposals related to share issuance. We further confirm this result using the continuous cross-group disagreement measure and show that the magnitude of the value loss is larger when cross-group disagreement is greater. These findings are robust to using regression specifications with different sets of fixed effects and control variables.

The value destroying effect of the conflicts between passive and active mutual funds we find may also arise from the differences in opinions about the quality of a proposal between the two fund groups, rather than their differences due to conflicting incentives. It is challenging to disentangle the two sources of disagreement because there is no holistic ex-ante measure of a quality of a particular proposal from a firm's perspective. We attempt to rule out the differences in opinions by investigating the relation between the disagreement

in voice and firm value in a setting that isolates differences due to conflicting incentives by controlling for disagreement that arguably arises due to differences in opinions. Assuming that disagreement among passive funds mostly captures the differences in opinions about the quality of a proposal because these funds have similar incentives, we include within-passive fund group disagreement measure in the baseline model to capture the disagreement about the proposal quality. Following Cookson and Niessner (2020), we construct the within-passive fund group disagreement measure as the standard deviation of approval rates of management for a given proposal computed for passive funds that voted. We find that cross-group disagreement, rather than within-passive fund group disagreement, affects firm value, suggesting that differences in opinions about the quality of a proposal is unlikely driving our results.

We refine this approach by constructing a measure of disagreement within passive funds that track S&P 500 index which have very homogenous incentives. This measure thus captures the differences in opinions about the quality of a proposal within the group of S&P 500 index funds. We find that cross-group disagreement continues to have a negative effect on firm value while the coefficient of disagreement among S&P 500 index funds is small and statistically insignificant. Our analyses provide suggestive evidence that conflicts arising from differences in incentives between passive and active mutual funds, rather than differences in opinions, are driving the value-destroying effect we document.

For our next analyses, we split the sample of viable proposals into management-sponsored and shareholder-sponsored. Shareholder-sponsored proposals do not have to be implemented after passing, while most management-sponsored proposals that pass are binding. We find that, after a management-sponsored proposal is passed with a small margin in the presence of unequal approval of the proposal by the two groups of mutual funds, the increase in firm value is smaller by 1.5 percentage points relative to 2.3% increase for proposals that pass with a similar small margin while receiving an equal approval by mutual

funds. This large relative value loss due to disagreement obtains if the unequal approval comes from either passive or active funds being more supportive of the management. Similarly, we show that relative to small cross-group disagreement between passive and active mutual funds, the presence of large cross-group disagreement decreases firm value by 1.1 percentage points, after a management-sponsored proposal is passed with a small margin. None of these effects are present in the subsample of shareholder-sponsored proposals.

Despite controlling for several proposal- and firm-level characteristics, and various sets of fixed effects, there is a potential for endogeneity due to selection and the presence of omitted variables. Most importantly, a shareholder may more likely engage by voting against management if such dissent would lead to firm value creation by better aligning management's actions with shareholders' objectives. To address these concerns, we use Federal Open Market Committee (FOMC) announcements with press conferences as events that generate information shocks that affect most firms in the economy. These announcements are pre-scheduled and are among the most important public news communications aimed at financial markets participants. The announcements convey complex information that financial markets participants react strongly to while often disagree about their interpretation (Boguth, Grégoire, and Martineau, 2019). For these reasons, we use proxy votes that take place shortly after FOMC announcements with press conferences as events that are influenced by exogenous shocks to the shareholders' information environment, and thereby creating a scope for shareholders to interpret the impact of the news differently for individual firms.

To isolate the component of conflicts that stems from shocks to the financial market participants' information environment induced by FOMC announcements with press conferences, we estimate predicted fund votes and use these predicted votes to re-construct the continuous cross-group disagreement measure. To construct predicted fund votes, we regress individual fund vote at the proposal level on an indicator variable that is equal to one

for the fund vote that takes place just after FOMC events with press conferences interacted with the fund fixed effects as the independent variables. We show that the cross-group disagreement constructed using the predicted fund votes is negatively related to firm value, and the magnitude of the negative effect is about one-third greater compared to the OLS estimate. This suggests that this negative relationship we document is likely causal.

We also analyze the consequences of conflicts and disagreement between passive and active funds in cases when the vote outcome of the proposal is highly anticipated — non-viable — which we define as proposals with overall vote support below 30% or above 70%. We find that the presence of disagreement in voice increases firm value by economically much smaller, but still statistically significant, 0.08%. We interpret this result as the disagreement between the two fund groups being a sign of shareholder monitoring effort that challenges the status quo of the firm, and is being positively perceived by informed investors. We support this interpretation by examining the heterogenous effect of disagreement with different levels of institutional monitoring. We find a positive and economically significant effect of disagreement on firm value when institutional monitoring is low while there is no significant effect with high institutional monitoring. This result confirms the importance of differentiating between the exogenously generated disagreement leading to value losses, a prediction suggested by the recent theories (Garlappi, Giammarino, and Lazrak, 2017; Donaldson, Malenko, and Piacentino, 2020), from an endogenously driven dissent that creates firm value by disrupting the status quo in the firm by challenging the management.

In additional tests, we show that our main results are robust to using mutual fund holdings instead of fund counts to construct the disagreement between passive and active funds. We also confirm our results using alternative thresholds to define viable and non-viable proposal samples and by including proposal-by-year fixed effects, as well as when we conduct the analysis at individual meeting level.

In summary, we develop a novel measure of disagreement in voice between active and passive mutual funds using their voting decisions that captures shareholder conflicts in public firms. By focusing on the disagreement in voice, we study a dimension of shareholder disagreement that is economically important but not understood as the existing literature mainly focuses on trading disagreement. We find evidence consistent with disagreement in voice between passive and active mutual funds being firm value destroying and suggest that the firm value loss is due to conflicting incentives between these two groups of mutual funds. Furthermore, we show that this value loss cannot be conflated with the notion of shareholder monitoring that challenges management of the firm and creates firm value.

The paper is organized as follows. Section 2 reviews the literature and develops the main hypothesis. Section 3 describes the data and construction of our disagreement in voice measure, and provides summary statistics. Section 4 presents evidence on the value destruction associated with disagreement between passive and active mutual funds. Section 5 examines the consequences of disagreement between passive and active funds for firm value when proposals are not viable. Section 6 concludes.

2. Related literature and hypothesis

2.1 Literature

Our paper contributes to the literature on shareholder voting. Most existing studies analyze determinants of shareholder voting behavior, and how voting affects corporate governance. Yermack (2010) reviews the role shareholder voting plays in corporate governance. Very few studies address conflicts and disagreement among shareholders of public firms. Li, Maug, and Schwartz-Ziv (2020) find that funds reduce their holdings after the shareholder meeting when they observe that they disagree with the majority of other shareholders. They also document abnormal volume and volatility around shareholder meetings. Schwartz-Ziv and Volkova (2021) show that firms with heterogenous blockholders perform worse than firms with homogeneous blockholders due to increased conflicts

associated with blockholder diversity. Adding to this literature, we develop a novel measure of shareholder conflicts using disagreement in voice specifically between passive and active mutual funds, and examine the value implications of this disagreement for firms. The prior literature finds mixed results when analyzing value implications around shareholder meeting dates. For example, Cuñat, Gine, and Guadalupe (2012) show that passing a shareholder proposal creates firm value while Gillan and Starks (2000) find that shareholder proposals are not associated with any significant stock market reactions. Our results suggest that such mixed results may partly be due to the role played by the disagreement among investors in how the narrow majority was formed.

Our paper mainly contributes to the debate about the differential engagement of active and passive institutional investors in corporate governance. Prior work shows that passive and active funds vote systematically differently. Brav et al. (2018) examine how proxy contests are impacted by firm and fund characteristics. They find that active funds are more likely to vote against management in proxy contests. Heath et al. (2021) show that index funds are more likely to cede power to firm managers in general, not just in proxy contests. The existing empirical evidence of the governance role of passive funds is mixed. Appel, Gormley, and Keim (2016) find that passive mutual funds improve firms' governance choices through their large voting power. Schmidt and Fahlenbrach (2017), however, find that increases in passive ownership leads to increases in CEO power and fewer new independent director appointments. We extend this literature by focusing on the conflicts between passive and active mutual funds and analyzing the implications of such conflicts for firm value.

Our paper also contributes to the broader disagreement literature in finance. Investor disagreement has long been considered as central to trading in financial markets. This strand of literature has typically linked disagreement to trading volume and dynamics of asset prices (see Harris and Raviv, 1993; Kandel and Pearson, 1995; Scheinkman and Xiong, 2003; Banerjee and Kremer, 2010; Carlin et al., 2014, among others, and Hong and Stein (2007) for

a survey). Prior literature has used, for example, analysts' forecasts or investor sentiment from social media to measure disagreement among investors (e.g., Kandel and Pearson, 1995; Diether et al., 2002; Giannini et al., 2019; Cookson and Niessner, 2020; Cookson et al., 2021). By contrast to measures of trading disagreement among shareholders, we contribute to this literature by providing a novel measure of disagreement in voice by using mutual fund voting decisions that reveal conflicting views the funds hold in the context of shareholder meetings.

2.2 Hypothesis development

Different types of shareholders may govern firms using different mechanisms and have different views on how to govern. Shareholder disagreement may affect firm value in two opposite directions. On the one hand, shareholder disagreement may enhance firm performance because different groups of shareholders complement each other in decision making which ultimately leads to better corporate policies adopted by firms. Edmans and Manso (2011) show that multiple blockholders monitor effectively because they compete to collect information. Dhillon and Rossetto (2015) show that block diversity improves firm value when different groups of blockholders cross-monitor each other.

On the other hand, following arguments in the theory literature that lack of homogeneity and the cohesiveness in decision making by groups leads to inefficiencies and thereby value destruction (Garlappi, Giammarino, and Lazrak, 2017, 2021; Donaldson, Malenko, and Piacentino, 2020), different types of shareholders may disagree on what goals firms should achieve and how to achieve those goals. As a result, shareholders may fail to reach a consensus, and firm value suffers consequently due to, for example, pursuing inefficient investment policy. Adams, Akyol, and Verwijmeren (2018) show that boards with more diverse skill sets do not perform better. Schwartz-Ziv and Volkova (2021) show that firms owned by heterogenous blockholders perform worse than those owned by homogeneous blockholders.

In summary, disagreement among shareholders may entail both costs and benefits, and whether shareholder disagreement increases or decreases firm value is an empirical question that cannot be answered a priori by theoretical arguments alone. To examine the relation between the shareholder disagreement and firm value, we use voting decisions of passive and active mutual funds to directly measure the disagreement between the two groups of funds.

3. Empirical methodology

3.1 Data sources and sample construction

Our primary data source is the ISS Voting Analytics database, which provides voting records ("For", "Against", or "Abstain") by individual mutual funds based on filings that mutual fund companies are require to file via N-PX. Following Iliev and Lowry (2015), we define mutual fund support as voting "for" the management and define all alternative actions as opposition. This dataset also includes recommendations from the largest proxy advisor – Institutional Shareholders Services Inc. (henceforth, ISS) and management recommendations.

We obtain shareholder meeting dates from ISS Voting Analytics. We collect the dates on which voting outcomes are filed through SEC filings by matching the voting records data with EDGAR. Following Li, Maug, and Schwartz-Ziv (2020), we search within 8-K, 10-K, and 10-Q filings for the phrases "vote for", "votes for", or "voted for", or for tables that include the words "against" and "abstain", "against" and "withheld", or "against" and "broker". For each of these filings, we record the exact time the form was filed. For the meetings that we are unable to match, we follow prior literature and use the meeting dates as the event dates.

For each proposal, we calculate the overall vote support of management (the percentage of votes for the management) based on a firm's own voting rule. To determine whether a given proposal passes, we compare the vote support with the vote requirement, and assign "Pass" to those proposals with the support percentage above the vote requirement,

and "Fail" otherwise. We remove a small number of proposals that do not have the majority threshold rule. We manually correct cases in which the recorded outcome in ISS Voting Analytics contradicts with our calculation.

We obtain stock price information from CRSP, and use the cumulative abnormal returns around shareholder meeting outcome disclosure dates to assess the value impact of disagreement. With incomplete or imperfectly competitive markets, shareholders will generally disagree on the optimal production decisions of the firm and the objective of the firm thus becomes undefined. We acknowledge that, for this reason, using stock price reactions to voting outcomes may be problematic as a proxy for welfare when shareholder unanimity assumption is relaxed. Specifically, Levit, Malenko, and Maug (2021) show that changes in the governance environment of the firm can affect prices and shareholder welfare in opposite directions. Nevertheless, in our analyses, we rely on firm stock price reactions to be consistent and comparable with the prior literature and because the stock market value impact of disagreement among shareholders is of practical interest to affected firms, as well as to other market participants.

We obtain accounting variables from Compustat, governance data from ISS Governance and ISS Directors databases, and ownership information from the Thomson Reuters Institutional Holdings and Mutual Fund Holdings database. We merge ISS Voting Analytics dataset with CRSP and Compustat to create a sample of 327,073 proposals for 6,113 unique U.S. firms in 2003-2018.

3.2 Measure of disagreement in voice between passive and active mutual funds

We use voting decisions to measure the disagreement in voice between passive and active mutual funds. In our main analyses, each fund is treated as having a single vote, that is, votes are not weighted by the number of shares owned. We capture the disagreement between passive and active funds by investigating whether a proposal receives unequal approval for management from the two groups of funds. Specifically, for each proposal p in a

shareholder meeting *m* of a company *c*, we calculate: (i) the fraction of the number of passive funds supporting the management, and (ii) the fraction of active funds supporting the management. When constructing the measure, we require that at least ten mutual funds and two passive funds voted on a proposal.[7] The disagreement between passive and active funds is then calculated as the difference between these two fractions:

$$MF\ Approval\ Difference_{p,m,c} = \%\ Passive\ MF\ approval\ of\ MNG - \%\ Active\ MF\ approval\ of\ MNG.$$

In all our analyses, the benchmark for comparisons are cases when there is an equal approval of management between two groups of funds, i.e., $MF\ Approval\ Difference_{p,m,c} = 0$. We construct several dummy variables to capture the existence of any unequal approval of management between passive and active fund groups. Our main independent variable is an indicator variable "*Unequal approval of management by mutual funds*" that is equal to one when the approval rate differs between the two groups of funds, i.e., $MF\ Approval\ Difference_{p,m,c} \neq 0$, and zero otherwise. We also create an indicator variable "*Stronger approval of management by passive mutual funds*" that is equal to one when passive funds more than active ones support management, i.e., $MF\ Approval\ Difference_{p,m,c} > 0$, and an indicator variable "*Stronger approval of management by active mutual funds*" that is equal to one when active funds more than passive ones support management, i.e., $MF\ Approval\ Difference_{p,m,c} < 0$.

Following Cookson and Niessner (2020), we also construct a continuous measure of disagreement across the group of passive and active mutual funds by computing the weighted standard deviation of the average approval votes between the two groups. We first code each fund vote as –1 if the fund votes against the management, and as 1 if the fund votes for the management. We then compute the arithmetic average of these votes, $AvgApproval_{p,m,c}$, for each proposal. This disagreement measure is then calculated as:

[7] Our results are robust to using alternative thresholds.

Cross-MF group disagreement$_{p,m,c}$ =

$$\sqrt{\frac{N_{passive}(AvgApproval_{passive}-AvgApproval_{p,m,c})^2+N_{active}(AvgApproval_{active}-AvgApproval_{p,m,c})^2}{\frac{1}{2}(N_{passive}+N_{active})}},$$

where, for each proposal p in a shareholder meeting m of a company c, $N_{passive}$ is the number of passive funds voted, N_{active} is the number of active funds voted. $AvgApproval_{p,m,c}$ is the average approval of management from all mutual funds voted, $AvgApproval_{passive}$, is the average approval of management from passive mutual funds, and $AvgApproval_{active}$, is the average approval of management from active mutual funds. We use *Cross-MF group disagreement* to capture the magnitudes of the disagreement between passive and active funds.

3.3 Descriptive statistics

Table 1 presents the overview of our sample by year. On average, about 18% of all proposals receive equal approval of management by passive and active mutual funds. More than 47% proposals receive stronger approval of management by passive mutual funds while about 34% of proposals receive stronger approval of management by active mutual funds. In most years, we observe greater proportion of proposals that receive stronger approval of management by passive compared to active funds. This is consistent with passive funds being more pro-management than active funds for reasons such as resource constraints, and their business ties with the portfolio companies (Cvijianovic, Dasgupta, and Zachariadis, 2016; Boone, Gillan, and Towner, 2020). Year 2003 was the first year in which SEC requires mutual funds to disclose their voting records. In 2018, we observe a smaller fraction of proposals receiving stronger approval of management by passive funds. This may reflect the recent increased activism by passive funds. Our results are robust to excluding the observations in 2003 and 2018 from our sample.

Figure 1 Panel A shows the histograms of the disagreement between active and passive mutual funds, *MF Approval Difference*. The values of the disagreement measure are

concentrated at exactly zero, as well as at positive and negative values close to zero. An equal approval of management by passive and active mutual funds is a common outcome, which is driven by 100% of both passive and active funds often support management. The distribution of the disagreement measure is right skewed and the disagreement is positive on average. In other words, the distribution shows, on average, a higher approval of management by passive than active mutual funds. Panel B shows the histogram of the absolute value of disagreement between active and passive funds, $|MF\ Approval\ Difference|$. Panel C shows the histogram of the cross-group disagreement measure, *Cross-MF group disagreement*, between active and passive mutual fund groups. This continuous measure captures the magnitude of the disagreement between the two groups. In our analyses, we study the consequences of the existence of any disagreement as well as whether the sign of the disagreement matters.

Figure 2 Panel A compares the histograms of cross-group disagreement, *Cross-MF group disagreement*, between passive and active funds using subsamples of management-sponsored and shareholder-sponsored proposals. The figure shows that our disagreement measure is substantially larger in shareholder-sponsored proposals. This is consistent with prior work that shows that, compared to management-sponsored proposals, shareholder-sponsored proposals are more contentious and pursue agendas that focus more on social and governance issues. Figure 2 Panel B compares the histograms of cross-group disagreement between passive and active funds using subsamples of proposals when ISS supports the management vs. when ISS recommends to vote against the management. ISS recommends to vote against management when it considers the proposal not to be beneficial to shareholders. Prior research documents a significant positive association between ISS recommendations and the overall vote support on various voting issues. For example, Malenko and Shen (2016) find that, relative to positive recommendation, a negative ISS recommendation on a say-on-pay proposal leads to a 25-percentage points reduction in say-on-pay voting support. Consistent with this evidence, Panel B shows that our shareholder

disagreement measure is substantially larger in the sub-sample where ISS recommends investors to vote against management.

For our analysis, we classify all proposals by agenda into six broad categories: *Board*, *ESG*, *Share-issuance*, *Say-on-pay*, *Other-compensation*, and *Other*. Board proposals are mostly for the election of directors, and other board matters, such as board size and director tenure. ESG proposals are environmental, social, and governance proposals. Share-issuance proposals cover the approval of issuance of common or preferred stock and all other share-related proposals. Say-on-pay proposals are ones that ask for shareholder approval of executive compensation. Other-compensation proposals are compensation-related proposals other than say on pay, for example proposals that ask for approval for performance metrics of executive compensation plans. Figure 3 compares histograms of cross-group disagreement between passive and active funds, *Cross-MF group disagreement*, of different proposal categories relative to the full sample. The histogram of cross-group disagreement in the sample of board proposals, displayed in Panel A, overlaps with the histogram for the full sample since more than 70% of all proposals are director elections. Panels B and C show that the cross-group disagreement measure is greater for ESG proposals and say-on-pay proposals, respectively, compared to the full sample. This evidence is consistent with Bolton et al. (2020) who show that two sources of disagreement between shareholders' voting behaviors are related to social and governance issues. ESG proposals and say-on-pay proposals also draw much attention from the public and policymakers. Finally, Panel D shows that there is very large disagreement between active and passive mutual funds on proposals related to share-issuance.

Figure 4 shows the box plot of the absolute value of disagreement and *Cross-MF group disagreement* between passive and active funds by the level of overall vote support split into deciles. Both the absolute value of disagreement and the *Cross-MF group disagreement* has an inverse U-shaped pattern with the greatest values just above the majority threshold. With

the exception of the extreme deciles, our disagreement measures exhibit large variation in each level of vote support category, for example, both disagreement measures can be zero around the majority threshold, as well as in cases when the vote support is very high or low.

Table 2 Panel A presents summary statistics of the *Cross-MF group disagreement* between passive and active funds over time. The *Cross-MF group disagreement* is a continuous measure that captures the magnitude of the different approval rates for management from the passive fund group and active fund group. The mean is 0.067 and the standard deviation about twice as big as the mean. The 25th percentile is close to zero and 75th percentile is about as big as the mean. The distribution of the *Cross-MF group disagreement* is stable across years.

Table 2 Panel B presents summary statistics for our sample. Out of 327,073 proposals in our sample, ISS recommends to support the management 89% of the time. The average support rate for management is high, at 93%. On average, 141 active and 77 passive mutual funds voted on a proposal in our sample. In Panel C of Table 2, we present summary statistics separately for the subsamples of viable and non-viable proposals. The average vote support for management is 51% in the viable sample and 95% in the non-viable sample. ISS recommends to support management only 16% of the time in the viable sample, indicating that these proposals are contentious. When there is no approval difference between passive and active funds, the average approval for management is 90% in the viable sample with large standard deviation of 29% while it is 100% in the non-viable sample with 5% standard deviation. Statistics of the firm-level variables are similar across two subsamples. The 12-month stock return is lower and firms are larger in the viable sample than in the non-viable sample.

4. Disagreement in voice between passive and active mutual funds and firm value: Viable proposals

To examine the relation between the shareholder disagreement and firm value, we study firm's three-day CAR during the window centered around the vote outcome disclosure date (-1, +1).[8] Valuation effects may have been incorporated in prices before the meeting if the overall vote support is anticipated (Cuñat, Gine, and Guadalupe, 2012). For this reason, we begin the analysis with a focus on proposals in which vote support is not perfectly anticipated. We call a proposal to be viable if the overall vote support for the proposal is between 45% and 55%.

4.1 Baseline analysis

In the baseline model, the main variable of interest is an indicator variable, "*Unequal approval of management by mutual funds*", that captures any unequal approval of management between passive and active mutual funds as revealed by funds' voting decisions. Our regression specification controls for unobserved firm heterogeneity, differences across proposal types and time trends by including firm, proposal type, and year fixed effects. We also include management-sponsored proposal fixed effect to capture any unobserved heterogeneity between management-sponsored and shareholder-sponsored proposals. In all tests, we control for overall mutual fund support for management, and number of mutual funds voted. Tables 3 report the results of the baseline analysis.

In column (1) of Table 3 Panel A, the coefficient of *Unequal approval of management by mutual funds* indicates that relative to those with equal approval of management by mutual funds, the presence of unequal approval, that is, disagreement, decreases firm value by 2.19%. This estimate is statistically significant at the 5% level. Column (2) includes three additional control variables: institutional ownership, the overall vote support for the proposal, and ISS recommendation. The coefficient of *Unequal approval of management by mutual*

[8] We report results based on the Fama-French three factor model, although we obtain similar results using other standard market adjustment procedures.

funds remains unchanged. Column (3) includes alternative firm-level control variables: total assets and book-to-market ratio. The coefficient decreases only slightly to -1.99% in this specification. Column (4) includes firm-by-year fixed effects which control for any time varying firm heterogeneity, and proposal-level control variables. In this comprehensive specification, the coefficient of *Unequal approval of management by mutual funds* decreases to -1.31% and remains statistically significant at the ten percent level. In columns (5) and (6), we repeat the analysis from columns (1) and (2) while including analyst forecast dispersion (Diether et al., 2002) as an additional control variable. Analyst forecast dispersion, which is the most prominent measure of investor disagreement, captures dispersion of the stated opinions of analysts about firms' future fundamentals. Our disagreement measure, in contrast, captures disagreement in voice specifically between passive and active mutual funds about currently considered proxy statements. Columns (5) and (6) show that relative to those with equal approval of management by mutual funds, voice disagreement captured by the presence of unequal approval decreases firm value by 2.88% and 2.72%, respectively, with this additional control variable. Overall, we find that when proposals are viable, the market reaction associated with non-zero disagreement is negative, statistically significant, and economically large.

In Internet Appendix Table IA1, we repeat the analysis from columns (1) – (4) in Table 3 Panel A while including another investor disagreement measure constructed using data from a social media investing platform StockTwits by Cookson and Niessner (2020). Cookson and Niessner's disagreement measure captures disagreement in investors' statements about the prospects of a stock. Specifically, we calculate the average three-day investor disagreement from social media before the vote outcome disclosure date [-3, -1]. We show that the results are qualitatively similar to those in Table 3 Panel A.

In addition to the indicator variable that captures any unequal approval of management between passive and active funds, we are also interested in whether value

implication differs depending on whether there is a stronger approval of management by passive vs. active mutual funds. To this end, in Table 3 Panel B we repeat specifications from Panel A, except that we include two indicators as main independent variables instead of *Unequal approval of management by mutual funds*. We include, *Stronger approval of management by passive mutual funds* that takes the value of one if passive mutual funds' approval of management is greater than that by active mutual funds, and *Stronger approval of management by active mutual funds* that takes the value of one if active mutual funds' approval of management is greater than that by passive mutual funds. These two indicator variables provide a breakdown of *Unequal approval of management by mutual funds* into two mutually exclusive indicators. The results from Panel B show that there is no difference depending on whether the unequal approval for management comes from the stronger support from passive or active mutual funds. In all cases we consider, we show that the market reaction associated with these forms of disagreement is negative and ranges from -1.27% to -2.26% depending on the specifications.

In Internet Appendix Table IA2, we change the definition of viable proposals to be those with vote outcome between 48% and 52%. The results do not change. In Internet Appendix Table IA3, we include proposal-by-year fixed effects which account for time varying heterogeneity by proposal groups. Our main findings are robust across periods and different types of proposals. In Internet Appendix Table IA4, we show that our results are robust to using mutual fund holdings instead of counts to construct the disagreement between passive and active funds. In Internet Appendix Table IA5, we conduct the analysis at the individual meeting level. In Internet Appendix Table IA5 Panel A, for each shareholder meeting, we only keep the proposal that has the greatest absolute value of $MF\ Approval\ Difference_{p,m,c}$. In Panel B, for each shareholder meeting, we calculate the average $MF\ Approval\ Difference_{p,m,c}$ of proposals in the meeting. The results are robust to analysis at the meeting level.

To visualize the effect of disagreement between passive and active funds on firm value, we plot the CAAR of meetings with equal and unequal approval of management by mutual fund groups before and after the vote outcome disclosure date in Internet Appendix Figure A1. We classify a meeting into a one with unequal approval of management by mutual funds if at least one of the proposals voted on in that meeting received an unequal approval of management between passive and active mutual funds. We observe that relative to those with equal approval of management by mutual funds, the presence of disagreement between passive and active funds decreases firm value, which is consistent with our results in Table 3.

In Table 4 we report results using a continuous measure of disagreement between passive and active mutual funds, normalized *Cross-MF group disagreement*, as the main explanatory variable, where we standardize *Cross-MF group disagreement* defined in Section 3.2 to have mean zero and standard deviation one. In column (1) of Table 4 Panel A, the coefficient of *Cross-MF group disagreement* suggests that a one-standard-deviation increase in *Cross-MF group disagreement* is associated with a decrease in firm value by 0.39%. This estimate is statistically significant at the 5% level. In column (2), we include institutional ownership, the influence of ISS recommendation, and the overall vote support. Controlling for these additional control variables, the coefficient of *Cross-MF group disagreement* remains statistically significant. The result is also robust to including alternative firm-level control variables total assets and book-to-market ratio in column (3). Last, column (4) shows that *Cross-MF group disagreement* continues to be negatively associated with firm value even when we control for time varying firm heterogeneity by including firm-by-year fixed effects. Taken together, the results in Table 3 and 4 suggest that disagreement between passive and active mutual funds destroys firm value.

4.2 Sources of disagreement

The disagreement in voice between passive and active mutual funds we capture from their voting decisions could also arise due to differences in opinions between passive and

active mutual funds about the quality of a proposal, rather than their differences because of conflicting incentives. Differences-of-opinion models assume agents have heterogeneous beliefs even though they are equally informed (Harris and Raviv, 1993; Kandel and Pearson, 1995). In our setting, given the complexity of many proposals, passive and active managers may interpret the proxy information differently and reach different conclusions about the quality of a proposal. In contrast to differences in opinions, disagreement due to differences in incentives between passive and active mutual funds would exist even if investors had the same information and agree on the quality of a proposal.

It is challenging to directly disentangle the two sources of disagreement because there is no holistic ex-ante measure of a quality of a particular proposal from a firm's perspective. For example, one cannot rely on proposal types, as even the same proposal might have different implications for different firms, in other words, no single proposal can fit all firms. We attempt to rule out the differences in opinions by investigating the relation between the disagreement and firm value in a setting where we control for disagreement likely arises due to differences in opinions.

Our first attempt is to include within-passive fund group disagreement measure that likely capture the differences in opinions about the proposal quality as additional controls in our baseline model. Following Cookson and Niessner (2020), we construct a within-passive fund group disagreement measure, *Within-passive MF disagreement*, where *Within-passive MF disagreement* is calculated as standard deviation of average approval rate of management within all passive mutual funds. This test is based on the assumption that passive mutual funds have similar incentives within their own fund group and any within-passive fund group disagreement thus mostly captures differences in opinions about the quality of a proposal. Table 5 reports the results. In column (1), the coefficient of *Cross-MF group disagreement* shows that a one standard deviation increase in *Cross-MF group disagreement* is associated with a decrease in firm value by 0.36% and it is statistically significant when we include

Within-passive MF disagreement as an additional control variable. The coefficients of *Within-passive MF disagreement* are close to zero and statistically insignificant. In column (2), we include three additional control variables: institutional ownership, the overall vote support for the proposal, and ISS recommendation. The coefficient of *Cross-MF group disagreement* remains unchanged. Taken together, results in columns (1) and (2) show that *Cross-MF group disagreement*, rather than within-passive fund group disagreement, affects firm value, suggesting that differences in opinions about the quality of a proposal are unlikely driving the results.

The above tests assume that within-passive fund group disagreement is more likely than *Cross-MF group disagreement* to capture the differences in opinions about the quality of a proposal. Arguably, even within the set of passive mutual funds, there may be heterogeneity in objectives and incentives. To further control for such heterogeneity and refine the above approach, we construct a disagreement measure within passive funds that track S&P 500 index which plausibly have homogeneous incentives. We calculate the disagreement within these S&P 500 index funds, *Within-SP500 disagreement*, as the standard deviation of the approval rate of management for a given proposal within all S&P 500 index funds. This new measure captures predominantly differences in opinions about the quality of a proposal within the group of S&P 500 index funds. In Table 5 column (3), we include *Within-SP500 disagreement* in our model as a control variable. We continue to find that *Cross-MF group disagreement* is negatively associated with firm value while the coefficient of *Within-SP500 disagreement* is small and statistically insignificant. The results are robust after adding additional control variables as shown in column (2).

Overall our analysis provides suggestive evidence that conflicts arising from differences in incentives between passive and active mutual funds, rather than differences in opinions, are driving the value-destroying effect for firms when proposals are viable.

4.3 Disagreement in voice and value of passing a proposal

In this section, we examine how the presence of disagreement between passive and active mutual funds impacts the value of passing a proposal. Shareholder-sponsored proposals and management-sponsored proposals differ along several dimensions. Shareholder-sponsored proposals do not have to be implemented after passing whereas most management-sponsored proposals that pass are binding (Bach and Metzger, 2019; Babenko, Choi, and Sen, 2019). In addition, shareholder-sponsored proposals usually focus on social and governance issues (Bolton et al., 2020), while management-sponsored proposals pursue multiplicity of agendas with much less focus on ESG issues. For this reason, we split viable proposals into management-sponsored and shareholder-sponsored proposals subsamples, and examine the impact of disagreement separately on the value of passing a management-sponsored proposal and a shareholder-sponsored proposal.[9]

The results are reported in Table 6. In all panels of Table 6, columns (1) to (3) report the results in management-sponsored proposals, while columns (4) to (6) report the results in shareholder-sponsored proposals. We consider regression specifications that include the same set of control variables as in column (2) from Table 3 Panel A and vary the set of conditioning fixed effects.

In Panel A, we interact *Pass*/*Fail* indicators with our main independent variable *Unequal Approval of management by mutual funds* to capture how the firm value changes due to passing vs. failing a proposal is affected by the existence of disagreement between passive and active mutual funds. *Pass* is an indicator variable that is equal to one when a proposal reaches 50% of votes, and zero otherwise. *Fail* is an indicator variable that is equal to one when a proposal fails to reach the majority threshold, and zero otherwise. Column (1)

[9] Babenko, Choi, and Sen (2019) argue that managers influence the outcome of close votes of shareholder meetings. We examine the density of proposals around the passage threshold of management-sponsored proposals in subsamples with (i) zero approval difference of management by passive and active mutual funds, (ii) stronger approval of management by passive mutual funds, and (iii) stronger approval of management by active mutual funds. Graphical evidence constructed following McCrary (2008) indicates no differences in the density of proposals across the three subsamples (see Internet Appendix Figure A2).

shows that firm value increases by 2.3% when a management-sponsored proposal is passed with a small margin. The coefficient of the interaction variable, *Unequal Approval of management by mutual funds* × *Pass*, is negative at -1.47% and statistically significant at the five percent level. This result indicates that after a management-sponsored proposal is passed with a small margin, relative to those with equal approval of management by mutual funds, the presence of unequal approval decreases proposal value by more than half. Alternative specifications in columns (2) and (3) confirm this result: controlling for year trend and, also for heterogeneity across different proposal groups, leads to similar results in terms of economic magnitudes that are also statistically significant. In contrast, the results in columns (4) to (6) suggest that there is no value loss associated with disagreement among mutual fund groups after a shareholder-sponsored proposal is passed with a small margin. This result is consistent with Li, Maug, and Schwartz-Ziv (2020) who argue that management proposals are frequently associated with mutual fund disagreement: funds sell more shares after meetings in which their votes contradicted those of the majority of other shareholders. They show no evidence of such disagreement in a sample of shareholder proposals.

In Panel B, we interact *Pass*/*Fail* variables with indicators for whether a proposal receives stronger approval of management by passive vs. active mutual funds. We find analogous results to those reported in Panel A irrespective of whether the unequal approval of management comes from passive or active funds being more supportive to the management.

In Panel C, we interact *Pass*/*Fail* variables with an indicator variable *Large Cross-MF group disagreement. Large Cross-MF group disagreement* takes the value of one if *Cross-MF group disagreement* is at the top three groups when we split this continuous measure of disagreement into quintiles. The interaction term, *Large Cross-MF group disagreement* × *Pass*, thus captures how the value implication after passing/failing a proposal is impacted by a large disagreement between passive and active funds. In columns (1) to (3), the coefficients of *Large Cross-MF group disagreement* × *Pass* indicates that after a management-sponsored

proposal is passed with a small margin, relative to those with zero or small *Cross-MF group disagreement* between passive and active mutual funds, the presence of large disagreement decreases value created by the proposal. Taken together, the results in Table 6 are consistent with the view that the value created by the proposal is much smaller in the presence of disagreement between passive and active mutual funds.

4.4 Predicted disagreement in voice and firm value

In this section, we provide tests that aim to establish a causal relation between shareholder disagreement in voice between passive and active mutual funds and firm value. The relationship between disagreement and firm value might be spurious due to selection and the presence of omitted variables. In addition, shareholders' voting decisions may be affected by firm characteristics that also lead to changes in firm value. Most importantly, a shareholder will more likely engage by voting against management if such dissenting voice would lead to firm value creation. This reasoning suggests that our OLS estimates of the relationship between disagreement and firm value may be underestimated, that is, the true effect of disagreement on firm value may be more negative compared to the OLS estimates.

To address this endogeneity concern, we look for news events that affect most public firms while creating scope for investors to devote time and resources to evaluate voting items independently, make informed votes, and interpret information differently for individual firms. These news events, therefore arguably increase disagreement between the passive and active mutual funds to a varying extent across firms. The Federal Open Market Committee (FOMC) announcements create an ideal setting to study this issue because, first, they are among the most important public news announcements that convey highly relevant and complex information that investors react strongly to. Second, the news is limited to a few sources of hard information and is difficult to interpret the soft information. Even economists and professionals routinely disagree about the interpretation of monetary policy (Boguth,

Grégoire, and Martineau, 2019). Third, FOMC announcements are pre-scheduled and the timing of the arrival of new information is thus predetermined.

In an effort to increase transparency (Bernanke, 2011), since April 2011 the chairman of the Federal Reserve System holds a press conference (PC) following half of the announcements. Although not intentionally, the market expects more important decisions on days with press conferences. The introduction of PCs separated FOMC announcements into important and lesser ones, and they coordinate investors to pay more attention to FOMC announcements with PCs. In our sample, the policy target rates were consistently stuck at the zero-lower bound after the financial crisis, and therefore offered little new information by itself. FOMC announcements with PCs provide scope for investors to differ in their interpretation of the news. We take advantage of the unique features of FOMC announcements with PCs and use these events to isolate the component of disagreement that stems from shocks to the financial market participants' information environment.

Specifically, we first code each fund vote as –1 if the fund votes against the management, and as 1 if the fund votes for the management, same as in Section 3.2. Second, we regress individual fund vote at the proposal level on an indicator variable that takes the value of one if the fund vote occurs on meetings that take place between 5 days and 21 days after FOMC events with PCs interacted with fund fixed effects, year fixed effects, and fund fixed effects.[10] We then use the estimates from this regression to construct predicted fund votes, re-compute the cross-group disagreement measure using the predicted votes, *Predicted cross-MF group disagreement*, and repeat the analysis from Table 4 with this new measure. We present the results in Table 7.[11]

[10] We remove the five-day period around each FOMC event to allow for the information conveyed during the event to be incorporated in the stock price by the market participants.

[11] Estimation errors are adjusted using clustered bootstrapping. Specifically, we resample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficient estimates.

Table 7 shows that the coefficient of *Predicted cross-MF group disagreement* is negative and statistically significant in all specifications we consider. In column (1), the coefficient of *Predicted cross-MF group disagreement* suggests that a one-standard-deviation increase in *Predicted cross-MF group disagreement* is associated with a decrease in firm value by 0.47%. The magnitude of the effect is about one-third bigger (more negative) compared to our OLS estimate in Table 4. In column (2), we include additional control variables including institutional ownership, the overall vote support for the proposal, and ISS recommendation, the coefficient of *Predicted cross-MF group disagreement* remains statistically significant. In column (3), we include *Predicted within-MF group disagreement*, which is calculated as the standard deviation of average approval for management within all mutual funds using predicted fund votes. *Predicted within-MF group disagreement* captures the residual disagreement that is not captured by the *Predicted cross-MF group disagreement* measure, and may also affect firm value. Column (3) shows that *Predicted cross-MF group disagreement* continues to be negatively and statistically significantly associated with firm value while the coefficient of *Predicted within-MF group disagreement* is statistically insignificant. Last, in column (4), we include other firm-level control variables, total assets and book-to-market ratio, the coefficient remains unchanged. In summary, our analysis using predicted votes confirms that the exogenously generated disagreement in voice between passive and active mutual funds results in declines in firm value.

5. Disagreement in voice between passive and active mutual funds and firm value: Non-viable proposals

In this section, we investigate the effect of shareholder disagreement in voice on firm value when the overall vote support for a proposal is highly anticipated—when the proposal is non-viable. We call a proposal to be non-viable if the overall vote support is below 30% or above 70%. Table 8 reports the results in non-viable proposals. The regression specifications mimic those introduced in Table 3.

Results in Table 8 Panel A show that relative to those with equal approval of management by mutual funds, the presence of unequal approval increases firm value by 0.08%. This result is unchanged when we add institutional ownership, ISS recommendation, and the overall vote support as additional control variables (column (2)), or when we alternatively add firm-level control variables total assets and book-to-market ratio (column (3)). The coefficient of *Unequal approval of MNG by mutual funds* becomes close to zero and insignificant in the specification with firm-by-year fixed effects (column (4)). In column (5) and (6), similar to Table 3, we control for analyst forecast dispersion and find that relative to those with equal approval of management by mutual funds, voice disagreement measured by the presence of unequal approval increases firm value by 0.10%. Results in Panel B show that firm value increase obtains when either passive or active funds provide stronger approval of management. Appendix B4 Panel B shows that our results are robust to different thresholds to define non-viable proposals.

We hypothesize that the evidence on value gains presented in Table 8 is driven by shareholder engagement by disagreeing and thereby by challenging the status quo of the firm. Such positive effect of engagement can be especially relevant either when there is lack of direct shareholder monitoring or in the presence of low product market competition pressure and thus low market monitoring.

To support the monitoring-by-disagreeing interpretation, we examine the heterogeneous effect of disagreement on firm value in the presence of different levels of ownership by institutions and blockholders. Prior literature shows that institutional investors are active in improving corporate governance practices through monitoring effort (see Yermack, 2010). Institutional investors have expertise and resources to monitor effectively with due diligence. Blockholders hold large stakes in firms which provide them with incentives to monitor the firms and intervene in corporate decisions (Edmans, 2014; Edmans and Holderness, 2017). We expect that the positive value impact of disagreement in

the non-viable proposals will be concentrated among firms with a small presence of institutional investors or blockholders, because a limited presence of such shareholders in a firm creates scope for disagreement to challenge the firm's status quo and thereby function as a monitoring tool.

Prior studies show that market monitoring can either complement or substitute for shareholder monitoring (Karuna, 2010; Giroud and Mueller, 2011). The lack of pressure from the product market competition may thus also create scope for disagreement to function as a monitoring tool. To investigate this possibility, we examine the heterogeneous effect of disagreement on firm value in the presence of different levels of product market competition. We expect that positive value impact of disagreement in the non-viable proposals will be concentrated among firms that operate in a low product-market competition environment.

Table 9 presents the evidence. We interact the independent variable *Unequal approval of MNG by mutual funds* with indicator variables that take value of one in the presence of high/low institutional, blockholder, or market monitoring. Column (1) presents the results when we use the extent of institutional ownership to measure the degree of institutional monitoring. Column (2) presents the results when we use the number of blockholders to proxy for monitoring. Column (3) presents the results when we use product-market competition (TNIC HHI by Hoberg and Phillips, 2016) to measure market monitoring. The indicator variable *High monitoring* takes the value of one if the institutional, blockholder, or market monitoring measure is above the sample median, and *Low monitoring* takes the value of one if the institutional, blockholder, or market monitoring measure is below the sample median. We find a positive and economically significant effect of disagreement on firm value when institutional, blockholder, or market monitoring is low while there is no significant effect for high monitoring. The results in Table 9 are consistent with our interpretation that disagreement is a form of shareholder engagement which is interpreted in a positive way by the financial market participants.

5.1 Proposal types

Figure 3 provides indication about which types of proposals are generally associated with greater disagreement suggesting that disagreement depends on characteristics of the proposal. To examine whether our results are concentrated in certain subsets of proposals, we differentiate proposals by six broad groups defined in Section 2. The results are reported in Table 10. We interact our independent variable *Unequal approval of MNG by mutual funds* with indicator variables for six distinct proposal groups, and distinguish proposals in the viable with non-viable sample. Column (1) shows the results for the viable sample. We show that the negative market reaction in the viable sample is mostly driven by say-on-pay proposals and proposals related to share issuance. In the non-viable sample, column (2), the positive market reaction is mostly driven by board-related proposals and say-on-pay proposals. The strong results from the say-on-pay proposals are consistent with the trend toward both greater shareholder dissent and disagreement in executive compensation plans in recent years. Although not in our sample, we note that in year 2021 alone, high profile companies such as General Electric, AT&T, IBM, and Starbucks have failed to win a majority of shareholder support for executive pay packages.[12]

6. Conclusion

In this paper, we study whether disagreement in voice between passive and active mutual funds, as two distinct groups, bears any consequence for firm value. We find that disagreement in voice between passive and active mutual funds destroys firm value and such value loss is likely casual. We also provide suggestive evidence that the firm value loss is due to conflicting incentives between the two groups of mutual funds, rather than their differences in opinions about the quality of a proposal. Overall, our findings suggest that conflicts among shareholders play an important role in widely-held firms.

[12] "*US investors revolt against executive pay in record numbers*", The Financial Times, May 10, 2021: https://www.ft.com/content/50e73d21-3de5-4196-b124-7281ec7af828.

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Appendix: Variable definitions

Variable	Definition
Stronger approval of management (MNG) by passive mutual funds	An indicator variable that takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management, *MF Approval Difference*$_{p,m,c} > 0$, defined in Section 3.2.
Stronger approval of management (MNG) by active mutual funds	An indicator variable that takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management, *MF Approval Difference*$_{p,m,c} < 0$, defined in Section 3.2.
Unequal approval of management (MNG) by mutual funds	An indicator variable that takes the value of one if a proposal receives unequal approval of management from the passive and active mutual funds, *MF Approval Difference*$_{p,m,c} \neq 0$, defined in Section 3.2.
Absolute disagreement	The absolute value of *MF Approval Difference*$_{p,m,c}$ denoted defined in Section 3.2.
Cross-MF group disagreement	The weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group, *Cross-MF group disagreement*$_{p,m,c}$, defined in Section 3.2. It is normalized to have mean zero and standard deviation one in regressions.
Large Cross-MF group disagreement	An indicator variable that takes the value of one if Cross-MF group disagreement is at the top 3 groups when we split the continuous measure into quintiles.
Within-passive MF disagreement	Standard deviation of average approval for management within all passive mutual funds, normalized to have mean zero and standard deviation one.
Within-SP500 MF disagreement	Standard deviation of average approval for management within all S&P500 index funds, normalized to have mean zero and standard deviation one.
Predicted cross-MF group disagreement	Cross-MF group disagreement calculated using predicted fund votes. We first estimate OLS regressions of fund votes at the vote level on FOMC announcements with PCs instrument interacted with identify of the fund to estimate coefficients. We then re-calculate Cross-MF group disagreement using the predicted fund votes as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group.
Predicted within-MF group disagreement	Standard deviation of average approval for management within all mutual funds using predicted fund votes.
Analyst dispersion	Standard deviation of analyst earnings forecasts scaled by the absolute value of the mean earnings forecast at the month before the shareholder meeting takes place (Diether, at al., 2002).
Investor disagreement from social media	Average three-day investor disagreement constructed from StockTwits (data from Cookson and Niessner, 2020) before the vote outcome disclosure date [-3,0]. We require firms to have at least one non-missing investor disagreement from social media to be included in the sample.

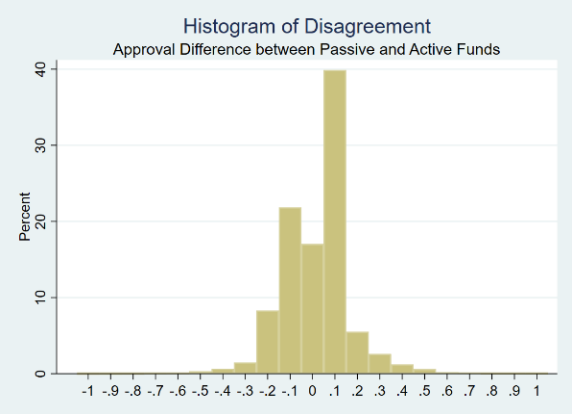
Pass	An indicator variable that takes the value of one when a proposal reaches the majority threshold.
Fail	An indicator variable that takes the value of one when a proposal fails to reach the majority threshold.
ISS recommendation	An indicator variable that takes the value of one if ISS recommends investors to vote for the management.
Vote support	Percentage of votes in favor of management in a proposal.
Mutual funds approval	Fraction of mutual funds supporting the management in a proposal.
Number of mutual funds voted	Total number of mutual funds voted in a proposal.
Number of proposals	Total number of proposals in a shareholder meeting.
Passive fund	An indicator variable that takes the value of one for passive passive mutual funds. We follow Appel, Gormley, and Keim (2016) to classify funds as passive vs. active mutual funds.
Institutional ownership	Institutional ownership reported in 13F, measured at the most recent quarter-end prior to the shareholder meeting.
Low monitoring	An indicator variable that takes the value of one if the institutional, blockholder, and product market monitoring measure is below the sample median.
High monitoring	An indicator variable that takes the value of one if the institutional, blockholder, and product market monitoring measure is above the sample median.
TNIC HHI	10-K text-based Network (TNIC) Herfindahl-Hirschman Index (HHI) from Hoberg and Phillips (2016).
CAR [-1,1]	Cumulative abnormal return in a 3-day window surrounding the meeting disclosure date obtained using the Fama-French three factor model.
12-month stock return	Past 12-month return in the year prior to the shareholder meeting.
B/M	Book-to-market in June of the year, measured at the most recent year-end prior to the shareholder meeting.
Leverage	Book value of debt divided by the book value of equity, measured at the most recent year-end prior to the shareholder meeting.
Assets	Total assets from Compustat in millions.
ROA	Net income divided by the book value of assets, measured at the most recent year-end prior to the shareholder meeting.

Figure 1

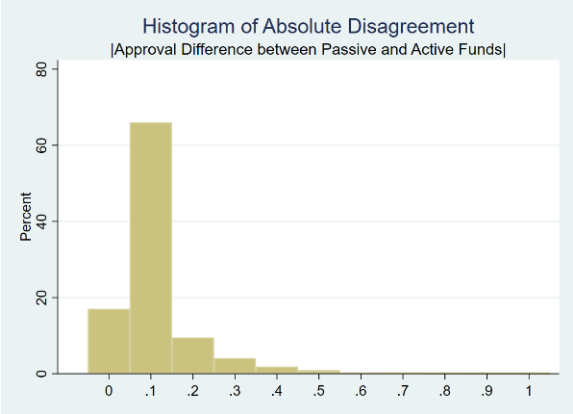
Histograms of the disagreement in voice between passive and active mutual funds

This figure presents histograms of the measures of disagreement in voice between passive and active funds. The sample consists of 327,073 proposals for 6,113 firms in 2003-2018 from the ISS Voting Analytics database. When constructing the sample, we require that at least ten mutual funds and two passive funds voted on a proposal. The measure in Panel A, *MF Approval Difference*, is calculated as the difference between the fraction of the number of passive funds supporting the management and the fraction of active funds supporting the management, where each fund is treated as having a single vote in each respective group. Panel B is based on the absolute value of disagreement in voice between passive and active funds, |*MF Approval Difference*|. Panel C is based on the continuous cross-group disagreement measure, *Cross-MF group disagreement*. Details of the sample and variables construction are provided in Section 3.1 and 3.2, respectively.

Panel A



Panel B



Panel C

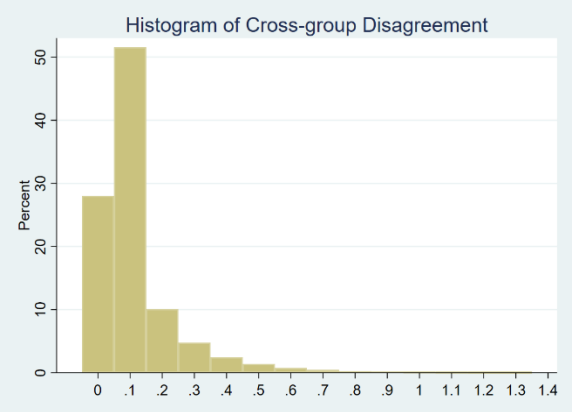
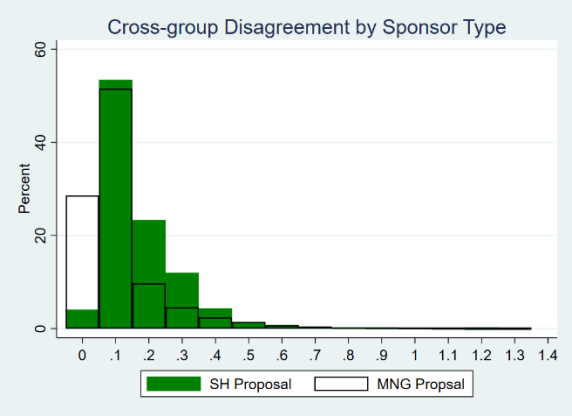


Figure 2

Histograms of cross-group disagreement between passive and active mutual funds by proposal sponsor type and by ISS vote recommendations

This figure presents the histogram of the cross-group disagreement between passive and active funds, *Cross-MF group disagreement*, in sub-sample for different sponsor types and ISS recommendations. Panel A presents the histogram of *Cross-MF group disagreement* for the sub-sample of management-sponsored proposals (MNG Proposal) and shareholder-sponsored proposals (SH Proposal). Panel B presents the histogram of *Cross-MF group disagreement* for the sub-samples where ISS recommend to vote with management (ISS for MNG) and where ISS recommends to vote against management (ISS against MNG). Details of the sample and variables construction are provided in Section 3.1 and 3.2, respectively.

Panel A



Panel B

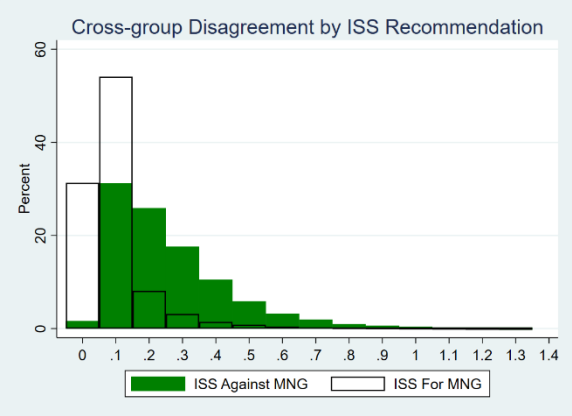
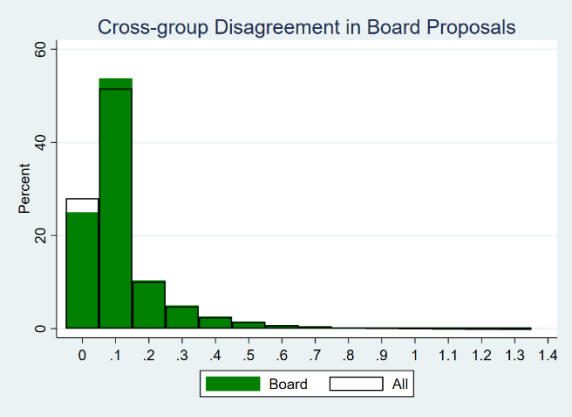


Figure 3

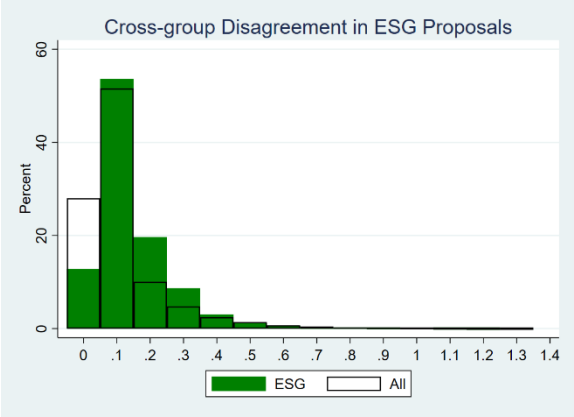
Histograms of cross-group disagreement between passive and active mutual funds by proposal categories

This figure presents the histogram of cross-group disagreement between passive and active funds, *Cross-MF group disagreement*, in sub-samples constructed for different proposal categories: *Board*, *ESG*, *Share-issuance*, and *Say-on-pay*. Details of the sample and variables construction are provided in Section 3.1 and 3.2, respectively.

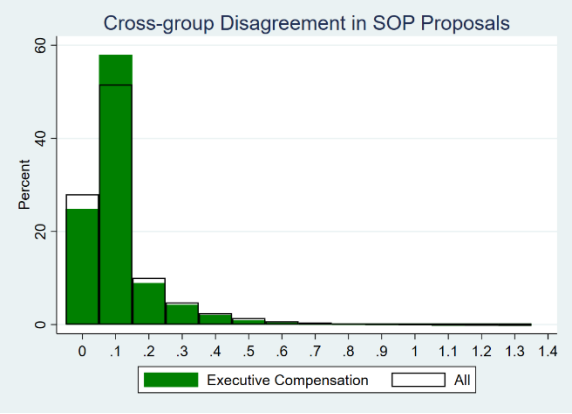
Panel A



Panel B



Panel C



Panel D

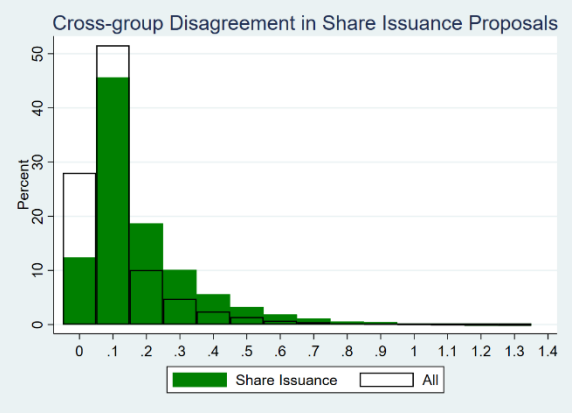
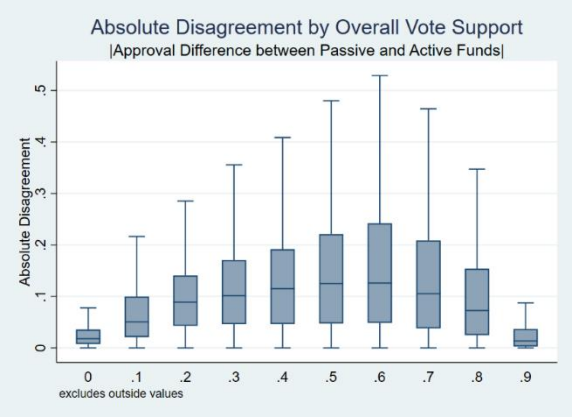


Figure 4

Box plots of absolute value of disagreement and cross-group disagreement between passive and active mutual funds by the overall level of vote support

This figure presents the box plot of the absolute value of disagreement between passive and active funds, |*MF Approval Difference*|, and the *Cross-MF group disagreement* by the level of overall vote support. Details of the sample and variables construction are provided in Section 3.1 and 3.2, respectively.

Panel A



Panel B

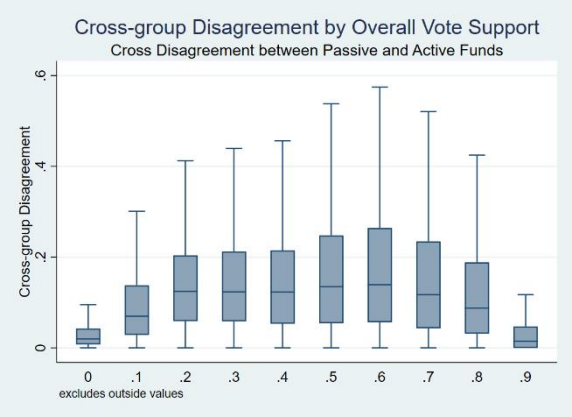


Table 1

Sample description

The sample consists of 327,073 proposals for 6,113 firms in 2003-2018 from the ISS Voting Analytics database. When constructing the sample, we require that at least ten mutual funds and two passive funds voted on a proposal. Details of the sample and variables construction are provided in Section 3.1 and 3.2, respectively.

Year	Observations	Equal approval of management by MF	Stronger approval of management by passive MF	Stronger approval of management by active MF
2003	910	19.9%	23.7%	56.4%
2004	13,026	28.4%	31.0%	40.6%
2005	14,851	35.3%	36.2%	28.6%
2006	16,937	19.8%	51.0%	29.2%
2007	16,170	13.1%	59.8%	27.0%
2008	17,062	22.5%	54.8%	22.7%
2009	19,141	12.4%	51.0%	36.6%
2010	20,324	12.8%	49.0%	38.2%
2011	23,585	17.3%	48.4%	34.3%
2012	24,619	15.3%	58.2%	26.5%
2013	25,555	17.9%	48.2%	33.9%
2014	27,145	18.1%	56.6%	25.4%
2015	28,091	17.1%	56.7%	26.2%
2016	27,746	16.4%	53.9%	29.8%
2017	28,976	14.6%	47.5%	38.0%
2018	22,935	6.2%	39.9%	54.0%

Table 2

Summary statistics

The sample consists of 327,073 proposals for 6,113 firms over the period 2003-2018 from the ISS Voting Analytics database. When constructing the sample, we require that at least ten mutual funds and two passive funds voted on a proposal. Details of the sample and variables construction are provided in Section 3.1 and 3.2, respectively. Panel A presents summary statistics of the *Cross-MF group disagreement* between passive and active funds over time. Panel B provides the summary statistics for the sample. Panel C compares the viable sample with the non-viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. Appendix A defines the variables.

Panel A: Cross-MF group disagreement between passive and active mutual funds

Year	Mean	SD	25^{th} Percentile	Median	75^{th} Percentile
2003	0.178	0.200	0	0.122	0.289
2004	0.146	0.195	0	0.060	0.235
2005	0.121	0.191	0	0.014	0.175
2006	0.090	0.133	0	0.039	0.114
2007	0.082	0.120	0.005	0.035	0.104
2008	0.064	0.105	0	0.023	0.078
2009	0.082	0.124	0.003	0.032	0.101
2010	0.072	0.117	0	0.023	0.086
2011	0.063	0.100	0	0.026	0.075
2012	0.063	0.107	0	0.022	0.066
2013	0.055	0.098	0	0.018	0.059
2014	0.047	0.087	0	0.015	0.049
2015	0.049	0.096	0	0.014	0.050
2016	0.055	0.112	0	0.015	0.054
2017	0.055	0.099	0	0.019	0.063
2018	0.052	0.101	0.002	0.020	0.05

Panel B: Sample statistics

Proposal-level	Observations	Mean	SD	1st Percentile	Median	99th Percentile
ISS recommendation	327,073	89%	32%	0%	100%	100%
Vote support	327,073	93%	13%	25%	98%	100%
Mutual funds (MF) approval	327,073	90%	18%	18%	98%	100%
Number of active MF voted	327,073	141	160	3	92	804
Number of passive MF voted	327,073	77	53	4	65	211
|*MF Approval Difference*|	327,073	0.055	0.095	0	0.018	0.455
Cross-MF group disagreement	327,073	0.067	0.118	0	0.021	0.573
Firm-level						
12-month stock return	300,668	14.8%	44.2%	-73.6%	10.9%	195.4%
CAR [-1,1]	327,073	0.0%	3.7%	-11.9%	-0.1%	13.5%
ROA	297,733	8.7%	16.6%	-69.5%	10.4%	43.4%
Institutional ownership	327,073	68%	26%	0.4%	75%	100%
Assets (in millions)	298,857	15,058	46,737	31	1,769	346,288
B/M	298,857	0.57	0.45	-0.43	0.48	2.32
Leverage	297,655	0.22	0.23	0.00	0.18	0.94

Panel C: Statistics on subsamples of viable and non-viable proposals

	Viable sample (N=2,485)		Non-Viable sample (N=313,316)	
Proposal-level	Mean	SD	Mean	SD
ISS recommendation	16%	36%	92%	27%
Vote support	51%	3%	95%	11%
Mutual funds (MF) approval	42%	24%	92%	15%
Number of active MF voted	160	187	141	158
Number of passive MF voted	81	54	77	53
$\lvert MF\ Approval\ Difference \rvert$	0.149	0.135	0.051	0.090
% MF approval of MNG if $MF\ Approval\ Difference_{p,m,c} = 0$	90%	29%	100%	5%
Cross-MF group disagreement	0.168	0.152	0.063	0.114
Firm-level				
12-month stock return	9.4%	47.1%	14.9%	44.1%
CAR [-1,1]	0.2%	4.1%	0.0%	3.7%
ROA	8.1%	17.9%	8.7%	16.6%
Institutional ownership	70%	24%	68%	26%
Assets	17,486	51,346	14,861	46,212
B/M	0.60	0.50	0.56	0.45
Leverage	0.24	0.26	0.23	0.23

Table 3

Disagreement in voice between passive and active mutual funds and firm value when a proposal is viable

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. In Panel A, the variable of interest is the indicator variable, *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. In Panel B, the variables of interest are the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds*. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Unequal approval of MNG by mutual funds

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%					
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds	-0.0219**	-0.0217**	-0.0199*	-0.0131*	-0.0288***	-0.0272**
	[0.009]	[0.009]	[0.012]	[0.008]	[0.010]	[0.011]
Mutual funds approval	-0.0134	-0.0130	-0.0165	0.0065	-0.0068	-0.0080
	[0.010]	[0.012]	[0.012]	[0.005]	[0.006]	[0.007]
Log (Number of mutual funds voted)	0.0040	0.0055	0.0008	0.0118	0.0059	0.0067
	[0.004]	[0.004]	[0.005]	[0.012]	[0.004]	[0.004]
Institutional ownership		-0.0215				-0.0149
		[0.015]				[0.015]
ISS recommendation		-0.0001		-0.0048		0.0049
		[0.007]		[0.005]		[0.007]
Vote support		-0.0438		0.0057		-0.0545
		[0.042]		[0.013]		[0.044]
Analyst dispersion					-0.0025	-0.0026
					[0.004]	[0.004]
Log (Assets)			0.0008			
			[0.005]			
B/M			-0.0017			
			[0.009]			
Observations	1,656	1,656	1,453	791	1,428	1,428
adj. R^2	0.438	0.440	0.429	0.973	0.434	0.435
Firm FE, Year FE	Yes	Yes	Yes	No	Yes	Yes
Proposal type FE, MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	No	No	No	Yes	No	No

Panel B: Stronger approval of MNG by passive/active mutual funds

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%					
	(1)	(2)	(3)	(4)	(5)	(6)
Stronger approval of MNG by passive mutual funds	-0.0226**	-0.0227**	-0.0203*	-0.0127	-0.0293***	-0.0278***
	[0.010]	[0.010]	[0.012]	[0.008]	[0.010]	[0.011]
Stronger approval of MNG by active mutual funds	-0.0206**	-0.0204**	-0.0193	-0.0136*	-0.0270**	-0.0254**
	[0.010]	[0.009]	[0.012]	[0.008]	[0.010]	[0.011]
Mutual funds approval	-0.0128	-0.0119	-0.0162	0.0060	-0.0063	-0.0074
	[0.011]	[0.013]	[0.012]	[0.005]	[0.006]	[0.007]
Log (Number of mutual funds voted)	0.0041	0.0056	0.0009	0.0117	0.0060	0.0069
	[0.004]	[0.004]	[0.005]	[0.011]	[0.004]	[0.004]
Institutional ownership		-0.0218				-0.0151
		[0.015]				[0.015]
ISS recommendation		-0.0005		-0.0048		0.0046
		[0.007]		[0.005]		[0.007]
Vote support		-0.0453		0.0064		-0.0563
		[0.042]		[0.013]		[0.044]
Analyst dispersion					-0.0025	-0.0025
					[0.004]	[0.004]
Log (Assets)			0.0008			
			[0.005]			
B/M			-0.0016			
			[0.009]			
Observations	1,656	1,656	1,453	791	1,428	1,428
adj. R^2	0.438	0.440	0.429	0.972	0.434	0.435
Firm FE, Year FE	Yes	Yes	Yes	No	Yes	Yes
Proposal type FE, MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	No	No	No	Yes	No	No

Table 4

Cross-MF group disagreement between passive and active mutual funds and firm value when a proposal is viable

This table examines the relations between cross-group disagreement between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is the *Cross-MF group disagreement*. *Cross-MF group disagreement* is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* as defined in Section 3.2 to have mean zero and standard deviation one in all regression analysis. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Cross-MF group disagreement	-0.0036**	-0.0035**	-0.0030*	-0.0026*
	[0.002]	[0.002]	[0.002]	[0.001]
Mutual funds approval	-0.0035	-0.0034	-0.0054	0.0042
	[0.005]	[0.006]	[0.006]	[0.003]
Log (Number of mutual funds voted)	0.0018	0.0032	-0.0010	0.0104
	[0.004]	[0.004]	[0.006]	[0.011]
Institutional ownership		-0.0201		
		[0.015]		
ISS recommendation		0.0002		-0.0018
		[0.007]		[0.003]
Vote support		-0.0427		0.0120
		[0.042]		[0.012]
Log (Assets)			0.0012	
			[0.005]	
B/M			-0.0022	
			[0.009]	
Observations	1,656	1,656	1,453	791
adj. R^2	0.438	0.439	0.429	0.972
Firm FE, Year FE	Yes	Yes	Yes	No
Proposal type FE, MNG proposal FE	Yes	Yes	Yes	Yes
Firm × Year FE	No	No	No	Yes

Table 5

Sources of disagreement and firm value when a proposal is viable

This table examine the sources of disagreement and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. the variable of interest is the *Cross-MF group disagreement*. *Cross-MF group disagreement* is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* as defined in Section 3.2 to have mean zero and standard deviation one in all regression analysis. *Within-passive MF disagreement* is calculated as standard deviation of average approval rate of management within all passive mutual funds. *Within-S&P500 MF disagreement* is calculated as the standard deviation of approval rate of management for a given proposal computed within all S&P 500 index funds. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Cross-MF group disagreement	-0.0036**	-0.0035**	-0.0054**	-0.0054**
	[0.002]	[0.002]	[0.002]	[0.002]
Within-passive MF disagreement	0.0001	0.0002		
	[0.002]	[0.002]		
Within-SP500 MF disagreement			0.0012	0.0011
			[0.002]	[0.002]
Mutual funds approval	-0.0034	-0.0035	-0.0178*	-0.0177*
	[0.005]	[0.006]	[0.010]	[0.010]
Log (Number of mutual funds voted)	0.0018	0.0031	-0.0095	-0.0095
	[0.004]	[0.004]	[0.007]	[0.007]
Institutional ownership		-0.0201		-0.0336*
		[0.015]		[0.020]
ISS recommendation		0.0005		-0.0001
		[0.007]		[0.012]
Vote support		-0.0428		-0.0287
		[0.042]		[0.046]
Observations	1,656	1,656	946	946
adj. R^2	0.439	0.440	0.424	0.428
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes

Table 6

Disagreement in voice between passive and active mutual funds and the value of passing a proposal

This table compares the effect of disagreement in voice between passive and active mutual funds in management-sponsored and shareholder-sponsored proposals in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. Panel A presents the regression results when we interact the indicator variable, *Unequal approval of MNG by mutual funds* with *Pass/Fail*. Panel B presents the regression results when we interact the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds* with *Pass/Fail*. Panel C presents the regression results when we interact the indicator variable, *Large Cross-MF group disagreement* with *Pass/Fail*. *Pass (Fail)* is an indicator variable that takes the value of one when a proposal reaches (fails to reach) the majority threshold. *Unequal approval of MNG by mutual funds* is an indicator variable that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management. *Large Cross-MF group disagreement* takes the value of one if *Cross-MF group disagreement* is at the top 3 groups when we split the continuous measure into quintiles. Column 1-3 examines management-sponsored proposals in the viable sample. Column 4-6 examines shareholder-sponsored proposals in the viable sample. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Unequal approval of MNG by mutual funds and the value of passing a proposal

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%					
	Management-sponsored proposals sub-sample			Shareholder-sponsored proposals sub-sample		
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds × Pass	-0.0147**	-0.0153**	-0.0166**	0.0069	0.0004	0.0002
	[0.006]	[0.006]	[0.007]	[0.026]	[0.023]	[0.023]
Unequal approval of MNG by mutual funds × Fail	0.0070	0.0077	0.0071	0.0260	0.0193	0.0193
	[0.007]	[0.008]	[0.008]	[0.043]	[0.038]	[0.038]
Pass	0.0230***	0.0288***	0.0294***	0.0178	0.0177	0.0175
	[0.007]	[0.009]	[0.009]	[0.051]	[0.045]	[0.046]
Observations	1,813	1,813	1,813	672	672	672
adj. R^2	0.006	0.012	0.012	-0.001	0.012	0.012
Additional controls	No	Yes	Yes	No	Yes	Yes
Year FE	No	Yes	Yes	No	Yes	Yes
Proposal type FE	No	No	Yes	No	No	Yes

Panel B: Stronger approval of MNG by passive/active mutual funds and the value of passing a proposal

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%					
	Management-sponsored proposals sub-sample			Shareholder-sponsored proposals sub-sample		
	(1)	(2)	(3)	(4)	(5)	(6)
Stronger approval of MNG by passive mutual funds × Pass	-0.0149**	-0.0161**	-0.0174***	0.0048	-0.0009	-0.0012
	[0.006]	[0.006]	[0.007]	[0.026]	[0.023]	[0.024]
Stronger approval of MNG by passive mutual funds × Fail	0.0081	0.0084	0.0077	0.0247	0.0184	0.0182
	[0.007]	[0.008]	[0.008]	[0.043]	[0.038]	[0.038]
Stronger approval of MNG by active mutual funds × Pass	-0.0152**	-0.0141**	-0.0152**	0.0088	0.0011	0.0009
	[0.007]	[0.007]	[0.007]	[0.026]	[0.023]	[0.023]
Stronger approval of MNG by active mutual funds × Fail	0.0019	0.0042	0.0038	0.0270	0.0205	0.0207
	[0.008]	[0.009]	[0.009]	[0.043]	[0.038]	[0.038]
Pass	0.0230***	0.0289***	0.0294***	0.0180	0.0180	0.0177
	[0.007]	[0.009]	[0.009]	[0.050]	[0.045]	[0.046]
Observations	1,813	1,813	1,813	672	672	672
adj. R^2	0.006	0.012	0.012	-0.003	0.010	0.009
Additional controls	No	Yes	Yes	No	Yes	Yes
Year FE	No	Yes	Yes	No	Yes	Yes
Proposal type FE	No	No	Yes	No	No	Yes

Panel C: Large Cross-MF group disagreement and the value of passing a proposal

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%					
	Management-sponsored proposals sub-sample			Shareholder-sponsored proposals sub-sample		
	(1)	(2)	(3)	(4)	(5)	(6)
Large Cross-MF group disagreement × Pass	-0.0101**	-0.0113**	-0.0123**	0.0069	0.0038	0.0034
	[0.005]	[0.005]	[0.005]	[0.012]	[0.011]	[0.011]
Large Cross-MF group disagreement × Fail	0.0011	0.0014	0.0007	0.0027	0.0026	0.0019
	[0.008]	[0.008]	[0.008]	[0.006]	[0.006]	[0.007]
Pass	0.0124	0.0185*	0.0187*	-0.0052	-0.0021	-0.0027
	[0.009]	[0.010]	[0.010]	[0.014]	[0.014]	[0.014]
Observations	1,813	1,813	1,813	672	672	672
adj. R^2	0.005	0.011	0.011	-0.003	0.012	0.011
Additional controls	No	Yes	Yes	No	Yes	Yes
Year FE	No	Yes	Yes	No	Yes	Yes
Proposal type FE	No	No	Yes	No	No	Yes

Table 7

Predicted cross-MF group disagreement and firm value when a proposal is viable

This table examines the relations between the predicted shareholder disagreement between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is the *Predicted cross-MF group disagreement*. We first estimate OLS regressions of fund votes at the vote level on FOMC announcements with PCs instrument interacted with identify of the fund to estimate coefficients. We then re-calculate *Cross-MF group disagreement* using the predicted fund votes as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Predicted cross-MF group disagreement* to have mean zero and standard deviation one in all regression analysis. All variables are defined in Appendix A. We adjust for the estimation error using clustered bootstrapping. Specifically, we resample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficient estimates. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Predicted cross-MF group disagreement	-0.0047**	-0.0048**	-0.0048**	-0.0051*
	[0.002]	[0.002]	[0.002]	[0.003]
Mutual funds approval	0.0009	0.0071	-0.0079	-0.0034
	[0.006]	[0.007]	[0.007]	[0.007]
Log (Number of mutual funds voted)	-0.0012	0.0019	0.0015	-0.0060
	[0.005]	[0.005]	[0.005]	[0.006]
Institutional ownership		-0.0309	-0.0293	
		[0.017]	[0.017]	
ISS recommendation		0.0178**	0.0179**	
		[0.008]	[0.009]	
Vote support		-0.0329	-0.0356	
		[0.039]	[0.039]	
Log (Assets)				
				0.0039
				[0.005]
B/M				
				-0.0044
				[0.009]
Predicted within-MF group disagreement			-0.0012	
			[0.005]	
Observations	1,231	1,231	1,206	1,057
adj. R^2	0.447	0.453	0.458	0.433
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes

Table 8

Disagreement in voice between passive and active mutual funds and firm value when a proposal is non-viable

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the non-viable sample. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. The dependent variable is CAR around the meeting outcome disclosure date. In Panel A, the variable of interest is the indicator variable, *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. In Panel B, the variables of interest are the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds*. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Unequal approval of MNG by mutual funds

Dependent variable: CAR [-1,1]	Non-viable sample: Vote support outside 30%-70%					
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds	0.0008**	0.0008**	0.0009**	-0.0001	0.0010**	0.0010**
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Mutual funds approval	-0.0001	0.0020	-0.0004	-0.0006	0.0007	0.0035*
	[0.001]	[0.002]	[0.001]	[0.000]	[0.001]	[0.002]
Log (Number of mutual funds voted)	-0.0016**	-0.0013*	-0.0007	-0.0015	-0.0027***	-0.0025***
	[0.001]	[0.001]	[0.001]	[0.002]	[0.001]	[0.001]
Institutional ownership		-0.0030				-0.0024
		[0.002]				[0.002]
ISS recommendation		-0.0007		0.0001		-0.0011
		[0.001]		[0.000]		[0.001]
Vote support		-0.0057***		0.0010***		-0.0060***
		[0.002]		[0.000]		[0.002]
Analyst dispersion					-0.0003	-0.0004
					[0.001]	[0.001]
Log (Assets)			-0.0004			
			[0.001]			
B/M			0.0061***			
			[0.001]			
Observations	313,240	313,240	286,195	312,548	262,470	262,470
adj. R^2	0.149	0.149	0.149	0.982	0.150	0.150
Firm FE, Year FE	Yes	Yes	Yes	No	Yes	Yes
Proposal type FE, MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	No	No	No	Yes	No	No

Panel B: Stronger approval of MNG by passive/active mutual funds

Dependent variable: CAR [-1,1]	Non-viable sample: Vote support outside 30%-70%					
	(1)	(2)	(3)	(4)	(5)	(6)
Stronger approval of MNG by passive mutual funds	0.0007*	0.0007*	0.0009**	-0.0001	0.0010**	0.0009**
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Stronger approval of MNG by active mutual funds	0.0009**	0.0009**	0.0011**	-0.0001	0.0010**	0.0011**
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Mutual funds approval	-0.0001	0.0021	-0.0004	-0.0006	0.0007	0.0036*
	[0.001]	[0.002]	[0.001]	[0.000]	[0.001]	[0.002]
Log (Number of mutual funds voted)	-0.0016**	-0.0013*	-0.0007	-0.0015	-0.0027***	-0.0025***
	[0.001]	[0.001]	[0.001]	[0.002]	[0.001]	[0.001]
Institutional ownership		-0.0030				-0.0024
		[0.002]				[0.002]
ISS recommendation		-0.0008		0.0002		-0.0011
		[0.001]		[0.000]		[0.001]
Vote support		-0.0057***		0.0010***		-0.0060***
		[0.002]		[0.000]		[0.002]
Analyst dispersion					-0.0003	-0.0004
					[0.001]	[0.001]
Log (Assets)			-0.0004			
			[0.001]			
B/M			0.0061***			
			[0.001]			
Observations	313,240	313,240	286,195	312,548	262,470	262,470
adj. R^2	0.149	0.149	0.149	0.982	0.150	0.150
Firm FE, Year FE	Yes	Yes	Yes	No	Yes	Yes
Proposal type FE, MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	No	No	No	Yes	No	No

Table 9

Institutional monitoring and disagreement in voice between passive and active mutual funds

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date with different levels of institutional monitoring in the non-viable sample. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. The dependent variable is CAR around the meeting outcome disclosure date. We interact the main independent variable *Unequal approval of MNG by mutual funds* with indicator variables that take value of one if it is high/low institutional monitoring. Column 1 presents regression results when institutional ownership is used to measure the degree of institutional monitoring. Column 2 presents regression results when number of blockholders is used. Column 3 presents regression results when product-market competition proxied by TNIC HHI (Hoberg and Phillips, 2016) is used to measure the degree of market monitoring. *High monitoring* takes the value of one if the institutional, blockholder, or market monitoring measure is above the sample median. *Low monitoring* takes the value of one if the institutional, blockholder, or market monitoring measure is below the sample median. *Unequal approval of MNG by mutual funds* takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Non-viable sample: Vote support outside 30%-70%		
	Institutional ownership	Number of blockholders	TNIC HHI
	(1)	(2)	(3)
Unequal approval of MNG by mutual funds × Low monitoring	0.0012**	0.0012*	0.0010*
	[0.001]	[0.001]	[0.001]
Unequal approval of MNG by mutual funds × High monitoring	0.0004	0.0006	0.0006
	[0.001]	[0.000]	[0.000]
Low monitoring	0.0000	-0.0025***	-0.0012***
	[0.001]	[0.001]	[0.001]
Observations	313,240	313,240	313,240
adj. R^2	0.149	0.149	0.149
Other control variables	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes

Table 10

Disagreement between passive and active mutual funds and firm value by proposal type

This table examines the relations between disagreement between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date by proposal types. The dependent variable is CAR around the meeting outcome disclosure date. We differentiate proposals by six broad groups (see Section 2) and interact the main independent variable *Unequal approval of MNG by mutual funds* with six distinct proposal groups. Column 1 presents the regression results in the viable sample while Column 2 presents the results in the non-viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. *Unequal approval of MNG by mutual funds* takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Viable sample (1)	Non-viable sample (2)
Unequal Approval of MNG by Mutual Funds × Board	-0.0073	0.0014***
	[0.019]	[0.001]
Unequal Approval of MNG by Mutual Funds × ESG	-0.0339	0.0007
	[0.031]	[0.002]
Unequal Approval of MNG by Mutual Funds × SOP	-0.0447*	0.0015**
	[0.026]	[0.001]
Unequal Approval of MNG by Mutual Funds × Pay	-0.0044	0.0007
	[0.015]	[0.002]
Unequal Approval of MNG by Mutual Funds × Share	-0.0284**	-0.0002
	[0.012]	[0.002]
Unequal Approval of MNG by Mutual Funds × Other	-0.0031	-0.0006
	[0.014]	[0.000]
Board	0.0046	-0.0007
	[0.021]	[0.002]
ESG	0.0237	-0.0011
	[0.032]	[0.002]
SOP	0.0403	-0.0008
	[0.029]	[0.002]
Share	0.0212	0.0005
	[0.017]	[0.002]
Other		0.0010
		[0.001]
Observations	1,656	313,240
adj. R^2	0.440	0.149
Other control variables	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes

Internet Appendix for:
"Mutual Fund Disagreement and Firm Value: Passive vs. Active Voice"

Jan Bena and Iris Wang

March, 2022

Table IA1

Disagreement in voice between passive and active mutual funds and firm value: Additional control variables capturing disagreement among other types of investors

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample, when we include disagreement measure constructed from StockTwits (Cookson and Niessner, 2020). We compute the average three-day investor disagreement from social media before the vote outcome disclosure date [-3,0]. We require firms to have at least one non-missing investor disagreement from social media to be included in the sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. *Cross-MF group disagreement* is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* as defined in Section 3.2 to have mean zero and standard deviation one in all regression analysis. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Unequal approval of MNG by mutual funds	-0.0427***	-0.0391***		
	[0.013]	[0.014]		
Cross-MF group disagreement			-0.0054*	-0.0055*
			[0.003]	[0.003]
Investor disagreement from social media	-0.0045	-0.0070	-0.0043	-0.0067
	[0.009]	[0.009]	[0.009]	[0.009]
Mutual funds approval	-0.0024	-0.0026	0.0041	0.0054
	[0.012]	[0.012]	[0.009]	[0.010]
Log (Number of mutual funds voted)	0.0138	0.0165	0.0082	0.0109
	[0.012]	[0.012]	[0.011]	[0.011]
Institutional ownership		-0.0929**		-0.0972**
		[0.040]		[0.040]
ISS recommendation		-0.0007		-0.0068
		[0.012]		[0.012]
Vote support		-0.0105		-0.0129
		[0.071]		[0.071]
Observations	452	452	452	452
adj. R^2	0.199	0.218	0.202	0.224
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes

Table IA2

Disagreement in voice between passive and active mutual funds and firm value: Alternative thresholds to define viable and non-viable samples

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date using alternative thresholds to define viable and non-viable proposals. The dependent variable is CAR around the meeting outcome disclosure date. In Column 1-2, the variable of interest is the indicator variable, *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. In Column 3-4, the variables of interest are the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds*. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management. In Column 5-6, the variable of interest is *Cross-MF group disagreement*. *Cross-MF group disagreement* is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* as defined in Section 3.2 to have mean zero and standard deviation one in all regression analysis. Panel A presents regression results in the viable sample while Panel B presents regression results in the non-viable sample. A proposal is viable if the overall vote support is within the range of 48% and 52%. A proposal is included in the non-viable sample if the overall vote support is outside the range of 20% to 80%. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Viable sample

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 48%-52%					
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds	-0.0271**	-0.0211*				
	[0.012]	[0.012]				
Stronger approval of MNG by passive mutual funds			-0.0282**	-0.0223*		
			[0.013]	[0.013]		
Stronger approval of MNG by active mutual funds			-0.0249**	-0.0191		
			[0.012]	[0.013]		
Cross-MF group disagreement					-0.0045*	-0.0039
					[0.002]	[0.002]
Mutual funds approval	0.0125	0.0031	0.0139	0.0047	0.0136	0.0019
	[0.015]	[0.016]	[0.016]	[0.016]	[0.015]	[0.015]
Log (Number of mutual funds voted)	0.0063	0.0063	0.0065	0.0067	0.0034	0.0035
	[0.007]	[0.007]	[0.007]	[0.007]	[0.008]	[0.008]
Institutional ownership		0.0071		0.0039		0.0183
		[0.038]		[0.038]		[0.041]
ISS recommendation		0.0134		0.0132		0.0156
		[0.011]		[0.011]		[0.011]
Vote support		0.0029		-0.0052		-0.0016
		[0.181]		[0.183]		[0.184]
Observations	464	464	464	464	464	464
adj. R^2	0.605	0.603	0.604	0.602	0.603	0.603
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Non-viable sample

Dependent variable: CAR [-1,1]	Non-viable sample: Vote support outside 20%-80%					
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds	0.0008**	0.0008**				
	[0.000]	[0.000]				
Stronger approval of MNG by passive mutual funds			0.0008*	0.0007*		
			[0.000]	[0.000]		
Stronger approval of MNG by active mutual funds			0.0010**	0.0010**		
			[0.000]	[0.000]		
Cross-MF group disagreement					0.0004**	0.0004*
					[0.000]	[0.000]
Mutual funds approval	0.0006	0.0027	0.0006	0.0029	0.0012	0.0032
	[0.001]	[0.002]	[0.001]	[0.002]	[0.001]	[0.002]
Log (Number of mutual funds voted)	-0.0016**	-0.0013*	-0.0016**	-0.0013*	-0.0014**	-0.0011
	[0.001]	[0.001]	[0.001]	[0.001]	[0.001]	[0.001]
Institutional ownership		-0.0032		-0.0032		-0.0033
		[0.002]		[0.002]		[0.002]
ISS recommendation		-0.0008		-0.0009		-0.0007
		[0.001]		[0.001]		[0.001]
Vote support		-0.0084***		-0.0084***		-0.0083***
		[0.002]		[0.002]		[0.002]
Observations	299,388	299,388	299,388	299,388	299,137	299,137
adj. R^2	0.151	0.152	0.151	0.152	0.151	0.151
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes

Table IA3

Disagreement in voice between passive and active mutual funds and firm value: Alternative regression specifications

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date using alternative specifications by including proposal-by-year fixed effects. The dependent variable is CAR around the meeting outcome disclosure date. In Column 1-2, the variable of interest is the indicator variable, *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. In Column 3-4, the variables of interest are the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds*. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management. Panel A presents regression results in the viable sample while Panel B presents regression results in the non-viable sample. In Column 5-6, the variable of interest is *Cross-MF group disagreement*. *Cross-MF group disagreement* is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* as defined in Section 3.2 to have mean zero and standard deviation one in all regression analysis. A proposal is viable if the overall vote support is within the range of 45% and 55%. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Viable sample

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%					
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds	-0.0204*	-0.0183*				
	[0.009]	[0.009]				
Stronger approval of MNG by passive mutual funds			-0.0213**	-0.0195**		
			[0.009]	[0.010]		
Stronger approval of MNG by active mutual funds			-0.0186**	-0.0167*		
			[0.009]	[0.010]		
Cross-MF group disagreement					-0.0034**	-0.0030*
					[0.002]	[0.002]
Mutual funds approval	-0.0080	-0.0106	-0.0073	-0.0094	-0.0039	-0.0079
	[0.011]	[0.013]	[0.011]	[0.013]	[0.011]	[0.013]
Log (Number of mutual funds voted)	0.0063	0.0083**	0.0065	0.0085**	0.0043	0.0065
	[0.004]	[0.004]	[0.004]	[0.004]	[0.004]	[0.004]
Institutional ownership		-0.0284**		-0.0286**		-0.0275*
		[0.014]		[0.014]		[0.014]
ISS recommendation		0.0039		0.0034		0.0050
		[0.007]		[0.007]		[0.007]
Vote support		-0.0363		-0.0378		-0.0372
		[0.042]		[0.042]		[0.042]
Observations	1,643	1,643	1,643	1,643	1,643	1,643
adj. R^2	0.450	0.453	0.450	0.453	0.451	0.454
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Proposal type × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Non-viable sample

Dependent variable: CAR [-1,1]	Non-viable sample: Vote support outside 30%-70%					
	(1)	(2)	(3)	(4)	(5)	(6)
Unequal approval of MNG by mutual funds	0.0008**	0.0008**				
	[0.000]	[0.000]				
Stronger approval of MNG by passive mutual funds			0.0008*	0.0007*		
			[0.000]	[0.000]		
Stronger approval of MNG by active mutual funds			0.0010**	0.0010**		
			[0.000]	[0.000]		
Cross-MF group disagreement					0.0004**	0.0004**
					[0.000]	[0.000]
Mutual funds approval	-0.0002	0.0018	-0.0002	0.0019	0.0005	0.0023
	[0.001]	[0.002]	[0.001]	[0.002]	[0.001]	[0.002]
Log (Number of mutual funds voted)	-0.0016**	-0.0013*	-0.0016**	-0.0013*	-0.0014**	-0.0011
	[0.001]	[0.001]	[0.001]	[0.001]	[0.001]	[0.001]
Institutional ownership		-0.0031		-0.0031		-0.0031
		[0.002]		[0.002]		[0.002]
ISS recommendation		-0.0006		-0.0007		-0.0006
		[0.001]		[0.001]		[0.001]
Vote support		-0.0056***		-0.0056***		-0.0054***
		[0.002]		[0.002]		[0.002]
Observations	313,240	313,240	313,240	313,240	312,981	312,981
adj. R^2	0.149	0.149	0.149	0.149	0.149	0.149
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Proposal type × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes

Table IA4

Disagreement in voice between passive and active mutual funds and firm value in the viable sample: Weighting votes by mutual funds' holdings

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date when holding is used to measure disagreement. The dependent variable is CAR around the meeting outcome disclosure date. The disagreement is measured using mutual fund holdings from Thomson Reuters. In Column 1-2, the variable of interest is the indicator variable, *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of passive funds holdings supporting the management; and (2) the fraction of active funds holdings supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. In Column 3-4, the variables of interest are the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds*. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of passive funds holdings supporting the management is greater than the fraction of active funds holdings supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds holdings supporting the management is greater than the fraction of passive funds holdings supporting the management. Panel A presents regression results in the viable sample while Panel B presents regression results in the non-viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Unequal approval of MNG by mutual funds	-0.0295***	-0.0313***		
	[0.010]	[0.010]		
Stronger approval of MNG by passive mutual funds			-0.0276***	-0.0295***
			[0.009]	[0.010]
Stronger approval of MNG by active mutual funds			-0.0241**	-0.0248**
			[0.009]	[0.010]
Mutual funds approval	0.0134	0.0242	0.0020	0.0149
	[0.013]	[0.017]	[0.016]	[0.018]
Log (Number of mutual funds voted)	-0.0034	-0.0016	-0.0036	-0.0030
	[0.006]	[0.007]	[0.007]	[0.007]
Institutional ownership		-0.0312		-0.0015
		[0.041]		[0.043]
ISS recommendation		-0.0132		-0.0163
		[0.011]		[0.012]
Vote support		-0.0095		-0.0116
		[0.051]		[0.049]
Observations	558	558	581	581
adj. R^2	0.510	0.510	0.520	0.521
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes

Table IA5

Disagreement in voice between passive and active mutual funds and firm value in the viable sample: Meeting level analysis

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date when analysis is at individual meeting level. In each specification, we also include *Number of proposals* as an additional control variable. In Panel A, for each shareholder meeting, we only keep the proposal that has the greatest absolute value of *MF Approval Difference*$_{p,m,c}$. In Panel B, for each shareholder meeting, we calculate the average *MF Approval Difference*$_{p,m,c}$. The dependent variable is CAR around the meeting outcome disclosure date. In Column 1-2, the variable of interest is the indicator variable, *Unequal approval of MNG by mutual funds*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. In Column 3-4, the variables of interest are the indicator variables, *Stronger approval of MNG by passive mutual funds* and *Stronger approval of MNG by active mutual funds*. *Stronger approval of MNG by passive mutual funds* takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management. *Stronger approval of MNG by active mutual funds* takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management. A proposal is viable if the overall vote support is within the range of 45% and 55%. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Maximum absolute disagreement of all proposals in a shareholder meeting

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Unequal approval of MNG by mutual funds	-0.0378***	-0.0351***		
	[0.013]	[0.010]		
Stronger approval of MNG by passive mutual funds			-0.0325**	-0.0281**
			[0.015]	[0.013]
Stronger approval of MNG by active mutual funds			-0.0377***	-0.0350***
			[0.014]	[0.012]
Mutual funds approval	0.0028	0.0023	-0.0003	-0.0030
	[0.015]	[0.021]	[0.016]	[0.022]
Log (Number of mutual funds voted)	0.0001	0.0015	-0.0001	0.0012
	[0.004]	[0.004]	[0.004]	[0.004]
Number of proposals	0.0001	-0.0000	0.0000	-0.0001
	[0.001]	[0.001]	[0.001]	[0.001]
Institutional ownership		-0.0200		-0.0184
		[0.021]		[0.021]
ISS recommendation		0.0019		0.0029
		[0.013]		[0.013]
Vote support		0.1264		0.1413
		[0.092]		[0.094]
Observations	391	391	391	391
adj. R^2	0.156	0.158	0.154	0.158
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes

Panel B: Average disagreement of all proposals in a shareholder meeting

Dependent variable: CAR [-1,1]	Viable sample: Vote support between 45%-55%			
	(1)	(2)	(3)	(4)
Unequal approval of MNG by mutual funds	-0.0378***	-0.0351***		
	[0.013]	[0.010]		
Stronger approval of MNG by passive mutual funds			-0.0377***	-0.0330***
			[0.014]	[0.012]
Stronger approval of MNG by active mutual funds			-0.0378***	-0.0354***
			[0.013]	[0.011]
Mutual funds approval	0.0028	0.0023	0.0028	0.0005
	[0.015]	[0.021]	[0.016]	[0.022]
Log (Number of mutual funds voted)	0.0001	0.0015	0.0001	0.0015
	[0.004]	[0.004]	[0.004]	[0.004]
Number of proposals	0.0001	-0.0000	0.0001	-0.0001
	[0.001]	[0.001]	[0.001]	[0.001]
Institutional ownership		-0.0200		-0.0207
		[0.021]		[0.021]
ISS recommendation		0.0019		0.0022
		[0.013]		[0.013]
Vote support		0.1264		0.1323
		[0.092]		[0.093]
Observations	391	391	391	391
adj. R^2	0.156	0.158	0.152	0.155
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Proposal type FE	Yes	Yes	Yes	Yes
MNG proposal FE	Yes	Yes	Yes	Yes

Table IA6

Large Cross-MF group disagreement and firm value: Instrumental variable estimation

This table examines the effect of shareholder disagreement on firm value using instrumental variable estimation. Panel A reports the second stage regression results of 2SLS. We classify meetings into three mutually exclusive groups. Meetings that occur between five days and 21 days after a FOMC event are Post-FOMC meetings. Meetings that take place between five days and 21 days before a FOMC event are Pre-FOMC meetings. No-FOMC meetings are the ones that take place at least 21 days before and after two consecutive FOMC events. We remove meetings that fall into multiple groups. The sample for instrumental variable estimation includes Pre-FOMC meetings, Post-FOMC meetings, and No-FOMC meetings. We remove meetings that fall into multiple groups. The instrument is an indicator variable that equals one for meetings that take place shortly after FOMC announcements with press conferences. Control variables are identical to those used in Table 3. The bottom of Panel A reports Cragg-Donald F-statistics and Anderson-Rubin Chi-sq. Panel B report the first stage regression results on the instrument. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

Panel A: Large Cross-MF group disagreement and firm value

2SLS: Second stage Dependent variable: CAR [-1,1]	(1)	(2)	(3)	(4)
Large Cross-MF group disagreement	-0.1053* [0.060]	-0.1218* [0.072]	-0.1108* [0.065]	-0.1120** [0.054]
Mutual funds approval	0.0065 [0.004]	0.0496* [0.029]	-0.0069 [0.005]	0.0075* [0.004]
Log (Number of mutual funds voted)	0.0185 [0.012]	0.0201 [0.013]	0.0205 [0.013]	0.0230** [0.011]
Institutional ownership		-0.0065** [0.003]	-0.0065** [0.003]	
Within-MF disagreement		0.0679* [0.040]		
ISS recommendation			0.0201* [0.012]	
Vote support			-0.0058** [0.002]	
Log (Assets)				-0.0054** [0.003]
B/M				0.0091*** [0.002]
Observations	261,227	261,227	261,227	238,382
Firm, Year, Proposal type, MNG proposal FE	Yes	Yes	Yes	Yes
Cragg-Donald F-statistic	28.74	22.56	26.18	37.08
Anderson-Rubin Chi-sq	5.12	5.08	5.14	7.38

Panel B: First stage of the 2SLS estimator

2SLS: First stage Dependent variable: Large Cross-MF group disagreement	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Post-FOMC Press	0.0291*** [0.011]	0.0256*** [0.010]	0.0275*** [0.011]	0.0340*** [0.011]	0.0373*** [0.011]	0.0333*** [0.011]	0.0355*** [0.011]	0.0442*** [0.011]
Post-FOMC					-0.0112* [0.006]	-0.0088 [0.006]	-0.0104 [0.006]	-0.0167** [0.007]
Pre-FOMC					0.0044 [0.007]	0.0066 [0.007]	0.0051 [0.007]	0.0015 [0.007]
Mutual funds approval	0.0678*** [0.005]	0.4224*** [0.011]	-0.0812*** [0.009]	0.0740*** [0.005]	0.0678*** [0.005]	0.4224*** [0.011]	-0.0811*** [0.009]	0.0740*** [0.005]
Log (Number of mutual funds voted)	0.2034*** [0.006]	0.1872*** [0.006]	0.2088*** [0.006]	0.2223*** [0.007]	0.2034*** [0.006]	0.1871*** [0.006]	0.2088*** [0.006]	0.2224*** [0.007]
Institutional ownership		-0.0214 [0.017]	-0.0234 [0.018]			-0.0214 [0.017]	-0.0234 [0.018]	
Within-MF disagreement		0.5744*** [0.012]				0.5743*** [0.012]		
ISS recommendation			0.2026*** [0.010]				0.2025*** [0.010]	
Vote support			0.0056 [0.018]				0.0059 [0.018]	
Log (Assets)				-0.0454*** [0.007]				-0.0455*** [0.007]
B/M				0.0186** [0.008]				0.0185** [0.008]
Observations	255,848	255,848	255,848	233,391	255,848	255,848	255,848	233,391
adj. R^2	0.146	0.194	0.150	0.146	0.146	0.194	0.150	0.146
Firm, Year, Proposal type, MNG proposal FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Figure A1

This figure presents the pre- and post-meeting CAAR of firm meetings with equal and unequal approval of management between passive and active mutual funds in a sample of viable proposals. A proposal is viable if the overall vote support is within the range of 45% and 55%. *Unequal approval of MNG by mutual funds* takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate: (1) the fraction of the number of passive funds supporting the management; and (2) the fraction of active funds supporting the management. *Unequal approval of MNG by mutual funds* is one if there is difference between the two fractions. We classify a meeting into a one with unequal approval of MNG by mutual funds if at least one of the proposals voted on in that meeting received an unequal approval of management between passive and active mutual funds. The shaded areas represent the 90% confidence intervals.

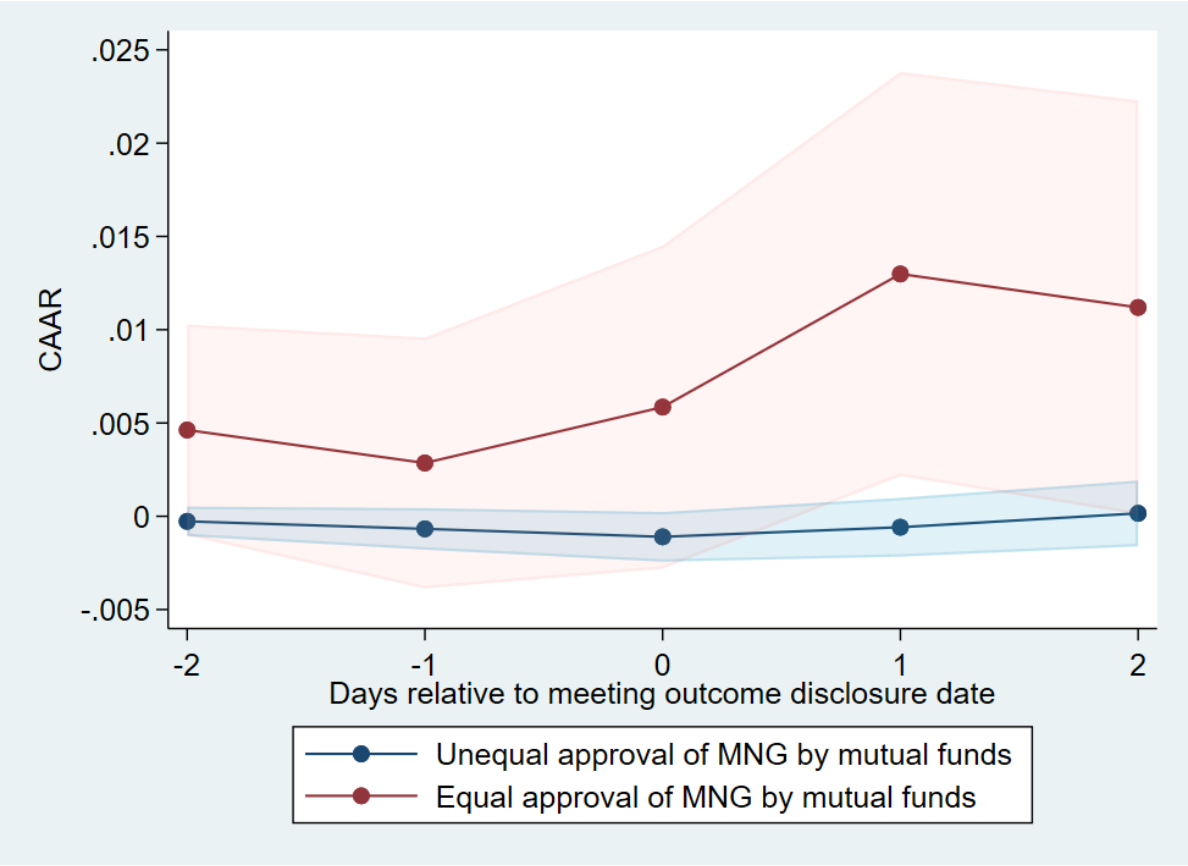
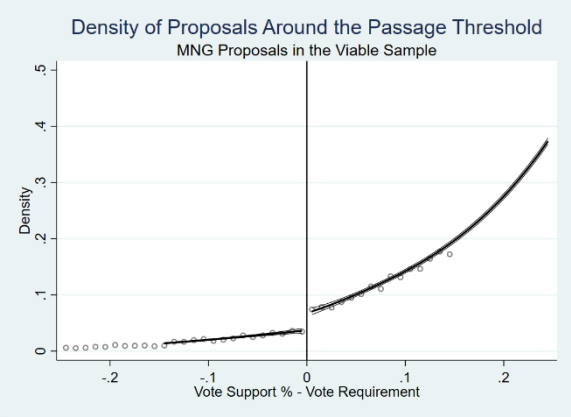


Figure A2

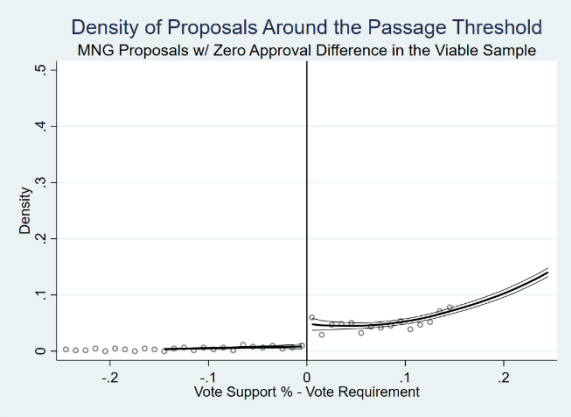
Density of management proposals around the majority threshold in the viable sample

This figure presents the density of management proposals around the majority passage threshold in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. Details of the sample and measure construction are provided in Section 3.1 and 3.2, respectively.

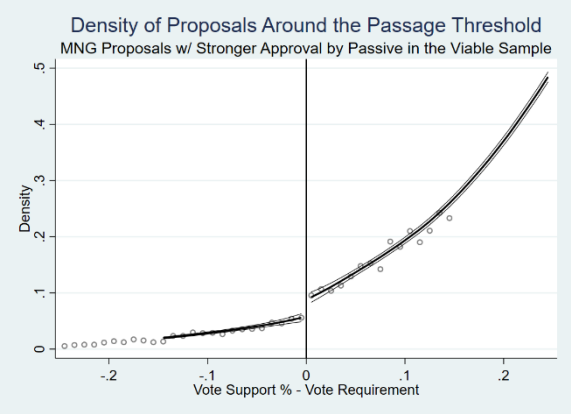
Panel A



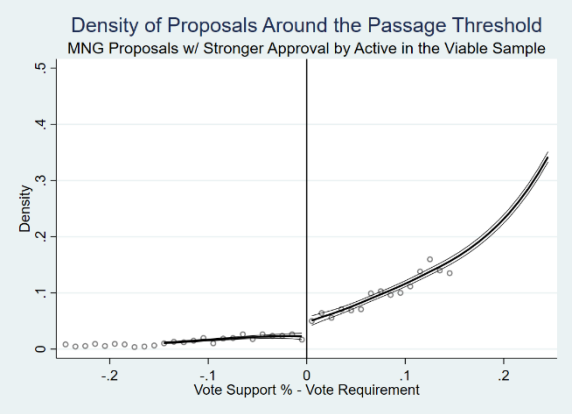
Panel B



Panel C



Panel D



Alternative Instrumental Variables Estimation

In this section, we provide alternative instrumental variables estimation that aim to establish a causal relation between shareholder disagreement in voice between passive and active mutual funds and firm value. We use FOMC announcements with PCs as instruments for our analysis to study the role of shareholder disagreement in firm value because of the reasons outlined in Section 4.4.

Specifically, we classify meetings in our sample into three mutually exclusive groups. Meetings that take place between 5 days and 21 days after a FOMC event are Post-FOMC meetings. Meetings that take place between 5 days and 21 days before a FOMC event are Pre-FOMC meetings. No-FOMC meetings are the ones that take place at least 21 days before and after two consecutive FOMC events. The sample for our instrumental variable estimation includes Pre-FOMC meetings, Post-FOMC meetings, and No-FOMC meetings. We remove meetings that fall into multiple groups. Our instrument is an indicator variable Post-FOMC Press that is equal to one for meetings that take place between 5 days and 21 days after FOMC events with press conferences. We remove the five-day period around each FOMC event to allow for the information conveyed during the event to be incorporated in the stock price by market participants. In this way, the effect on firm value we estimate is only due to the disagreement in voice as it is revealed on the meeting date through voting, and the exclusion condition of our instrument is satisfied. The results from Table 3 suggest that the firm value loss we document is not directional, that is, the loss does not differ depending on whether the disagreement comes from the stronger support from passive or active mutual funds. For this reason, in our instrumental variables estimation test, we focus on the disagreement measure *Large Cross-MF group disagreement*.

Table IA6 presents our instrumental variables estimation results. Table IA6 Panel A shows that the coefficient of *Large Cross-MF group disagreement* is negative and statistically significant in all specifications we consider. Relative to those with no or only small *Cross-MF group disagreement* between passive and active funds, *Large Cross-MF group disagreement* decreases firm value by 10.53%. Cragg-Donald F-statistics for the instrument is large, suggesting that our instrument is strong. We also conduct the Anderson-Rubin test that provides statistical inferences on our main variable of interest that are robust to the weak instrument problem (Stock, Wright, and Yogo, 2002).

Table IA6 Panel B presents the first stage results of the 2SLS estimator. We find that FOMC announcements with PCs positively and significantly predict *Large Cross-MF group disagreement*. In all

specifications we consider, the coefficient of *Post-FOMC Press* is significant at the one percent level. In summary, our instrumental variable analysis confirms that the exogenously generated disagreement between passive and active mutual funds results in large declines in firm value.