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House of Finance

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Protocol – Session 1
Investor Ideology

Speaker: Enrichetta Ravina
Discussant: Holger Spamann

Enrichetta Ravina is Visiting Associate Professor of Finance at the Kellogg School of Management, at Northwestern University. Her corporate governance research focuses on the study of institutional investor preferences and ideology estimated from their proxy voting behavior, their evolution over time and in response to regulation, and their consequences for the firms they own shares in, and the economy as a whole. In addition, she also studies the role of outside directors in corporate governance and the information content of their trading behavior.

Holger Spamann is a professor at Harvard Law School, where he teaches corporations, corporate finance, and a class on private funds. His research employs theoretical and empirical tools from economics, psychology, and comparative law. His main areas of interest are corporate governance, financial markets, and social-scientific jurisprudence. Before academia, he practiced with the law firm Debevoise & Plimpton in New York and clerked for two years in Europe. He holds a Ph.D. in economics and U.S., French, and German law degrees. He has written articles on, inter alia, the duty of care, bankers' pay, government accounting, and comparative corporate governance.

Protocol of Session 1, Friday 7 June (9.00 a.m. – 10.00 a.m.)

In the first part of this session, the joint paper by Bolton, Li, Ravina and Rosenthal on "Investor Ideology" is presented by Enrichetta Ravina. In this paper, institutional investor preferences are estimated based on their proxy voting records in publicly listed Russell 3000 firms. A political approach is taken and a spatial model of proxy voting is used in order to scale legislatures. Institutional investors are mapped onto a left-right dimension based on their votes for the fiscal year 2012, where far-left are socially responsible and the far-right are "moneyconscious" investors. The presentation provides a theoretical background on shareholders' objectives, profit maximization as well as implications of non-takeover-threats on shareholders' willingness not to maximize their profits. Afterwards, the main features of the applied methodology are presented. If significant ideological differences are observed, this reflects an absence of shareholder unanimity. The paper finds that the proxy adviser ISS makes voting recommendations that place it in the center while public pension funds and other investors on the left support a more social and environment-friendly orientation of the firm and fewer executive compensation proposals. The second dimension reflects a more traditional governance view, with management disciplinarian investors, pitted against more management friendly ones.

Following the presentation, Holger Spamann continues with the discussion of the paper. The discussion consists of three parts: 1. Comparison with Bubb, Catan (RC) "The party structure of Mutual Funds" (competitive paper in this sector); 2. Interpreting the results and 3. Other observations and suggestions (omitted due to time restrictions).

The comparison (i.e. part 1) is based on an overview the different methods applied by the two papers (e.g. based on the level of investor aggregation, the firms and their votes, the covered time frames, the dimensions considered as well as the method of Dim. Reduction). Furthermore, the results from both papers are compared. This comparison indicates that (apart from results in details), both papers provide the same big picture. Furthermore, the prediction accuracy of both papers is very high. Besides this, both papers contain different extensions (BLRR: firm/director characteristics; BC: fund characteristics). The interpretation of the first dimensions in both papers is also different: "BLRR: Institutional Investor votes are far from reflecting Shareholder unanimity" – according to the discussant this is by construction as votes with <3% disagreement are dropped. However, what can be learned is that disagreement is predictable. Ideology has Dr. Jekyll side ("NOMINATE is agnostic as to where ideology comes from and what it represents") and Mr. Hyde side ("beyond pure shareholder considerations; socially vs. money-oriented investment philosophies"). In the next step, the discussant analyses the findings of the paper in terms of the characterizations of ideology such as "left". Does this mean political left? He observes that one cannot use public pension plans as a "marker" of social-oriented investing because public pension plan managers must manage their funds with the sole objective of maximizing financial returns (Schanzenbach & Sitkoff 2018); Does dimension 1 only predict political left/ right choices? According to the discussant no: it predicts everything, incl. director elections, governance, comp. (fig 8).

In the second part of the discussion, the discussant provides an interpretation of the results of the paper. Even if dimension 1 only predicted ESG, it needed not to be social. Instead, it can be a belief about i) financial value or ii) a marketing tool. The comments/ suggestions are skipped in the end (due to time restrictions). In the next step, Enrichetta Ravina shortly responds to some of the points of the presentation. She emphasizes that the authors are looking for additional data from the funds (e.g. mission statements). During the last 10 minutes, an open discussion with all participants of the paper takes place. The topics covered include: i) Including performance as another dimension; ii) Interpretation of results: agency costs – funds as economic animals; iii) incentives; iv) Predictability of the model w.r.t. director election after SH meeting; v) definition of dimension in the context of Say On Pay and ISS.