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Which Firms Require More Governance? Evidence from Mutual Funds' Revealed Preferences

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Keywords: proxy voting, fund preferences, shareholder proposals, ranking, MCMC algorithm

JEL Classifications: G30, G34, K30, K22, G18

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Abstract

This paper estimates mutual funds' preferences for governance structures, using data on proxy vote records. I elicit funds' revealed preferences by studying the differences in their votes on the same issue across their portfolio firms' shareholder proposals, and develop funds' preference rankings by implementing the Metropolis-Hastings Markov chain Monte Carlo algorithm. Funds prefer firms with low board independence, high insider ownership, and high abnormal compensation to adopt certain governance provisions that increase shareholder rights. Contrary to the view that the net benefits of takeover defenses are higher for young and small firms, funds are not enthusiastic about large and mature firms increasing shareholder rights. Large and mature firms are disproportionately targeted by shareholder proposals, suggesting the possibility that investors vote down worthless proposals submitted to such firms. I find a mixed relation between fund preferences and firm performance. Active and passive funds have similar preferences. Fund preferences are moderately correlated with overall vote support on relevant shareholder proposals.

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1. Introduction

Mutual funds hold over a quarter of the shares of U.S. companies and are required to vote on their portfolio firms' management and shareholder proposals, having the power to influence governance and firm value through their votes.[1] Therefore, it is important to understand funds' decisions to vote in support of or against their portfolio companies' proposals. Theoretically, it has been recognized that managerial agency problems are important in determining the allocation of decision rights, and a survey of mutual fund managers by McCahery, Sautner, and Starks (2016) shows that funds frequently vote against management as an intervention channel.[2] Recent empirical studies examine fund voting patterns and show that fund votes can be explained by economic incentives, ideological preferences, proxy advisors' recommendations, and business or social networks.[3]

Less attention has been paid to the role of company characteristics, although the essence of the issue is whether a particular company—that received the proposal—should adopt the initiatives in a proposal.[4] Specifically, what aspects of firms are important in funds' decisions regarding whether to vote for or against a given proposal? Understanding fund preferences is important for companies that are trying to improve their shareholder support, and for regulators as they design policies on proxy voting and proxy advisors' voting recommendations.

In this paper, I use the revealed preference argument to estimate mutual funds' preferences for governance structures. The estimation exploits the fact that funds vote "for" a proposal in some firms and "against" the same issue in other firms, allowing me to elicit their governance preferences. For example, suppose that a fund owns shares in firm i and firm j, both of which received a shareholder proposal requiring an independent board chairman during the same year. Additionally, suppose that the fund voted for firm i's proposal and against firm j's proposal. I interpret this as, the fund prefers firm i to have an independent board chairman compared to

[1] Hirst and Bebchuk (2019) predict that BlackRock, Vanguard, and State Street could cast 40 percent of the votes in S&P 500 companies within the next two decades. Appel, Gormley, and Keim (2016) show that passive investors impact corporate governance through their voting power.

[2] Harris and Raviv (2010) and Matsusaka and Ozbas (2017) model optional decision rights in the presence of agency problems. Bebchuk (2005) argues that shareholders must have decision rights to limit agency problems.

[3] Iliev and Lowry (2015) show that funds' economic incentives lead them to vote in a value-enhancing manner. For evidence on fund-specific preferences, see Bolton, Li, Ravina, and Rosenthal (2020) and Bubb and Catan (2019). Iliev and Lowry (2015) and Malenko and Shen (2016) show evidence on the influence of the recommendations of proxy advisory firms. Davis and Kim (2007) and Cvijanović, Dasgupta, and Zachariadis (2016) report evidence on the impact of business ties.

[4] An extensive body of literature studies the relation between company characteristics and vote support, which is different from the question explored in this paper.

firm j. Holding constant each fund, it is possible to net out fund-specific preferences and isolate how the attributes of the two firms are related to each fund's governance preferences.

Considering that each proposal is voted on by hundreds of funds and there are multiple firms that receive the same type of proposal each proxy season, the challenge lies in how to aggregate funds' preferences. I address this challenge by implementing the Metropolis-Hastings Markov chain Monte Carlo (M-H MCMC) algorithm of Vitelli, Sørensen, Crispino, Frigessi, and Arjas (2018) to develop funds' preference rankings of firms. The algorithm is based on the Mallows model (Mallows, 1957), the idea that there is a true ranking and the probability of observing a particular ranking in the data decreases as its distance from the true ranking increases. Although the model is theoretically well grounded in the statistics ranking literature, its implementation on large data sets or missing information has only recently became possible, thanks to advances in computing power and estimation techniques. The key advantage of this measure relative to vote support on proposals is that it eliminates some selection effects, that stems from different shareholder bases at different firms, with different preferences and holdings.

I implement the M-H MCMC algorithm on fund votes on selected topics of shareholder proposals, for Russell 3000 firms during the period 2004–2017. The main outputs are annual rankings of firms, based on funds' revealed preferences for the following provisions: independent board chairman (2004–2017), declassified board (2004–2013), majority vote requirement for director elections (2005–2014), proxy access (2015–2017), shareholders' right to call special meetings (2008–2011), and say-on-pay (2007–2010). A rank of one means that the governance provision in consideration is more preferred for the given firm from funds' perspectives than for any of the other firms that received the same proposal during a given year. I also develop annual rankings based on funds' preferences regarding the G-Index proposals during the period 2004–2017. For all the rankings, I measure the degree of consensus among the funds, which can be viewed as the precision of the estimated rankings.

After constructing funds' governance preference rankings, I investigate whether fund preferences regarding governance outcomes are related to proxies for agency problems and other firm characteristics that are believed to be important in predicting optimal governance structures.[5] For example, funds might be inclined to take control away from the management if they have more agency problems, by showing support for shareholder proposals. I find that funds prefer firms with low board independence, high insider ownership, and high abnormal compensation

[5]This analysis cannot speak to whether firm characteristics have a causal impact on the value of governance provisions, as the estimated rankings are fundamentally intertwined with whether a firm has already adopted certain governance provisions, and with which firms become targeted by shareholder proposals.

to adopt certain governance provisions that increase shareholder rights. This is consistent with the view that funds are mindful of the allocation of control between shareholders and managers.

As several studies show that takeover protection measures are more beneficial for small and young firms (e.g., Stratmann and Verret, 2012; Field and Lowry, 2019; Kim and Michaely, 2019), I next explore whether funds prefer stronger management rights for small and young firms. Perhaps surprisingly, funds are less enthusiastic about large and mature firms increasing their shareholder rights, sometimes in an economically meaningful and statistically significant manner. The results for voting outcomes on proposals generally paint a similar picture, suggesting that this relation is unlikely to be a mechanical artifact. One possible interpretation is that large and mature firms are disproportionately targeted by proposals, which is what I find, and funds screen out proposals that do not benefit shareholders at large.[6] Fund preferences are not strongly associated with accounting performance, stock returns, or market-to-book ratios, with a few exceptions in mixed directions. Overall, funds view the voting process through the lens of correcting agency problems, but there is little evidence that funds value protective devices for young and small firms, or that they take performance into account in their voting decisions.

Next, I examine who submits proposals that are favored by mutual funds. The preference rankings allow comparisons by sponsors, while controlling for proposal topics and fund-specific preferences towards the topics. Mutual funds prefer proposals submitted by non-SRI funds: one interpretation is that non-SRI funds submit value-enhancing proposals, and an alternative interpretation is that non-SRI funds share similar preferences. Proposals by public pension funds are also viewed more favorably than the average proposal. The proposals by labor unions are not as preferred as those by public pension funds; however, they are not particularly disliked. The least-favored proposals were those submitted by SRI funds and individuals.

To better place the rankings into context, I next examine whether the rankings are correlated with vote support on shareholder proposals. I find a moderate and statistically significant correlation for the following topics: independent board chairman (Spearman's $\rho = 0.48$), majority vote for the election of directors ($\rho = 0.5$), proxy access ($\rho = 0.43$), and the right to call special meetings ($\rho = 0.4$). For board declassification, the correlation is low yet statistically significant ($\rho = 0.2$), and for say-on-pay, the correlation is low and insignificant ($\rho = 0.06$). Overall, fund preferences and shareholder support are aligned, but the extent varies by topic.

[6]Bhandari, Iliev, and Kalodimos (2019) report that proxy access proposals are concentrated in large well-governed firms, which are not the firms that would benefit the most from proxy access. Matsusaka, Ozbas, and Yi (2020) show that approximately 37 percent of proposals were challenged by managers, sent to the SEC with a request for a no-action letter.

Additionally, I examine the relation between a firm's rank based on fund preferences regarding G-Index proposals and its G-Index: if the G-Index is a proxy for shareholder rights or governance quality, funds might prefer that high G-Index firms adopt G-Index proposals. I find an economically small relation between funds' preference rankings and the firms' G-Index levels ($\rho = 0.16$, $p-$value < 0.05), lending support to the view that optimal governance structures for each firm are different (e.g., Coles, Daniel, and Naveen, 2008).

Finally, I compare the governance preferences of active and passive funds. Overall, active and passive funds' preferences are well aligned, and the relation between fund preferences and firm characteristics or sponsor type is similar for active and passive funds. I find that passive funds are more likely to agree with management than active funds, as in Heath, Macciocchi, Michaely, and Ringgenberg (2019) and Brav, Jiang, Li, and Pinnington (2018), but I do not find that passive funds are more likely to blindly follow ISS or management recommendations.

This paper contributes to the proxy voting literature (e.g., Gillan and Starks, 2000; Matvos and Ostrovsky, 2010). The main innovation of this paper is that it characterizes mutual funds' preferences for governance structures, after accounting for the effect of fund-specific preferences and ISS recommendations.[7] There are ongoing debates on whether funds rely too heavily on the voting recommendations of proxy advisors, and to what extent policymakers should regulate proxy advisors as well as investors who use their services.[8] Understanding how funds vote after factoring out the effect of voting recommendations has important implications for regulators, as they design rules that govern proxy advisors' voting recommendations, fund voting, and proposal submissions. In recent research, Bubb and Catan (2019) and Bolton et al. (2020) characterize the voting patterns of different investors. This study is similar in that it employs big data techniques to characterize a key dimension of voting and uses funds' voting data to infer the governance preferences of investors. The key distinction is that the focus of this paper is on firms that received proposals, thus placing firms along a one-dimensional space, whereas the two above-mentioned papers focus on investors and place funds along a multidimensional space. In addition, this paper strips out fund fixed effects while estimating firm rankings, whereas the two papers' estimates can be understood as fund fixed effects along several dimensions.

This paper also contributes to the literature on the adoption of governance provisions, such as declassified boards, proxy access, and majority vote for director elections, and say-on-pay. A

[7]The preference rankings developed in this paper are largely within-ISS-recommendation estimates because ISS advised to vote for most of the proposals examined in this paper during the sample period.

[8]The SEC recently amended the rules on proxy voting advice, effective November 2, 2020: https://www.federalregister.gov/documents/2020/09/03/2020-16337/exemptions-from-the-proxy-rules-for-proxy-voting-advice.

large body of literature discusses the average effect of adopting governance provisions on firm value. This paper focuses on how funds vote differently across their portfolio firms' proposals on the same issue. In this regard, this paper is related to the literature that questions the "one-size-fits-all" approach toward governance (e.g., Coles et al., 2008; Duchin, Matsusaka, and Ozbas, 2010; Field and Lowry, 2019).

This paper is also related to the statistics and econometrics literature on ranking. Methodologically, this paper belongs to the literature that employs the Mallows model to construct rankings (e.g., Vitelli et al., 2018; Li, Xu, Liu, and Fan, 2019). Avery, Glickman, Hoxby, and Metrick (2013) and Sorkin (2018), as in this paper, study revealed preferences to construct rankings.[9] I introduce a new machine learning technique of Vitelli et al. (2018) into finance research, which can be widely applied to construct rankings from rating or preference data in a variety of formats, such as analyst ratings or buy/sell recommendations.

2. Data and Sample

Starting 2004, the SEC required mutual funds to report their proxy votes on management and shareholder proposals using the SEC Form N-PX. This information is collected by the Institutional Shareholder Services (ISS) for firms in the Russell 3000, available in the ISS Mutual Fund Vote Records database. Information on annual meeting characteristics, proposal content, sponsors, voting outcomes, and ISS/management recommendations comes from two different databases maintained by the ISS: Shareholder Proposals and Vote Results.

Figure 1 shows the number of voted shareholder proposals from 2004 to 2017, for six individual proposal topics examined in this paper: require independent board chairman, declassify board, require majority vote for director elections, adopt proxy access, provide shareholders the right to call special meetings, and say-on-pay. Panel A presents the total number of proposals in the ISS database, from 2004 to 2017, and Panel B presents the numbers for topics and years examined in this paper. In Panel B, the topic and year selection is based on whether there is a critical mass of proposals each year on a given topic, avoiding any gaps between years. Panel C presents the number of firms that received G-Index proposals from 2004 to 2017. Table 1 presents the summary statistics of the variables examined in the paper. I describe the information in the relevant sections.

[9] Avery et al. (2013) rank U.S. undergraduate programs based on students' revealed preferences and Sorkin (2018) estimates workers' preferences for firms by studying the structure of employer-to-employer transitions.

Accounting information comes from Compustat. Stock return information comes from CRSP. Information on G-Index comes from the ISS Governance and Governance Legacy databases, and information on executive compensation and insider ownership comes from Execucomp. Information on firm age is from Jay Ritter's website (Field and Karpoff, 2002; Loughran and Ritter, 2004).[10] Passive and active fund categorization follows Appel et al. (2016). Appendix Table A.2 presents the variable definitions.

3. Estimation of Mutual Funds' Consensus

3.1. Bayesian Estimation of the Mallows Model

The Mallows model (Mallows, 1957) is based on the idea that the probability density of an observed ranking decreases exponentially as its distance from the consensus ranking increases. Specifically, the model specifies the probability of an observed ranking R as follows:

$$P(R \mid \alpha, \rho) = \frac{exp\Big[-\frac{\alpha}{n} d(R, \rho)\Big]}{Z_n(\alpha)} \tag{1}$$

where $\alpha \geq 0$ is a precision parameter (a larger α value corresponds to a higher level of consensus); n is the number of items being ranked; ρ is the consensus ranking; $d(R, \rho)$ is a distance function (e.g., Kendall, Footrule) measuring the distance between R and ρ (i.e., how far the assessor's ranking is from the true ranking); and $Z_n(\alpha)$ is a normalizing constant.[11]

If N assessors provided complete rankings of the n items, the likelihood of N observed rankings $R_1, \ldots, R_N$, where $R_j = (R_{1j}, \ldots, R_{nj})$ is a ranking for assessor j, assumed to be conditionally independent given α and ρ, is:

$$P(R_1, \ldots, R_N \mid \alpha, \rho) = \frac{exp\Big[-\frac{\alpha}{n} \sum_{j=1}^{N} d(R_j, \rho)\Big]}{Z_n(\alpha)^N} \tag{2}$$

In a Bayesian framework, the goal is to estimate $P(\alpha, \rho \mid R_1, \ldots, R_N)$, the posterior distri-

[10] https://site.warrington.ufl.edu/ritter/files/2019/05/FoundingDates.pdf

[11] Kendall distance measures the minimum number of pairwise adjacent switches which convert R into ρ. Footrule distance is defined as the sum of absolute values. See p. 334 of Liu, Crispino, Scheel, Vitelli, and Frigessi (2019) for further information.

bution of α and ρ given the observed rankings of the N assessors. There are several hurdles in directly estimating the posterior distribution. First, numerical overflow can occur as the number of items (n) increases, which prevents the model from being implemented on a large dataset. Second, researchers rarely observe a complete ranking that consists of all items. This happens when assessors are presented with a subset of items, assessors choose to rank a subset of items, or certain ranks are missing at random. Finally, data can contain non-transitive preferences (e.g., $x \prec y$, $y \prec z$, and $z \prec x$) for reasons including assessor's inattentiveness, preference uncertainty, and preference changes over time.

Vitelli et al. (2018) propose a M-H MCMC algorithm, which makes it possible to draw samples from the posterior distribution while dealing with the issues of numerical overflow, partial ranking, and non-transitive preferences. The algorithm uses data augmentation techniques to address numerical overflow and computational complexity. It iterates between (i) updating the augmented ranks $\left\{\tilde{R}_j\right\}_{j=1}^{N}$ given the current values of ρ and α and (ii) updating ρ and α based on the augmented rankings. When updating the augmented ranks, the algorithms first propose a candidate $\tilde{R}_j^{\ t}$ by locally perturbing $\tilde{R}_j^{\ t-1}$ from the previous iteration. With some probability, the candidate is either accepted, in which case the candidate value is used in the next iteration, or it is rejected, in which case the candidate value is discarded and the current value is reused in the next iteration. After a large number of iterations, the empirical distribution of the accepted rankings will approach the posterior distribution of ρ.[12] The algorithm allows the input data in the form of partial rankings or even pairwise preferences. To deal with non-transitive preferences, the algorithm adds a layer of latent variables to the model hierarchy to account for the fact that assessors can make mistakes, based on the idea of Crispino, Arjas, Vitelli, Barrett, and Frigessi (2019). Details on the estimation procedures can be found in Section 4.2 of Vitelli et al. (2018). An R package named BayesMallows implements the algorithm.

3.2. Application of the Mallows Model to Proxy Voting Data

3.2.1. Setting

Mutual funds typically hold hundreds of securities, and vote on many firms' shareholder proposals each proxy season. If a fund votes differently on the same issue across its portfolio firms' proposals, those votes reveal the fund's preferences in terms of the proposed initiatives.

[12]The M-H MCMC algorithm allows researchers to draw samples from a probability distribution even when the exact probability distribution is unknown, enabling researchers to approximate the unknown probability distribution.

For example, if a fund votes for Citigroup's proxy access proposal and votes against McDonald's proxy access proposal at approximately the same time, one can elicit the fund's preference in the following way: the fund prefers Citigroup to adopt proxy access compared to McDonald's. Other funds holding the two firms might agree or disagree with this view. The goal of this paper is to aggregate the views of mutual funds and develop funds' governance preference rankings for the firms by examining their votes on shareholder proposals.

It is not obvious whether there is any consensus among investors, and how it can be measured even if it exists. Figure 2 illustrates how fund votes can be used to measure such a consensus or the lack thereof. Panel A presents the number of funds that voted on proxy access proposal during 2015 for the three examined firms, Citigroup, McDonald's, and ConocoPhillips. A total of 279 funds voted proxy access proposals for these three firms; 122 funds voted on ConocoPhillip's and McDonald's proxy access proposals but not on Citigroup's proposal, most likely because Citigroup was not part of their investment portfolio. Panel B presents how these funds voted on the three firms' proxy access proposals. Any votes other than "for" or "against" are excluded from the analyses. The top portion of Panel B shows that twelve funds voted for Citigroup's proxy access proposal and against McDonald's proposal (each black square represents a fund), yet no fund voted against Citigroup's proposal and voted for McDonald's proposal. The evidence is consistent with the hypothesis that funds prefer to see Citigroup implement proxy access rather than McDonald's. Similarly, examining the sections below, one can infer that funds prefer McDonald's to allow proxy access compared to ConocoPhillips, and Citigroup compared to ConocoPhillips. According to the revealed preference theory, proxy access is most preferred for Citigroup, followed by McDonald's, and ConocoPhillips. The goal of this paper is to develop such preference rankings, for all the firms that received the same type of proposal during the same year. It is important to note that a consensus might not exist among investors. Investors can agree to disagree; alternatively, their preferences in terms of governance outcomes might be similar across firms. In such cases, the estimated rank of one firm would be statistically indifferent from the estimated rank of another firm, and the goal would be to measure this statistical indifference.

Panels A and B of Figure 2 focus on only three firms for illustration purposes. As I increase the number of firms, the number of possible vote combinations naturally becomes larger, and funds are more likely to vote differently across their portfolio firms' proposals and reveal information on relative preference (as opposed to exhibiting indifference). Panel C of Figure 2 illustrates this intuition: it displays how 50 funds voted on 20 firms' proxy access proposals during 2015. Each column represents a firm, and each row displays how each fund voted on its portfolio firms' proxy access proposals. Some of the funds almost always voted for these

proposals (shown by the rows that are mostly green and rarely red), and others almost always voted against them (shown by the rows that are mostly red and rarely green), showing their ideological positions (Bolton et al., 2020). Some of the firms still managed to receive a "for" vote from a fund that almost voted "against" and vice versa, revealing that the funds' governance preferences are different for different firms. I aggregate these preferences across all the funds to construct funds' governance preference rankings of firms. Panel B of Table 1 shows the number of fund votes cast for each proposal, including and excluding the funds that always voted either for or against all the proposals on a particular topic.

3.2.2. Implementation

In this section, I outline how the algorithm described in Section 3.1 is used to estimate the governance preference rankings of firms. The main input is each fund's pairwise preference, which can be inferred from its votes on shareholder proposals on the same topic in a given year.

I estimate the annual rankings for each of the six governance provisions, and the annual ranking of firms based on fund preferences regarding G-Index proposals from 2004 to 2017, but limit the estimation to years with a sufficient number of proposals (Figure 1). Regarding the latter, for any two firms that received the same subset of G-Index proposals, I identify their common investors' revealed preferences from their votes on those G-Index proposals. For example, assume that firm A received a proposal on board declassification, firm B received proposals on board declassification and golden parachutes, and firm C received a proposal on golden parachutes, all in the same year. In this case, the rank between firm A and firm B is calculated based on how the investors voted on the common proposal between those companies (i.e., board declassification proposal) and the rank between firm B and firm C is calculated based on how investors voted on the common proposal (i.e., the golden parachute proposal). The revealed preference argument is used to determine the rank between firm A and firm C.

The M-H MCMC algorithm starts with initial values for the ranking and the precision parameter; the latter measures the degree of consensus among investors. The algorithm then locally perturbs the ranking and the precision parameter, proposing new values. These proposed values are accepted with some probability; if they are rejected, they are discarded, and the current values are reused in the next iteration. This step is repeated over and over, and the empirical distribution of the accepted rankings approaches the posterior distribution of the true ranking (ρ) after a sufficient number of iterations. The estimation was done on the Compute Canada server, as it requires a large amount of computational resources. For each ranking

estimated in this paper, I ran the M-H MCMC algorithm to obtain 1,000,000 accepted values, and I discard the initial 500,000 iterations as burn-ins.

The yearly governance preference rankings of firms are the main outputs of this process. Another output is the posterior distribution of the precision parameter, which measures the degree of consensus among the investors. These outputs are presented and discussed in Section 3.3. Appendix Figure A.1 displays the convergence and posterior distribution of the precision parameter, and Appendix Figure A.2 shows how the estimated ranking changes over the 1,000,000 iterations, for the firms that had proxy access proposals during 2015.

3.2.3. Economic Interpretation of the Rankings

In this section, I discuss several insights concerning the ranking construction and note the advantages and limitations of the measure. First, in constructing the measure, fund votes are informative only if there is some variation in the votes across a fund's portfolio. This is because the preferences are extracted based on how funds vote differently across their portfolio firms' proposals on the same issue. If some funds always vote either for or against a particular issue, their votes are uninformative and are thus dropped from the construction. Vote support on shareholder proposals reflects the opinions of the funds that always vote either for or against a particular issue, whereas the rankings in this paper ignore such opinions. Another important distinction between the rankings and vote support is that the rankings equally weight each fund's opinion, whereas vote support weights these opinions based on the number of shares each fund holds.

Second, cross ownership and common ownership structure—which have substantially increased over the past few decades—become especially useful in estimating the rankings. Once there are sufficient number of funds that vote on any two firms' shareholder proposals, it becomes easier to infer whether a particular governance structure is preferred for one firm versus another in the eyes of mutual funds.

Third, although mutual funds have a fiduciary duty to vote their shares in the best interests of their shareholders, it is unclear whether fund votes are actually cast in this manner. If one assumes that fund votes are cast in ways that maximize the interests of shareholders, then the preference rankings can be interpreted as indications of which firms benefit more from adopting the governance provision under consideration.

Finally, while the rankings in this paper are based on a large number of votes, their scope

is limited to the firms that received comparable shareholder proposals within the same year; additionally, they are based on the votes of mutual funds, not those of the entire universe of investors.[13] On the one hand, funds might be more informed and hence better positioned to determine the merits of the proposals. On the other hand, their business ties might affect how they vote on shareholder proposals (e.g., Davis and Kim, 2007; Cvijanović et al., 2016), decreasing the correlation between preference rankings and the net benefits of adopting the governance provisions under consideration.

3.3. Estimation Results

In Section 3.3, I present two sets of governance preference rankings developed in this paper. The results for the other topic-years are not presented here and are instead used in later analyses.

3.3.1. Preferences Regarding Allowing Proxy Access in 2015

I first present fund preferences regarding the adoption of proxy access, for the firms that received proxy access proposals during 2015. In November 2014, New York City Comptroller Scott Stringer and the New York City pension funds initiated the Boardroom Accountability Project, a proxy access campaign encompassing 75 U.S. companies.[14] Hundreds of mutual funds voted on multiple firms' proxy access proposals at approximately the same time, and this allows researchers to observe a wide cross-section of firms.[15]

Panel A of Table 2 presents the ranking of 93 firms based on fund preferences regarding the adoption of proxy access; these firms had votes regarding proxy access proposals in their 2015 annual shareholder meetings. A rank of one means that the adoption of proxy access is the most preferred for the firm in the eyes of the mutual funds. To construct the ranking, I run the M-H MCMC algorithm to obtain the estimated ranking over 1,000,000 iterations, discarding the initial 500,000 iterations as burn-ins. Appendix Figure A.2 shows how the estimated rank of each firm changes over the 1,000,000 iterations. Panel A of Figure 3 shows the distribution

[13]Mutual funds' votes on shareholder proposals have been disclosed since 2004, however, this information is not available for most other types of investors.

[14]The New York City pension funds continued to submit proxy access proposals to companies in 2015 and 2016. For more information on the Boardroom Accountability Project and targeted companies, see https://comptroller.nyc.gov/services/financial-matters/boardroom-accountability-project/focus-companies/.

[15]Bhandari et al. (2019) examine the market reactions around key event dates related to the adoption of proxy access and investigate which firms would benefit more from allowing proxy access.

of the estimated rank for each of 93 firms. From the perspective of the funds, proxy access is the most desirable for Apache Corp. and Citigroup Inc., and it is the least desirable for Apple Inc. The funds' preferences regarding DTE Energy and FedEx are unclear.

Appendix Figure A.1 shows the convergence and the posterior distribution of α, which is a parameter that measures the degree of consensus, simultaneously estimated with ρ. The posterior distribution of α is based on the 500,000 observations that remained after discarding the initial 500,000 observations. The mean and the median of α is 5.02, the 95% HPDI (highest posterior density interval) of α is [4.86, 5.17], and the 95% CI (central interval) is [4.86, 5.17].

3.3.2. Preferences Regarding Decreasing the G-Index in 2004

I also present funds' rankings based on their preferences regarding the adoption of G-Index proposals, which I compute with data from the firms that had held a vote for at least one shareholder proposal to decrease the G-Index in their 2004 annual shareholder meetings. Some governance reformers view that decreasing the G-Index is equivalent to enhancing shareholder rights and improving governance. G-Index proposal topics include repealing a classified board, voting on golden parachutes, redeeming or voting on poison pills, and eliminating/reducing supermajority provisions. A mapping between the proposal topics and the G-Index provisions is presented in Table A.1 in the Appendix.

Panel B of Table 2 presents the estimated rank of each firm. A rank of one means that the adoption of G-Index proposals is the most preferred for the given firm in the eyes of the mutual funds. As before, I obtain the estimated rankings over 1,000,000 iterations, discarding the initial 500,000 iterations as burn-ins. Panel B of Figure 3 presents a graphical version of Panel B of Table 2. From the perspective of the funds, decreasing the G-Index would be more desirable for Duke Energy and less so for Alcoa Inc. The mean and the median of α are 7.67 and 7.60, respectively; the 95% HPDI of α is [6.84, 8.61]; and the 95% CI is [6.97, 8.98].

4. Fund Preferences and Firm Characteristics

I next examine whether mutual funds prefer firms with certain characteristics adopt the governance provisions examined in this paper. Of particular interest is to examine whether funds see proxy voting as a way of voicing their concerns about managerial agency problems and whether funds take into account firm performance or characteristics such as size and age

that are believed to be important in determining optimal governance structures. Several recent studies examine the association between firm characteristics and optimal board structures as well as the benefits of outside directors and classified boards (Coles et al., 2008; Duchin et al., 2010; Ahn and Shrestha, 2013; Field and Lowry, 2019); the objective of the analyses in this section is to examine whether such characteristics are related to funds' preference rankings.

4.1. Proxies for Agency Problems

In this section, I examine whether fund preferences and are correlated with proxies for managerial agency problems. As it is challenging to directly measure agency problems, I present results that employ several measures that have been commonly used as agency proxies in the literature: board independence, insider ownership, CEO ownership, and abnormal CEO compensation.

4.1.1. Board Independence

First, I examine whether funds' governance preference rankings are correlated with board independence. The results are presented in column (1) of Panel A in Table 3. Each subpanel corresponds to one of the six different governance provisions, as indicated by the subpanel titles. Each coefficient in column (1) is an estimate from a univariate regression where the dependent variable is the percentile rank of governance preferences (the provision referenced is indicated by the subpanel titles) and the independent variable is either the percentile of board independence (the first row of each subpanel) or board independence (the second row of each subpanel). The median rank, which is presented in Table 2, is used in all the analyses hereafter.

The first coefficient -0.27 indicates that funds are more enthusiastic about firms with low board independence having an independent board chairman than firms with high board independence: one percentile increase in board independence is associated with a 0.27 decrease in firm's percentile rank, suggesting that board independence is important in how funds vote on independent board chairman proposals. Panel A.2 shows that funds are also more enthusiastic about firms with low board independence having a declassified board. Overall, the coefficients in column (1) are negative, with varying statistical significance, consistent with the view that funds value a balance of power between shareholders and managers.[16]

[16]I transform the independent variable to an ordinal format because the dependent variable is in an ordinal format. The second row in each subpanel reports the coefficient estimates from the regressions in which the dependent variable is an ordinal variable and the independent variable is a numerical variable. This is not the

Although the main focus of this analysis is on the relation between firm characteristics and funds' governance preferences, natural questions are whether the results regarding fund preferences and those regarding overall vote support point in the same direction, and whether the firms that receive proposals are systematically different from those that do not receive proposals. The remaining columns provide answers to these questions. Column (2) focuses on the votes cast in favor of the various proposals and examines whether they are correlated with board independence. The coefficients in column (2) show a different pattern from those in column (1): the firms with high levels of board independence receive higher vote support on shareholder-sponsored governance proposals. This is possible if the shareholders at different firms have heterogeneous preferences regarding an independent board chairman, and suggests that vote support and fund preferences might not always point in the same direction. [17]

Columns (3)-(6) report whether board independence is associated with proposal targeting decisions. Interestingly, targeted firms have higher board independence than the firms that are not targeted, suggesting that targeting decisions might not always be driven by the net benefit provided by implementing the given proposal. In columns (7) and (8), I compare board independence of firms that adopted and did not adopt the given governance provisions, as it is possible that firms with certain characteristics choose optimal governance structures; alternatively, it may be that those firms are more prone to agency problems. Columns (7) and (8) show that the level of board independence is significantly different for firms that adopted and did not adopt the examined governance provisions; yet the direction varies across provisions.

To summarize, funds prefer that firms with low board independence adopt certain governance provisions that increase their shareholder rights, but such firms do not receive higher vote support on the shareholder proposals that are relevant to this issue. The level of a firm's board independence is associated with its governance and the likelihood that it receives a proposal.

4.1.2. Insider Ownership

In Panel B of Table 3, I repeat the same analysis as is shown in Panel A, but I investigate insider ownership. Column (1) examines whether fund preferences are correlated with insider ownership and the percentile thereof. Most of the coefficients in column (1) are positive, with varying statistical significance, indicating that funds are largely more supportive of shareholder-

most preferred specification but it provides the advantage of preserving the numerical values.

[17]The pattern in column (2) can also be explained by the fact that board independence is correlated with other firm characteristics. However, the same effect applies to the coefficients in column (1); therefore, the sign difference between these two columns is unlikely to be driven by other firm characteristics.

sponsored governance proposals for firms with high levels of insider ownership.

More than half of the coefficients in column (2) are negative, and they also have varying statistical significance. The results suggest that firms with lower levels of insider ownership attract more shareholder support; although this may seem counterintuitive, this is plausible if insiders use their voting power to lower vote support for shareholder proposals. Columns (3)–(6) show that the firms targeted by the proposals have lower levels of insider ownership than firms that are not targeted. Columns (7) and (8) show that firms that have adopted governance provisions have lower levels of insider ownership, with the exception of provisions related to board declassification. Panel C shows the results for CEO ownership, which demonstrate a similar pattern. Overall, the funds prefer firms with higher levels of insider ownership to adopt several of the governance provisions that increase their shareholder rights, supporting the view that funds are mindful of the power balance between managers and shareholders.

4.1.3. Abnormal Executive Compensation

In Panel D of Table 3, I examine the relation between fund preferences and abnormal executive compensation. In column (1), most of the coefficients are positive and more than half are significant, indicating that the funds prefer firms with high levels of abnormal executive compensation to adopt provisions that increase their shareholder rights. The results regarding vote support generally point in the same direction. The results in columns (3)–(6) show that firms with higher abnormal executive compensation are more likely to be targeted by proposals, except for proposals on independent board chairman.

Overall, the results in Section 4.1 are consistent with the view that funds are more supportive of enhancing shareholder rights in firms with strong insider control. As there are various pieces of evidence presented in this section, I summarize the main takeaways in Figure 4. This figure presents the relationship between funds' preference rankings and firms' characteristics. The coefficients in the figure are the estimates in column (1) of Table 3. These results show that fund preferences regarding governance structures are correlated with the proxies for agency problems.

4.2. Firm Performance

One idea that has been suggested in the literature is that it might be better to take control away from the managers of poorly performing firms. For example, Cohn, Gillan, and Hartzell

(2016) report evidence that it is more beneficial to allow proxy access in poorly performing firms than in firms that perform well. Karpoff, Malatesta, and Walkling (1996) and Renneboog and Szilagyi (2011) find that shareholder proposals are more likely to be targeted at poorly performing firms, which could be interpreted an evidence that shareholder proposals are more beneficial for poorly performing firms. In this section, I examine whether fund preferences are correlated with certain measures of firm performance.

4.2.1. Stock Returns

Panel E of Table 3 examines cumulative abnormal returns based on the market-adjusted model over the past year. The coefficients in column (1) are negative about half of the time, but not statistically significant with the exception of the coefficient for independent board chairman. The results regarding vote support in column (2) are more or less similar. In columns (3)–(8), I examine whether stock market performance is correlated with targeting decisions and the governance provisions in place at the firms. Regarding targeting decisions, 6-month cumulative abnormal returns are examined. Although there is some evidence that the poorly performing firms are more likely to be targeted, the evidence is mixed and weak.[18]

4.2.2. ROA

In Panel F of Table 3, I examine the relation between the preference rankings and ROA. Glancing down column (1), the coefficients are generally negative, but few are statistically significant. The most surprising result is the positive coefficient for independent board chairman: funds prefer firms with higher ROA to have an independent board chairman, which is in contrast with the results regarding stock market performance reported in Panel E.1. This is not just the consensus of the funds; the results in column (2) also indicate that the firms with higher ROA receive higher vote support on independent board chairman proposals. The

[18]I also explored alternative specifications using different time horizons, with and without expected return adjustments. The relations between the rankings and the various performance measures are presented in Appendix Figure A.3. Across different specifications, I find that funds prefer firms with poor stock market performance to have an independent board chairman and a say-on-pay provision. This suggests the possibility that CEOs are held responsible for poor stock market performance. However, most of the results are somewhat sensitive to the time horizon over which the returns are computed and to the models used to calculate the abnormal returns, which is consistent with the findings of the survey of literature by Denes, Karpoff, and McWilliams (2017): some studies find that firms with poor performance are more likely to attract proposals, while others find an insignificant relation in this regard. In terms of point estimates, firms targeted by shareholder proposals and firms without governance provisions tend to underperform in the stock market, but this difference is usually insignificant.

results in columns (3)–(6) show that ROA is not strongly associated with targeting decisions. Columns (7)-(8) show that firms that have already adopted governance provisions tend to have higher ROA (with the exception of Panel F.1), but this difference does not seem to be of an economically meaningful magnitude.

4.2.3. Market-to-Book Ratio

In Panel G of Table 3, I examine the relation between the preference rankings and market-to-book ratio.[19] Column (1) shows that funds prefer firms with high market-to-book ratios to have an independent board chairman. If one interprets the market-to-book ratio as a proxy for firm performance, this result would be consistent with the results regarding ROA and inconsistent with the results regarding stock market performance. The results regarding voting outcomes point in the same direction, showing that the firms with higher market-to-book ratios receive higher vote support on independent board chairman proposals. In terms of the targeting decisions, firms that receive independent board chairman proposals have lower market-to-book ratios.

For the rest of rows in column (1), the coefficients are usually negative but rarely significnat, suggesting that fund preferences are not strongly associated with market-to-book ratios. Results in column (2) generally have the same sign as those in column (1). Columns (3)–(6) show that the firms targeted by the proposals sometimes have significantly different market-to-book ratios from the firms that are not targeted, yet the magnitude of this difference does not appear to be very large. Looking at columns (7)–(8), firms with and without provisions in place do not look materially different in terms of their market-to-book ratios.

Overall, the results in Section 4.2 suggest that the relation between funds' governance preference rankings and firm performance is mixed and weak. As before, the overall pattern is presented in Figure 4.

[19]The market-to-book ratio, its inverse, and Tobin's Q have long been examined in the literature as proxies for firm value (Morck, Shleifer, and Vishny, 1988), investment or growth opportunities (Fazzari, Hubbard, and Petersen, 1988), risk factors (Fama and French, 1993), and monitoring costs (Boone, Field, Karpoff, and Raheja, 2007). Cremers, Litov, and Sepe (2017) and Bebchuk, Cohen, and Wang (2013) use Tobin's Q as a proxy for firm value/performance. Field and Lowry (2019) use the market-to-book ratio as a measure of information asymmetry. Cai, Garner, and Walkling (2013) use Tobin's Q as a proxy for performance and show that firms with low Tobin's Q attract more majority voting proposals.

4.3. Other Characteristics

4.3.1. Firm Age

Several studies report that firms have different corporate governance structures at different stages of their life cycles, which naturally leads to the hypothesis that the optimal governance structures for firms change as they progress through their life cycles.[20] Even though the literature does not seem to have reached an agreement on whether certain governance provisions enhance shareholder value on average, the literature tends to concur that young firms benefit more from being insulated from takeover pressures than mature firms.[21]

Column (1) of Panel H in Table 3 examines whether fund preferences regarding governance outcomes are correlated with firm age. The results indicate that firm age is inversely related to fund preferences for a majority voting standard, proxy access, and say-on-pay, and not significantly related to the rest of the issues. Given the literature findings, one might expect a positive coefficient in general and especially for Panel H.2, but this does not turn out to be the case when firms that received the same type of proposals in the same year are ranked against each other. Column (2) shows that the results for voting outcomes generally point in the same direction. Columns (3)–(6) show that firms that attracted proposals are significantly more mature than firms that did not, across all topics, and columns (7)–(8) show that the age of firms that already adopted governance provisions is different from that of firms that did not. Overall, mature firms attract shareholder proposals across all topics, yet there is little evidence that funds prefer mature firms to have stronger shareholder rights.

4.3.2. Market Capitalization

Firm size, which is often correlated with firm age, is discussed in literature to predict governance structures in place as well as optimal corporate governance structures. For example, Cremers et al. (2017) find that large firms benefit more from having a declassified board.

[20]For example, Boone et al. (2007) use a panel dataset that tracks firms' board structures over time and show that board size and independence change as firms mature. Field and Lowry (2019) show that IPO firms have become more likely to have classified boards and dual class structures during recent years.

[21]For example, Field and Lowry (2019) report that young firms would optimally choose to implement classified boards, and Karakaş and Mohseni (2019) report that classified boards would be especially value-destroying for mature firms. Field and Lowry (2019), Kim and Michaely (2019), and Cremers, Lauterbach, and Pajuste (2018) suggest that dual class structures would be more beneficial for young firms. Johnson, Karpoff, and Yi (2018) show that takeover defenses enhance a firm's value when it is young but that they become costly over time.

Stratmann and Verret (2012) suggest that proxy access can hurt small companies.[22] Gompers, Ishii, and Metrick (2003) report that large firms tend to have weaker shareholder rights. In addition, the existing studies on this topic unanimously show that large firms attract shareholder proposals (e.g., Karpoff et al., 1996; Smith, 1996; Cai and Walkling, 2011). These findings seem to suggest that large firms benefit more than small firms from stronger shareholder rights.

Column (1) of Panel I in Table 3 examines whether funds' governance preferences are correlated with firm size and the percentile thereof, where firm size is measured by the natural log of market capitalization. With the exception in Panel I.2, the coefficients in column (1) are generally negative, statistically significant in the case of majority voting but not the other topics. The positive coefficient in column (1) of Panel I.2 indicates that funds prefer large firms to have a declassified board, which is directionally consistent with Cremers et al. (2017); however, the coefficient is not statistically from zero. Column (2) shows that large firms receive significantly higher vote support on board declassification proposals.

Across all the proposal topics, large firms are more likely to be targeted by shareholder proposals. One might be inclined to interpret this as evidence that these firms receive greater benefits from implementing the proposals, but the results in column (1) generally do not provide evidence to support this. Alternatively, large firms might receive more proposals because they have more shareholders who are eligible to submit shareholder proposals. Examining columns (7) and (8), firm size is significantly associated with whether a firm has already adopted a governance provision.

To summarize the evidence in Section 4.3, large and mature firms attract shareholder proposals—a fact that has repeatedly been pointed out in the literature—yet there is no strong evidence that funds are more enthusiastic about large or mature firms adopting the governance provisions examined in this paper. This suggests that firms that are frequently targeted by proposals are not necessarily those that would benefit the most from adopting them.

5. Fund Preferences and Sponsor Types

An important question in the shareholder activism literature is whether proposals that are brought by some proponents are more aligned with the interests of shareholders at large.

[22]Stratmann and Verret (2012) examine the market reactions to unexpected changes in the SEC's proxy access rule and reports evidence that proxy access decreases firm value in small firms below $75 million dollars in market capitalization.

Together, labor unions, public pension funds, and religious groups submit nearly half of all the shareholder proposals, raising the question of whether these proposals are submitted to enhance firm value or to advance private interests. Previous studies on this subject have examined shareholder activism by labor unions and public pension funds, with mixed evidence on their motivation and effectiveness.[23] The rankings developed in this paper can shed light on whether funds favor proposals submitted by certain proponents more than others, while holding constant proposal topics and each fund's overall preference towards those topics. The inference in this paper is based on the consensus of the mutual funds, whereas the extant literature has drawn conclusions based on votes in favor and stock market reactions to key events.

Figure 5 shows whether proposals by certain types of proponents are more welcomed by funds than others. The sponsor type classification comes from the ISS Proposals database, and I correct obvious misclassifications. I group the proposals into seven broad categories, and the proposals by the rest or without sponsor information were grouped into the "others" category. The figure displays the kernel density estimate of the percentile rank of each sponsor type across all the individual proposal topics.[24] Most notably, the proposals brought by non-SRI funds are the most welcomed by mutual funds. This pattern is obvious, although the number of observations is relatively small (N=44). This result contrasts with the kernel density estimate directly below it: the proposals submitted by SRI funds are not as welcomed by mutual funds. The proposals submitted by public pension funds are, on average, viewed more favorably than those brought by most of the other groups; this is consistent with Del Guercio and Hawkins (1999), who find no evidence to question the motivations of public pension funds. The proposals brought by religious groups and labor unions are not particularly liked or disliked, and the proposals brought by individuals are the least favored. The proposals by individuals are mostly brought by a handful of activists and typically receive a low level of vote support.[25] All this evidence points in a consistent direction: proposals by individuals are less likely to benefit shareholders.

I repeat the same analysis for each topic, but I do not report these results because the sample size for each sponsor type is usually too small to draw strong conclusions: for each

[23]For evidence on labor unions, see Cai and Walkling (2011), Ertimur, Ferri, and Muslu (2011), Agrawal (2012), Prevost, Rao, and Williams (2012), and Matsusaka, Ozbas, and Yi (2019). For evidence on public pension funds, see Romano (1993), Wahal (1996), Del Guercio and Hawkins (1999), and Prevost and Rao (2000).

[24]Fund preferences regarding G-Index proposals are not examined because these rankings are based on multiple proposals and often sponsored by multiple proponents.

[25]Matsusaka et al. (2020) show that companies are more likely to send individuals' proposals to the SEC for a no-action letter request, and the SEC is more likely to allow companies to exclude those proposals from their proxy statements.

topic, one or two groups sponsor most of the proposals. The majority of independent board chairman proposals are brought by either individuals or labor unions, and funds prefer labor unions' proposals to individuals' proposals. More than 80 percent of the board declassification proposals are brought by either individuals or public pension funds, and mutual funds prefer the public pension funds' proposals to individuals' proposals. Unions sponsor more than 80 percent of the proposals requiring a majority vote, and public pension funds sponsor more than 15 percent of such proposals. Funds prefer public pension funds' proposals to labor unions' proposals. Public pension funds sponsor more than 50 percent of the proxy access proposals, and individuals sponsor more than 30 percent of these proposals; the funds preferred public pension funds' proposals to individuals' proposals.[26]

6. Fund Preferences and Other Proxies

To better contextualize the rankings, I next explore the correlation between fund preferences and vote support on related proposals, the G-Index, and ISS recommendations.

6.1. Vote Support on Shareholder Proposals

First, I explore the relation between funds' preference rankings and votes in favor, defined as votes in favor/(votes in favor + votes against). On the one hand, it would not be surprising to observe some correlation between the rankings and vote support because fund votes are the main inputs used to construct the rankings and vote support is to some extent determined by the fund votes. However, each measure is constructed in a fundamentally different manner, and it might not be too surprising to see a low level of correlation between the preference rankings and vote support.[27]

Figure 6 presents the relationships between funds' preference rankings and vote support for each of the six proposal topics: require an independent board chairman, declassify the board,

[26]For the rest of the topics, comparisons between the different sponsor types are infeasible: almost all the special meeting proposals are sponsored by individuals; additionally, the say-on-pay proposals are brought by almost all the sponsor types, and there is an usually a small number of proposals per sponsor type for this topic.

[27]For the rankings, the key input is the revealed preferences of the common investors, and the rankings are, by definition, meant for comparison. Vote support is based on the opinions of each firm's investors, and any differences in terms of ownership characteristics or investor tastes might influence vote support. Another difference is that the rankings equally weight each investor's opinion, whereas vote support weights the investors' opinions based on ownership. Finally, the rankings reflect mutual funds' views, whereas vote support reflects the view of all the investors. See Section 3.2.3 for additional discussions on this.

require a majority vote for director elections, require the adoption of proxy access, provide shareholders the right to call special meetings, and implement say-on-pay. Each panel has two graphs: the graph on the right shows the relation between vote support for a shareholder proposal (x-axis) and the firm's governance preference rank (y-axis). This rank is calculated for firms that received the same type of proposal each year. The graph on the left aggregates the information shown in the right graph by converting (i) the *rank* on the y-axis to a *percentile rank* and (ii) the *vote support* on the x-axis to a *percentile rank of vote support*. The purpose of this transformation is to ensure that scale does not become an issue while aggregating the results across different years. A higher percentile rank indicates a higher preference, whereas a higher rank indicates a lower preference. The figure on the right also displays the Spearman's correlation between the two variables.[28]

Panel A of Figure 6 presents the relationship for the independent board chairman proposals. The graph on the right indicates that there is a negative relation between the preference rankings and vote support on independent board chairman proposals for most of the years examined: the Spearman's correlation coefficient is negative and statistically significant for most of the years. Funds' preference rankings and vote support on proposals point in the same direction: funds prefer firms with higher levels of vote support for independent board chairman proposals to have an independent board chairman. The graph on the left converts the information on the right to percentile rankings. The pattern becomes clearer after aggregation. The Spearman's correlation between percentile rank and percentile of vote in favor is 0.48. However, the relationship is unclear for the firms that received relatively low levels of vote support on their independent board chairman proposals.

Panel A of Table 4 reports the Spearman's correlation coefficient, which is also shown in Panel A of Figure 6 along with the number of observations per year. Panel B of Table 4 reports the linear relation between preference rank and vote support in a percentile rank format. The coefficient of 0.48 in column (7) indicates that if a firm's vote support percentile rank increases by 1 percentage point, its fund preferences percentile rank will increase by 0.48 percentage points. Column (13) replaces the independent variable in column (7) with vote support without any rank transformation, and shows that if votes in favor increase by 1 percentage point, the percentile rank based on fund preferences decreases by 0.84 percentage points.[29]

[28]Spearman's correlation, also known as rank correlation, is a nonparametric measure that captures the statistical dependence between the rankings of two variables. For comparison purposes, I often convert the other variables of interest to ordinary variables.

[29]The results in columns (13)–(18) of Table are reported in this way because it enables ease of interpretation; however, this is not the most preferred specification, as they examine the linear relation between an ordinal dependent variable and a numerical independent variable.

The results for the other proposal topics are presented in Panels B–F of Figure 6 and Table 4. The correlation varies by topic: it is weak for board declassification (ρ=0.2) and moderate for majority vote requirement (ρ=0.5), proxy access (ρ=0.43), and special meeting (ρ=0.4). As before, vote support does not appear to be a good indicator of the fund preferences for firms that received lower levels of vote support on their proposals than their peers.

Panel F of Figure 6 and columns (6), (12), and (18) of Table 4 present the results for say-on-pay. There is little evidence that fund preferences are correlated with vote support in the case of say-on-pay proposals, which is a patter somewhat different from the one reported above. The degree of consensus among funds is lower for say-on-pay than it is for the other topics, and there is lack of a dispersion in vote support; either of these phenomena can explain the low correlation observed.[30]

Overall, funds governance preference rankings and vote support for the related shareholder proposals are moderately correlated. Funds generally prefer firms with higher vote support for shareholder proposals to adopt the relevant governance provisions, but the correlation is not too high to conclude that funds' governance preferences and overall vote support provide mostly the same information. The strength of the correlation varies by topic and is unclear in the case of say-on-pay and for firms that received relatively low levels of vote support.

6.2. G-Index

Gompers et al. (2003) use the incidence of 24 governance rules to develop the G-Index, a proxy for the strength of shareholder rights, and showed a strong association between G-Index and firm performance. Subsequent research widely uses this index as a proxy for governance quality. Despite its popularity in academic research, it has been challenged as well, and recent evidence has shown that the index does not provide meaningful information regarding governance quality or firm performance (e.g., Bhagat, Bolton, and Romano, 2008; Daines, Gow, and Larcker, 2010).

In light of this debate, I examine whether funds prefer firms with a high G-Index to strengthen their shareholder rights. If funds believe that a high G-Index indicates agency problems, then they would be more supportive of the G-Index proposals received by high G-Index firms. Alternatively, if the optimal level of shareholder rights is different for different

[30]The degree of consensus is measured by the range of 95% central interval, scaled by the total number of firms ranked. Panel A of Table 1 shows that approximately 65 percent of say-on-pay proposals had votes in favor in between 40 and 60 percent.

firms, then fund preferences would not be strongly correlated with the G-Index.

I estimate funds' preferences regarding the adoption of G-Index proposals among the firms that have received at least one G-Index proposal each year between 2004 and 2017, and Figure 7 reports the results. Similar to the results shown in Figure 6, I report the relation between the preference rankings (y-axis) and each firm's G-Index (x-axis). The graph on the right reports this relation for each year, and the graph on the left aggregates the information shown in the right graph, transforming all the variables into percentile ranks. Because my sample starts in 2004 and the last year with G-Index information is 2006, there are only two years available for comparison.[31] However, more than 200 firms received G-Index proposal in 2004 and 2006, allowing room for cross-sectional variations. Figure 7 shows that the relation between the preference rankings and the G-Index is weak. The Spearman's correlation coefficient is 0.16 (significant at the 5 percent level), which is small in magnitude to conclude that funds prefer that a firm with a high G-index decrease its G-Index more than a firm with a low G-Index. Weak shareholder rights are not necessarily a problem for mutual funds, giving weight to the view that different firms have different optimal governance structures. Similar information is reported in columns (1) and (3) of Table 5. Regression (1) indicates that if a firm's G-Index percentile increases by 1 percent, the percentile of preference rank decreases by 0.14, and this relation is statistically significant at the 10 percent level with an R^2 of 2 percent.

As the G-Index in a given year can be affected by the voting outcomes of related proposals, one might question whether it is reasonable to use the concurrent level of the G-Index. To address this concern, I also report the relation with lagged G-Index in Table 5, using a maximum lag of two years.[32] The coefficients are similar or slightly higher and the statistical significance increases, yet not material enough to support the view that funds prefer firms with high G-Index to strengthen their shareholder rights.

6.3. ISS Recommendations

The voting recommendations of proxy advisors play a major role in fund voting behavior as well as voting outcomes (Iliev and Lowry, 2015; Malenko and Shen, 2016). Thus, a natural question is whether the firms' rankings are related to ISS recommendations. In the case of independent board chairman proposals, ISS recommended voting "for" some firms' proposals

[31] Even for the years before 2006, the G-Index is not reported every year. The years with G-Index information are as follows: 1990, 1993, 1995, 1998, 2000, 2002, 2004, and 2006.

[32] A potential drawback is that the same G-Index value can be used for multiple years (because the G-Index information is not reported every year), thus treating an year without an observation as if it had an observation.

and "against" other firms' proposals (Table 1 Panel A). This recommendation is strongly correlated with a firm's estimated rank: when ISS recommends voting against a firm's independent board chairman proposals, that firm is consistently ranked at the bottom.[33] For the rest of the provisions, ISS almost always recommends voting for related proposals (Table 1 Panel A). Therefore, for the most part, ISS recommendations do not determine each firm's rank, and the estimated rankings should be viewed as within-ISS recommendation estimates.

7. Active vs. Passive Funds

The focus so far has been on the governance preferences of all mutual funds. A recent debate among scholars questions whether passive funds are active monitors, showing mixed evidence. For example, Appel et al. (2016) empirically show that if passive investors hold large ownership stakes in a firm, they will then have the incentive and ability to become active monitors, whereas Schmidt and Fahlenbrach (2017) show that increases in passive ownership are associated with increases in CEO power. Heath et al. (2019) and Brav et al. (2018) also show that passive funds are more likely to be supportive of management, which can be interpreted as evidence of passive monitoring. In light of this debate, I explore whether passive and active funds have different governance preferences. Although this analysis might not speak directly to the extent of active vs. passive monitoring, one might expect a low correlation between the preferences of passive and active funds if active investors tend to support value-increasing proposals and oppose value-decreasing proposals and if passive investors vote in an uninformative manner. Alternatively, it is possible that both are active monitors, yet they each value different characteristics due to their different investment horizons or other considerations.

To shed light on these questions, I separately estimate the governance preference rankings of active and passive funds. Table 6 reports the Spearman's correlations between active and passive funds' preference rankings for each topic-year. The bottom row aggregates the results across all the years examined and reports the Spearman's correlations between the percentile ranks. The rankings are correlated, yet the degree of correlation varies by topic and year; it is the highest for proposals on the right to call special meetings (ρ=0.87) and the lowest for board declassification proposals (ρ=0.29). The correlation is moderately high for the other topics: 0.79 for independent board chairman, 0.71 for majority vote requirement, 0.61 for proxy access, and 0.52 for say-on-pay. Except for the case of board declassification, passive and active funds generally seem to have similar governance preferences regarding governance structures.

[33]This pattern is obvious; therefore, I do not report the results to conserve space.

To further examine the sources of variation, I next explore whether the relation between fund preferences and firm characteristics is different for passive and active funds. Panel A of Appendix Figure A.4 shows that the overall relation is generally similar for active and passive funds; if anything, the pattern reported in Figure 4 is more pronounced for the passive funds.[34] For example, Panel A shows that passive funds, but not active funds, prefer firms with low board independence to declassify their boards. The coefficients -0.24 and 0 are different at the 1 percent level. Fund preferences regarding majority vote requirements are similar, and the coefficients -0.13 and -0.1 are statistically indifferent from zero. Overall, the relation between fund preferences and firm characteristics is not systematically different between the active and passive funds; if anything, this relationship is more pronounced for the passive funds. Additionally, I examine whether the relation between the rankings and voting outcomes, the relation between the rankings and firm characteristics, and funds' preferences regarding sponsors are different between passive and active funds. I find little evidence of systematically different preferences. The results are presented in Panels B–D of Appendix Figure A.4.

So far, the evidence suggests that governance preferences of passive and active funds are not systematically different; however, this does not preclude the possibility that the majority of passive funds do not show variation in their votes and only a few passive funds vote like active funds. This is because the rankings are estimated based on the votes of the funds that showed revealed preferences, and it is possible that most passive funds vote uniformly across their portfolio firms' shareholder proposals on the same topic. To investigate this possibility, I summarize descriptive information on whether passive funds are more likely to vote in a uniform manner.

Panels B–C of Table 1 show that passive funds are less likely to vote entirely in accordance with the ISS recommendations or management recommendations. They are also less likely to vote uniformly across their portfolio firms' shareholder proposals on the same topic. At first, this might seem counterintuitive, as it gives the impression that passive funds act with more discretion than active funds. This pattern occurs because passive funds vote on more shareholder proposals each year (Table 1 Panel D), which mechanically allows more room for variations in their votes. Therefore, one cannot conclude that passive funds act with more discretion when voting. Next, I find that the passive funds are on average more likely to vote on their portfolio companies' shareholder proposals in accordance with management recommendations (Table 1

[34] As active funds have fewer firms in their portfolio than the passive funds (Table 1 Panel D), they vote on a smaller number of proposals on the same topic in a given year. This translates into less variation in the votes of active funds.

Panel D), consistent with Heath et al. (2019) and Brav et al. (2018).[35] One could view this as a lack of engagement; however, an alternative view is that passive funds are less likely to vote in accordance with ISS recommendations (Table 1 Panel D), which could also be interpreted as evidence of better engagement (Iliev and Lowry, 2015). I leave the interpretation to readers. Taken together, the governance preferences of passive and active funds are generally similar, and I do not find strong evidence that the passive funds act with less discretion in terms of their voting behavior.

8. Conclusion

In this paper, I develop mutual funds' governance preference rankings of firms by examining how funds vote differently across their portfolio firms' shareholder proposals. I exploit the fact that funds typically vote on many firms' shareholder proposals on the same topic every year, and reveal their preferences regarding governance outcomes—by casting a for vote on some firms' shareholder proposals and casting an against vote on other firms' proposals on the same issue. Using a novel machine learning technique of Vitelli et al. (2018), I implement the M-H MCMC algorithm and estimate funds' preferences regarding the adoption of six governance provisions that have gained traction during the last two decades: independent board chairman, board declassification, majority vote requirements for director elections, proxy access, shareholders' rights to call special meetings, and say-on-pay. I also estimate fund preferences over the adoption of G-Index proposals.

I find that funds prefer firms with low board independence, high insider ownership, and high abnormal compensation to adopt certain governance provisions that increase shareholder rights. I also find that large and mature firms frequently become targets of shareholder proposals, but funds are not particularly enthusiastic about the proposed governance changes at those firms. This suggests the possibility that large and mature firms are disproportionately targeted by these proposals and funds vote down proposals that do not benefit shareholders at large. I find a mixed relation between funds' preferences and firm performance. Passive and active funds' preferences do not exhibit any systematic differences. Funds prefer proposals submitted by non-SRI funds and dislike individuals' proposals. Proposals submitted by public pension funds are more welcomed than the rest, and the proposals brought by unions are not particularly welcomed or disliked.

[35] As companies rarely recommend to vote for shareholder proposals, this also means that passive funds are more likely than active funds to vote against shareholder proposals.

Corporate governance literature has long examined whether governance provisions examined in this paper are on average beneficial for firms; so far, there does not seem to be a consensus among scholars. One possible explanation for this is that these benefits are not uniform across heterogeneous firms. This paper ranks firms according to the governance preferences of mutual funds and takes a step towards understanding firms' unique governance demands.

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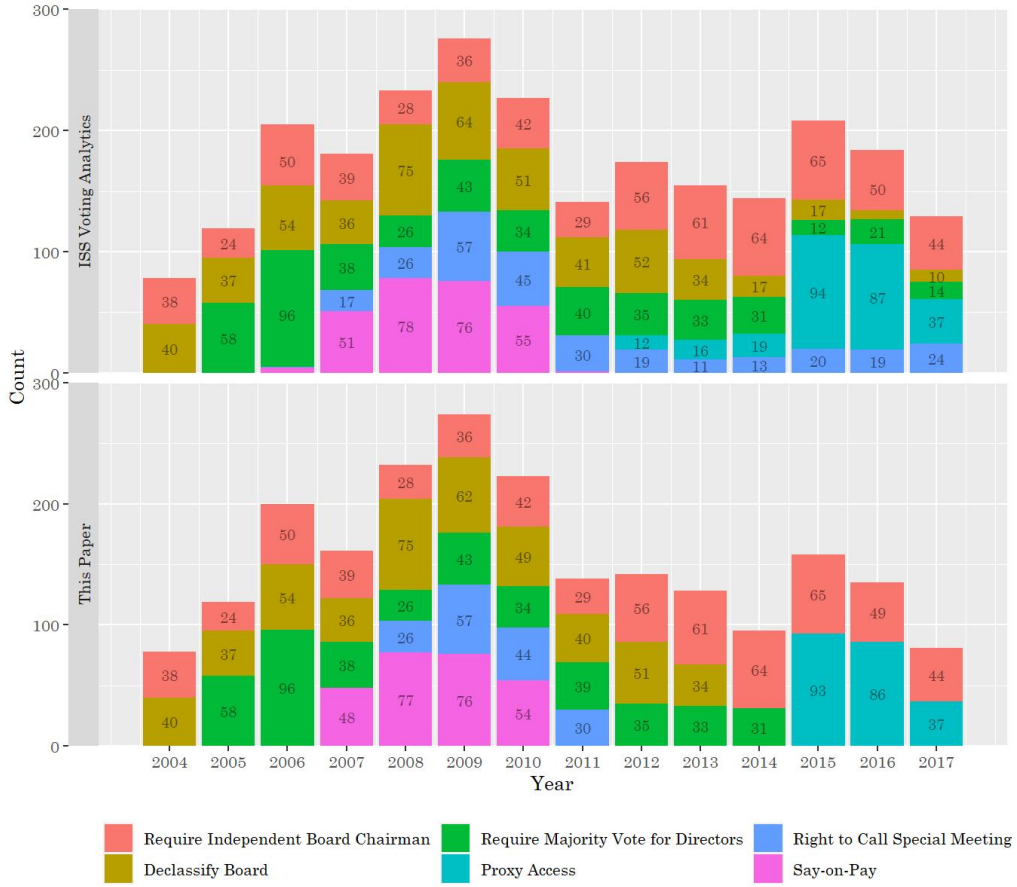
Panel A. Number of Firms with Proposals, by Topic



Panel B. In Sample: Number of Firms with G-Index Proposals

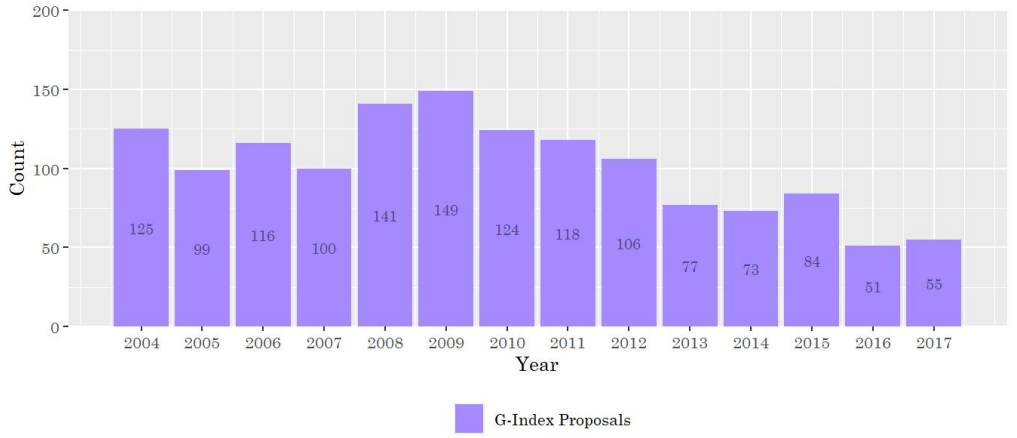
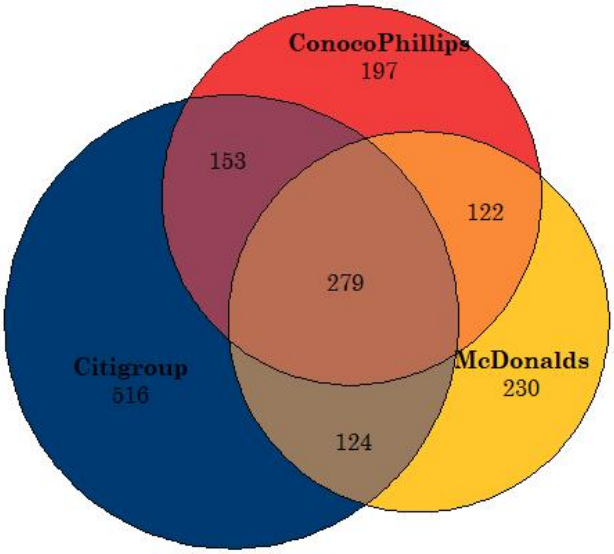


Figure 1. Firms with Shareholder-Sponsored Proposals by Topic. Panel A presents the number of firms with shareholder-sponsored governance proposals, by proposal topic each year. The top graph shows the total number of firms that received proposals in the ISS Voting Analytics Shareholder Proposals database. The bottom graph shows the number of firms analyzed in this paper to construct rankings based on the information from the ISS Voting Analytics Mutual Fund Vote Records database. Panel B presents the number of firms examined in this paper that received G-Index proposals during 2004–2017. The information comes from the ISS Voting Analytics Mutual Fund Vote Records database. The topic categorization is based on ISS's topic code "issagendaitemid"(Appendix Table A.1).

Panel A. Number of Funds that Voted on Three Firms' Proxy Access Proposals in 2015



Panel B. Fund Votes on Three Firms' Proxy Access Proposals in 2015

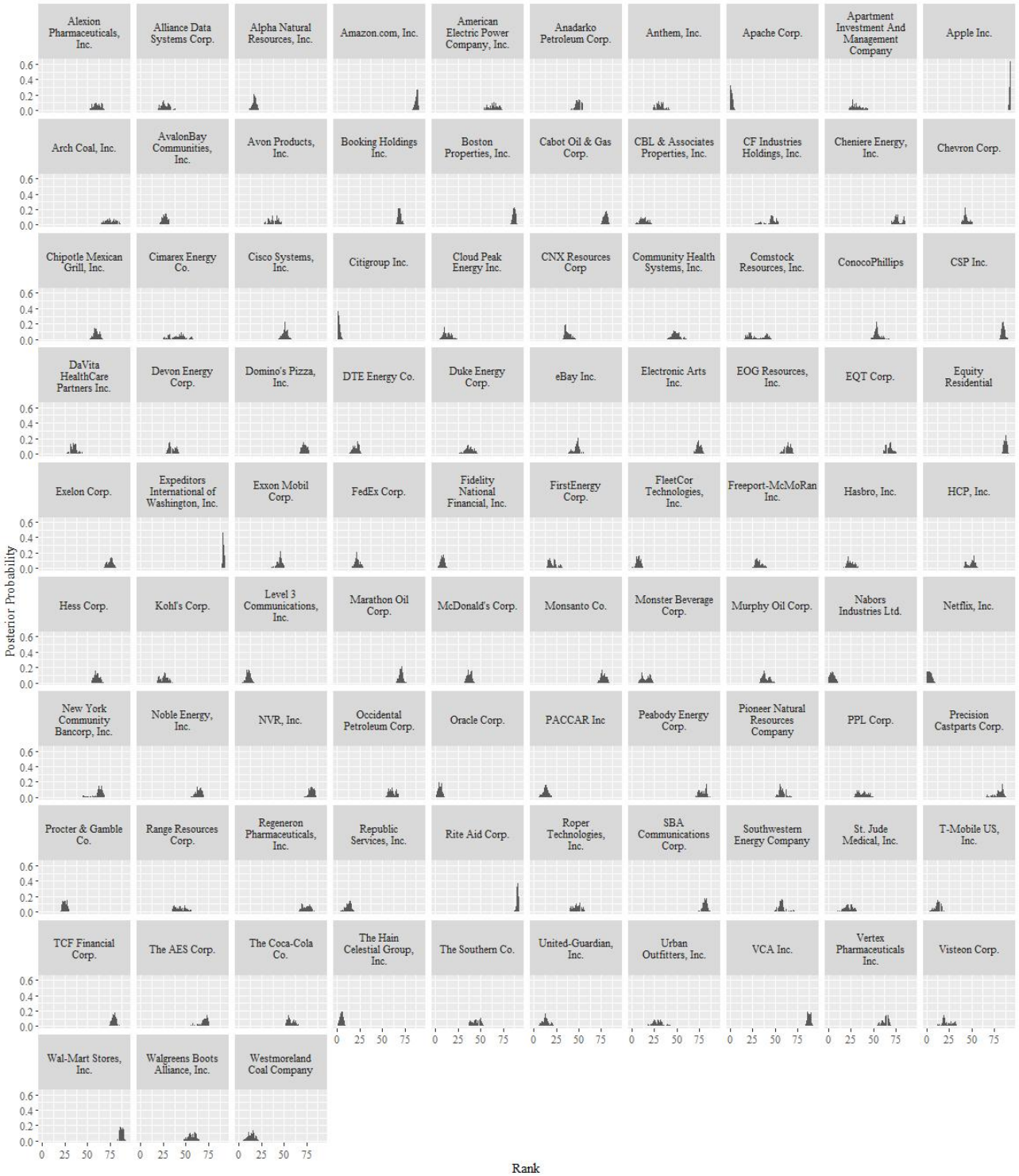
	Against	For
Citigroup \ McDonald's		
Against		
For		
McDonald's \ ConocoPhillips		
Against		
For		
Citigroup \ ConocoPhillips		
Against		
For		

(*Continued*)

Panel C. 50 Funds' Votes on 20 Firms' Proxy Access Proposals in 2015

Figure 2. Mutual Fund Voting Patterns: An Illustration. Panel A presents a Venn Diagram of the mutual funds that voted on the proxy access proposals of Citigroup, McDonald's, and/or Conoco Phillips' during 2015. Panel B shows the votes cast by these funds. Each black square represents one fund. For example, the top row shows that 54 funds voted against both Citigroup and McDonalds' proxy access proposals and no funds voted against Citigroup's proposal and for McDonald's proposal. Any votes other than For and Against are excluded from this figure. Panel C shows how 50 mutual funds voted on 20 firms' proxy access proposals during 2015. Each column represents a company, and each row represents a fund's votes.

Panel A. Proxy Access (2015)



(*Continued*)

Panel B. G-Index Provisions (2004)

Figure 3. Posterior Distribution of Rank. This figure presents the posterior distribution of each firm's rank based on funds' preferences. Panel A shows the information on proxy access proposals for companies that received these proposals during 2015. Panel B is for G-Index proposals, and includes companies that received at least one G-Index proposal during 2004. A rank of 1 means that the governance topic under consideration is the most desirable for the given firm from the perspective of mutual funds.

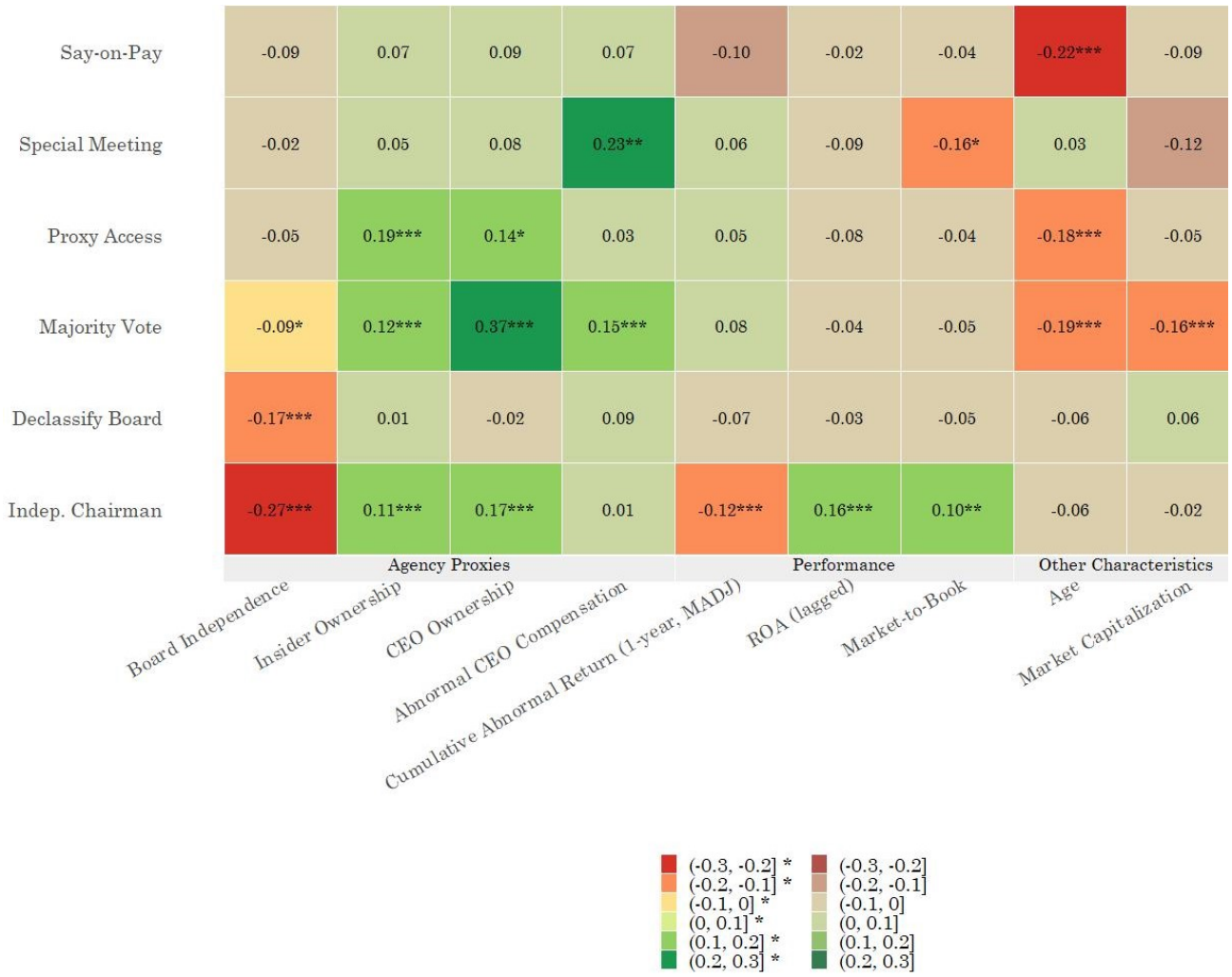


Figure 4. Fund Preferences and Firm Characteristics. This figure presents the relationship between funds' preference rankings and firm characteristics. Each coefficient is an estimate from a univariate regression where the dependent variable is the percentile rank of the governance preferences and the independent variable is the percentile of firm characteristics, as indicated at the bottom of the graph. These values are also reported in column (1) of Table 3. ***, **, and * indicate significance at the 1, 5, and 10% levels. The colors show the magnitude of the coefficients and whether the coefficients are statistically significant at least at the 10% level. For example, red is mapped to coefficients that fall within the range of $[-0.3, -0.2]$ and are statistically significant at least at the 10% level. The second column of the legend shows the color-coding of the coefficients that are not statistically significant at the 10% level.

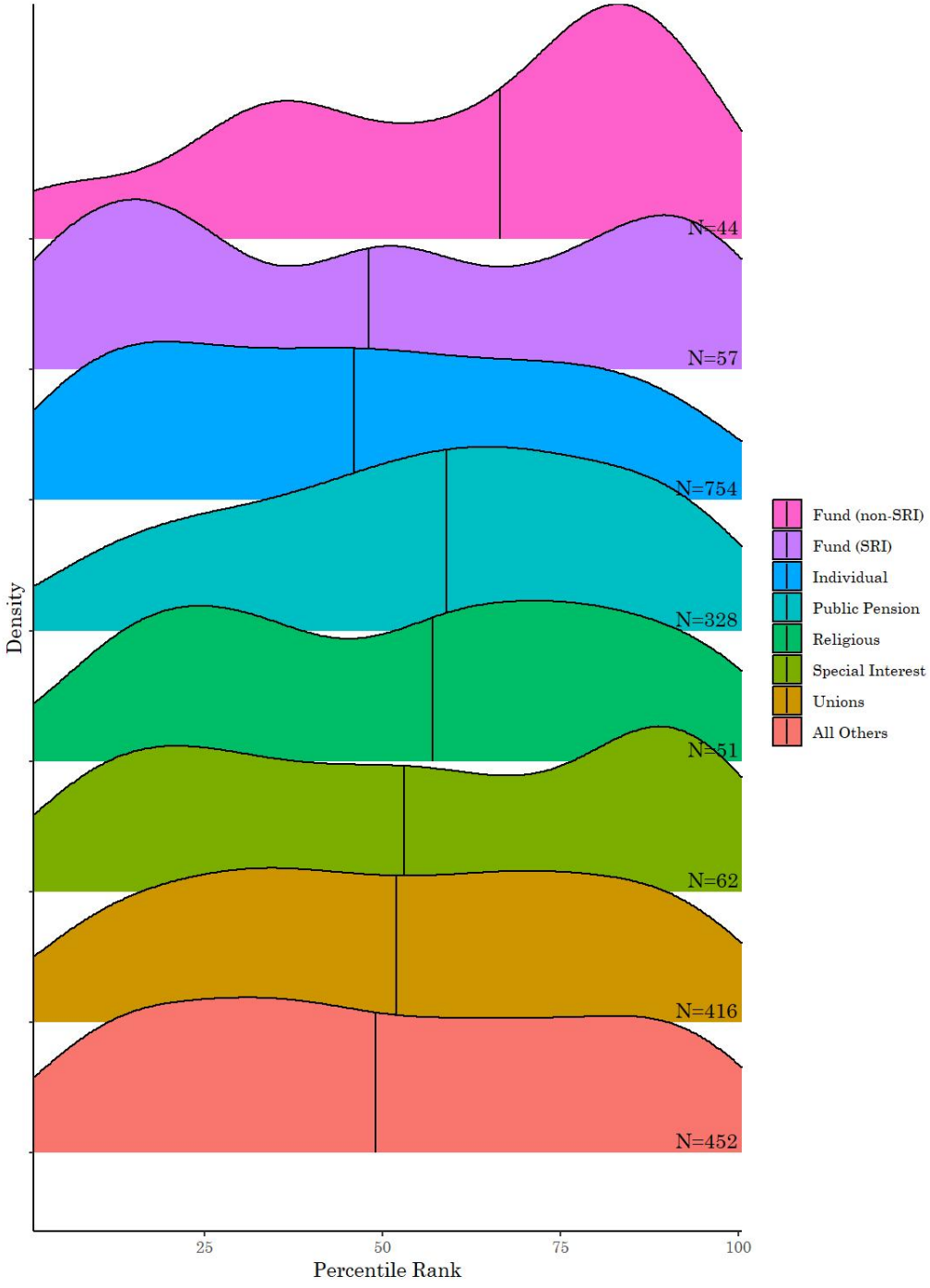
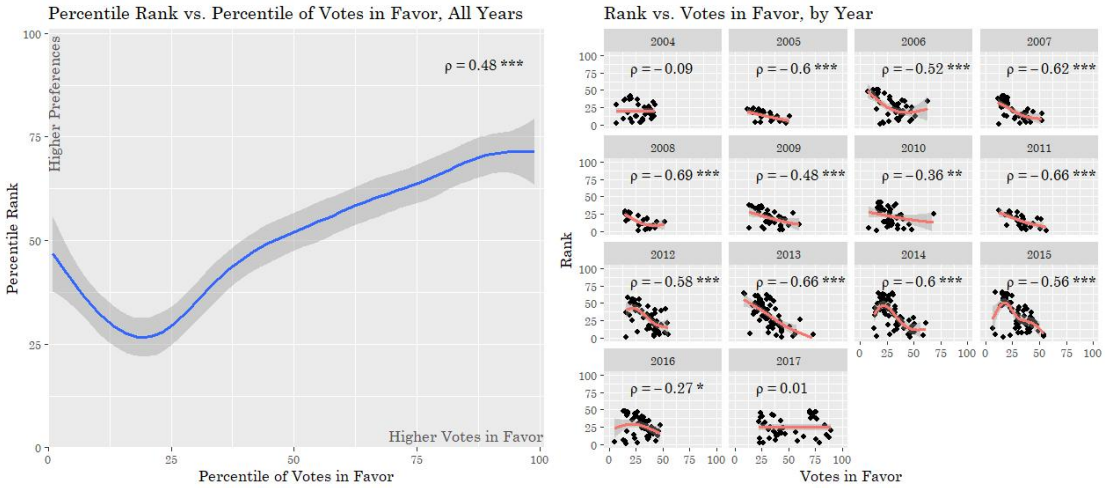
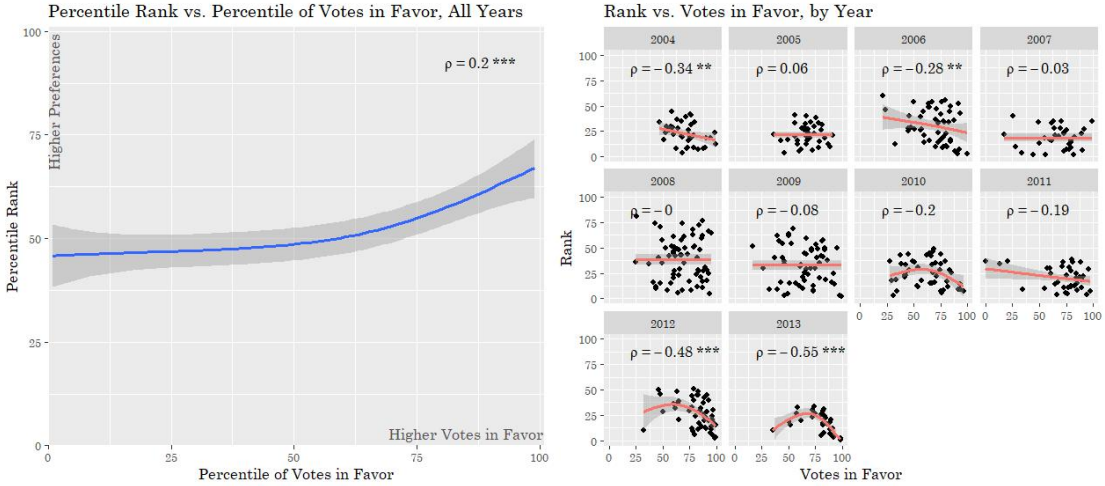


Figure 5. Kernel Density Estimate of the Percentile Rankings by Sponsor Type. This figure presents the kernel density estimate of the percentile rank for each sponsor type using the joint bandwidth of 9.91. The vertical lines display the median percentile rank for each sponsor type. A higher percentile rank indicates a higher preference.

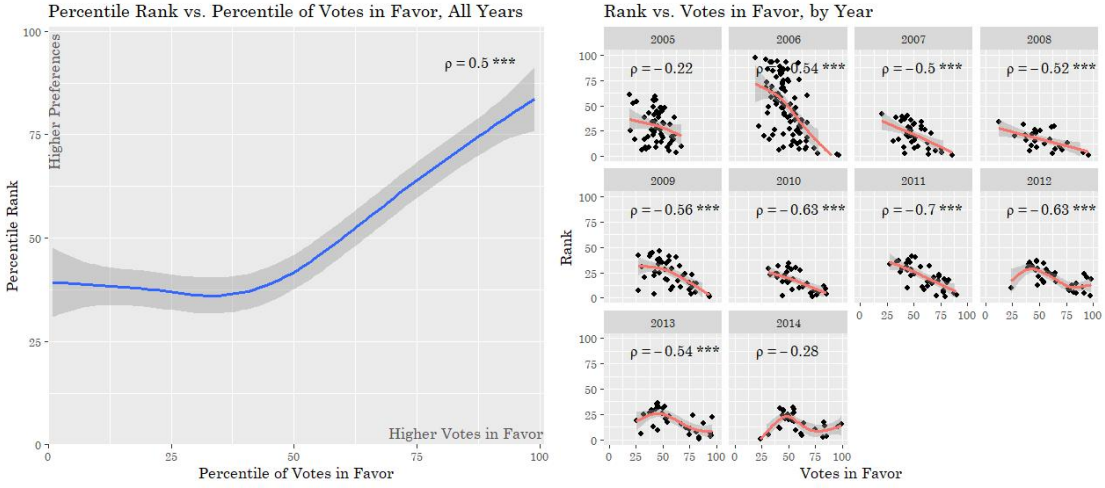
Panel A. Require Independent Board Chairman



Panel B. Declassify Board



Panel C. Require Majority Vote for Directors



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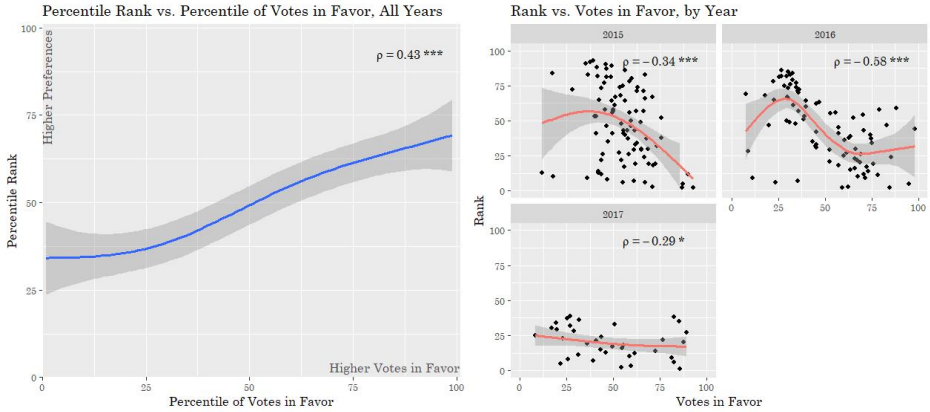
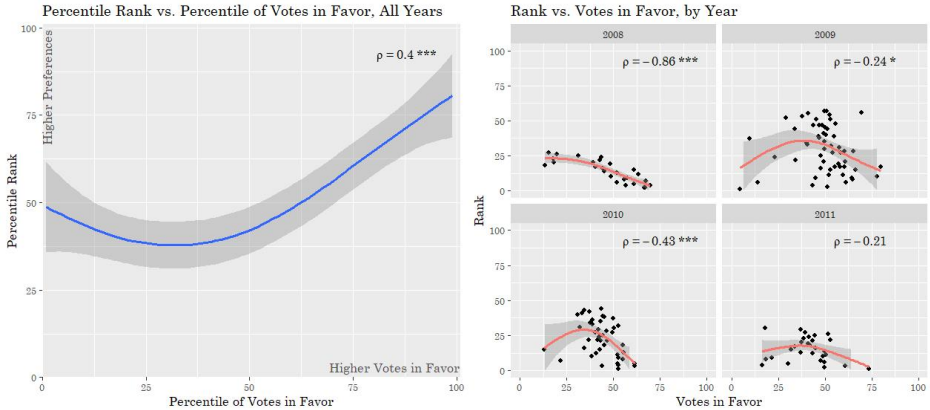
Panel D. Adopt Proxy Access



Panel E. Right to Call Special Meeting



Panel F. Say-on-Pay

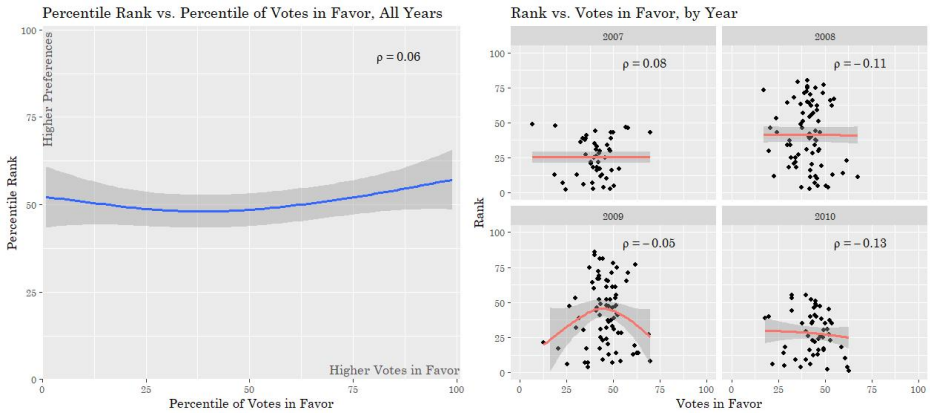


Figure 6. Governance Preference Rankings and Votes in Favor By Provision. This figure shows the relation between governance preference rankings and votes in favor. The governance provision under consideration is indicated by each panel title. For each panel, the graph on the left tabulates the examined relation during the entire sample period, and both the x-axis and y-axis variables are expressed as percentiles. The graph on the right tabulates the relation by year. A higher percentile rank indicates a higher preference, whereas a higher rank indicates a lower preference. The Spearman's correlation coefficient is indicated inside each graph. ***, **, and * indicate significance at the 1, 5, and 10% levels.

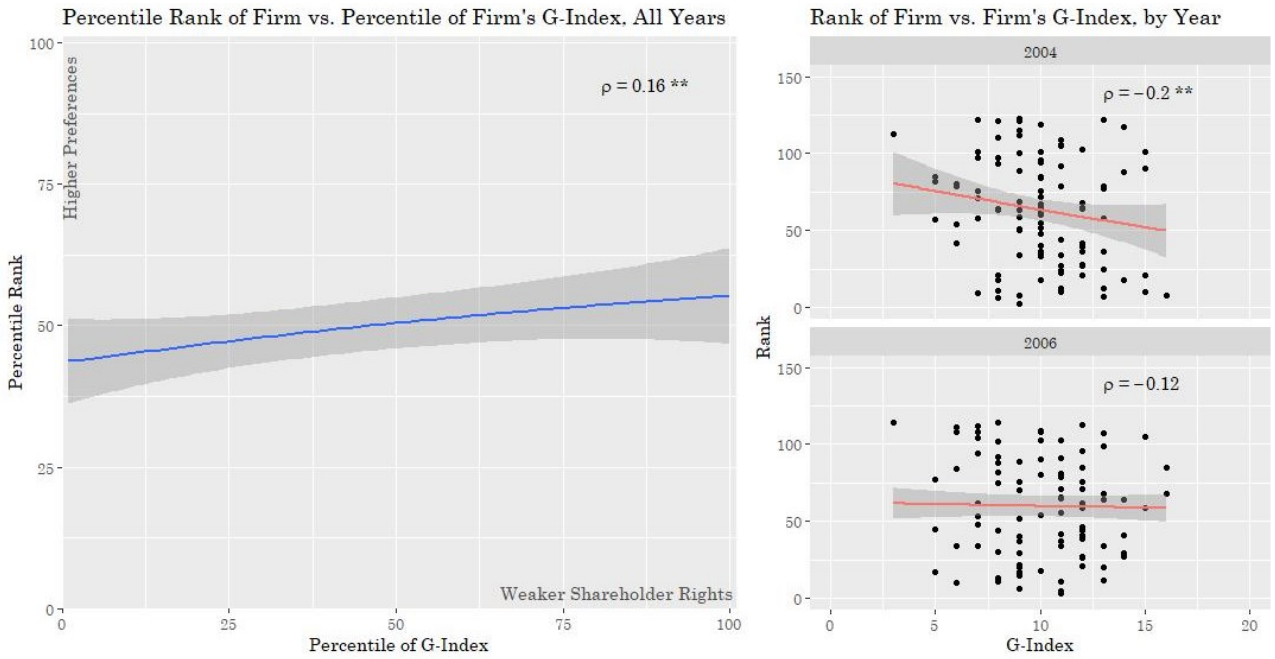


Figure 7. Governance Preference Rankings and the G-Index. This figure shows the relation between the funds' preferences regarding the adoption of G-Index proposals and the G-Index of Gompers et al. (2003). The graph on the left tabulates this relation for 2004 and 2006, and both x-axis and y-axis variables are expressed as percentiles. The graph on the right tabulates the relation for each year. A higher percentile rank indicates a higher preference, whereas a higher rank indicates a lower preference.

Table 1. Summary Statistics

Panel A reports information on each proposal topic, and the topics are indicated by the top row. Panel B reports the number of fund votes per proposal in the sample, and examines the six topics included in Panel A as well as the G-Index topics. Panel B excludes the funds that did not vote "for" or "against." Panel C presents the fund-level information. Panel D reports the number of proposals voted on by each fund during a given year, as well as the fraction of these votes that were cast in accordance with the ISS and management recommendations during a given year. Panel E reports the summary statistics for the sample firms that were ranked during the period 2004–2017. The accounting variables are winsorized at the 1 percent level in each tail, including those from the firms with and without rank information. Appendix Table A.2 presents the variable definitions.

Panel A. By Proposal Topic

	Require Independent Board Chairman	Declassify Board	Require Majority Vote for Directors	Proxy Access	Right to Call Special Meeting	Say-on-Pay
% fund votes "for"	36	91	69	70	64	58
% passive fund votes "for"	31	91	65	72	58	53
% active fund votes "for"	38	91	71	70	67	60
% ISS recommends "for"	66	99	99	99	99	99
% Mgmt. recommends "for"	0	3	2	4	0	0
Mean % of votes in favor	32	70	54	52	46	43
Median % of votes in favor	31	73	50	53	47	43
% Proposal passes	5	75	47	53	36	15
% 40 $\leq$ votes in favor $\leq$ 60	20	18	51	35	59	64

Panel B. By Proposal

	Mean	25%	50%	75%
# funds voted on a given proposal	384	159	341	537
# passive funds voted on a given proposal	114	61	125	165
# active funds voted on a given proposal	270	97	209	376
# funds voted on a given proposal, excl. always voted "for"/"against"	161	33	118	247
# passive funds voted on a given proposal, excl. always voted "for"/"against"	56	15	53	93
# active funds voted on a given proposal, excl. always voted "for"/"against"	104	15	62	154
% funds voted both "for" & "against"on the topic in a given year	38	23	36	55
% passive funds voted both "for" & "against"on the topic in a given year	45	28	44	65
% active funds voted both "for" & "against"on the topic in a given year	34	17	33	50

Panel C. By Fund

	All	Passive	Active
# funds voted on at least one shareholder proposal (ISS)	19,491	3,074	16,417
# funds voted on at least one shareholder proposal (sample)	16,152	2,413	13,739
% funds voted 100% with ISS in a given year (sample)	18	13	19
% funds voted $\geq$ 95% with ISS in a given year (sample)	23	19	24
% funds voted 100% with Management in a given year (sample)	9	6	9
% funds voted $\geq$ 95% with Management in a given year (sample)	10	8	11

Table 1. Summary Statistics (*—Continued*)

Panel D. By Fund-Year

	Mean	25%	50%	75%
# voted shareholder proposals	71	8	29	84
# voted shareholder proposals, passive	137	16	49	172
# voted shareholder proposals, active	59	7	26	76
% shareholder proposals voted with ISS	63	43	65	92
% shareholder proposals voted with ISS, passive	61	41	59	86
% shareholder proposals voted with ISS, active	64	44	66	93
% shareholder proposals voted with Management	30	0	29	50
% shareholder proposals voted with Management, passive	32	4	32	52
% shareholder proposals voted with Management, active	30	0	28	50

Panel E. By Firm-Year

	Mean	25%	50%	75%	S.D.	*N*
Accounting variables						
Capital expenditures/Assets	0.04	0.01	0.03	0.06	0.05	10,119
Cash/Assets	0.13	0.03	0.07	0.17	0.15	10,179
Debt/Assets	0.26	0.11	0.24	0.37	0.20	10,146
Firm age	30.48	15	26	47	18.88	10,314
Market capitalization	16,992	1,162	4,346	15,272	34,805	10,067
Market-to-book ratio	1.78	1.07	1.37	2.01	1.14	9,054
ROA	0.11	0.06	0.11	0.16	0.09	9,673
Total assets	35,398	1,732	5,478	18,797	110,000	10,179
Governance variables						
G-Index (2004 & 2006)	9.80	8	10	11	2.43	1,038
% CEO = Chairman (2004, 2006–2017)	0.63	0	1	1	0.48	7,169
% Classified board (2004, 2006–2017)	0.42	0	0	1	0.49	7,049
% Limited ability to call special meeting	0.45	0	0	1	0.5	7,049
% Majority vote for director elections	0.68	0	1	1	0.47	4,962
Ownership variables						
# 13-F institutional owners	384.61	142	278	496	364	9,654
# Blockholders > 5%	2.54	1	2	4	1.64	9,654
Total institutional ownership	0.73	0.63	0.78	0.89	0.24	9,650

Table 2. Mutual Funds' Governance Preference Ranking of Firms

This table presents each firm's estimated rank based on funds' votes on shareholder proposals. Panel A corresponds to proxy access proposals, and examines firms that received proxy access proposals during 2015. Panel B is for G-Index proposals, and examines firms that received at least one G-Index proposal during 2004. In all the columns, a lower number corresponds to a higher preference (i.e., priority) and a larger value corresponds to a lower preference. The 95% HPDI (Highest Posterior Density Interval) and 95% CI (Central Interval) are shown in the last two columns.

Panel A. Ranking: Based on Votes on Proxy Access Proposals (2015)

Firm	Mean	Median	HPDI (Highest Posterior Density Interval)	CI (Central Interval)
Alexion Pharmaceuticals, Inc.	61	61	[54,68]	[54,68]
Alliance Data Systems Corp.	28	27	[20,34]	[21,37]
Alpha Natural Resources, Inc.	18	18	[13,21]	[12,21]
Amazon.com, Inc.	89	89	[85,91]	[85,91]
American Electric Power Company, Inc.	64	65	[54],[56,73]	[54,73]
Anadarko Petroleum Corp.	50	50	[43],[46,54]	[43,54]
Anthem, Inc.	32	31	[24,26],[28,39],[41]	[24,41]
Apache Corp.	2	2	[1,4]	[1,5]
Apartment Investment And Management Company	32	31	[24,39],[41,44]	[24,44]
Apple Inc.	93	93	[91,93]	[91,93]
Arch Coal, Inc.	76	76	[67,85]	[67,85]
AvalonBay Communities, Inc.	28	28	[23,32]	[23,32]
Avon Products, Inc.	39	39	[29,30],[33,47]	[29,47]
Booking Holdings Inc.	69	69	[67,73]	[66,73]
Boston Properties, Inc.	88	88	[85,90]	[85,90]
CBL & Associates Properties, Inc.	13	13	[5,6],[8,22]	[5,21]
CF Industries Holdings, Inc.	45	47	[28],[30,35],[38,39],[44,54]	[29,54]
CNX Resources Corp	38	37	[34,44]	[34,45]
CSP Inc.	85	85	[82,88]	[82,89]
Cabot Oil & Gas Corp.	80	80	[76,83]	[76,84]
Cheniere Energy, Inc.	77	76	[70,78],[80,85]	[70,85]
Chevron Corp.	44	44	[40,51]	[39,51]
Chipotle Mexican Grill, Inc.	60	60	[55,65]	[55,65]
Cimarex Energy Co.	41	42	[26,27],[29,33],[35,51],[55,57]	[27,57]
Cisco Systems, Inc.	51	51	[46,55],[57]	[46,56]
Citigroup Inc.	2	2	[1,4]	[1,5]
Cloud Peak Energy Inc.	13	12	[6,20]	[7,22]
Community Health Systems, Inc.	49	49	[41,55],[58]	[42,58]
Comstock Resources, Inc.	30	27	[16,24],[26,29],[34],[36,45]	[17,44]
ConocoPhillips	55	54	[49,58],[60,63]	[49,63]
DTE Energy Co.	21	22	[16,26]	[15,26]
DaVita HealthCare Partners Inc.	35	35	[29,38],[40,42],[44]	[29,44]
Devon Energy Corp.	35	34	[30,41]	[30,41]
Domino's Pizza, Inc.	73	73	[69,78]	[68,78]
Duke Energy Corp.	38	38	[29,30],[32,46]	[29,46]
EOG Resources, Inc.	64	64	[57,58],[60,69]	[57,69]
EQT Corp.	68	68	[62,74]	[62,75]
Electronic Arts Inc.	74	74	[69],[71,79]	[69,79]
Equity Residential	87	88	[85,90]	[85,90]
Exelon Corp.	76	76	[70,81]	[70,81]
Expeditors International of Washington, Inc.	92	91	[90,93]	[90,93]
Exxon Mobil Corp.	45	46	[39,50]	[38,50]
FedEx Corp.	23	22	[17],[19,28]	[17,28]
Fidelity National Financial, Inc.	8	8	[3,12]	[3,12]
FirstEnergy Corp.	21	20	[15,25],[28,31]	[16,31]
FleetCor Technologies, Inc.	7	7	[3,12]	[2,12]
Freeport-McMoRan Inc.	32	31	[26,40]	[26,40]
HCP, Inc.	50	51	[42,55]	[42,56]
Hasbro, Inc.	25	24	[19,31],[33]	[18,33]
Hess Corp.	61	60	[56,66]	[56,66]
Kohl's Corp.	27	27	[19,23],[25,31],[33,34]	[19,34]
Level 3 Communications, Inc.	11	11	[6,15]	[6,15]

Table 2. Mutual Funds' Governance Preference Ranking of Firms (*—Continued*)

Firm	Mean	Median	HPDI (Highest Posterior Density Interval)	CI (Central Interval)
Marathon Oil Corp.	71	71	[67,74]	[67,75]
McDonald's Corp.	38	38	[34,42]	[34,42]
Monsanto Co.	78	77	[73,83]	[72,83]
Monster Beverage Corp.	16	16	[8,14],[16,23]	[8,23]
Murphy Oil Corp.	40	39	[34,46]	[34,47]
NVR, Inc.	81	81	[76,85]	[76,85]
Nabors Industries Ltd.	5	5	[1,10]	[1,10]
Netflix, Inc.	4	4	[1,8]	[1,9]
New York Community Bancorp, Inc.	63	64	[45,48],[50],[56],[59,69]	[46,69]
Noble Energy, Inc.	65	65	[59,70]	[58,70]
Occidental Petroleum Corp.	61	61	[56,63],[65,68]	[56,68]
Oracle Corp.	5	5	[2,9]	[1,9]
PACCAR Inc	13	14	[7,18]	[7,19]
PPL Corp.	38	38	[30,47]	[30,48]
Peabody Energy Corp.	79	79	[71],[73,84]	[72,84]
Pioneer Natural Resources Company	58	58	[52,63],[66]	[52,66]
Precision Castparts Corp.	80	82	[68],[70,73],[75,76],[78,87]	[68,86]
Procter & Gamble Co.	25	25	[22,30]	[22,30]
Range Resources Corp.	44	44	[35,46],[48,53],[55,56]	[35,56]
Regeneron Pharmaceuticals, Inc.	75	76	[67,82]	[67,82]
Republic Services, Inc.	13	13	[5,6],[8,18]	[5,18]
Rite Aid Corp.	92	92	[90,93]	[89,93]
Roper Technologies, Inc.	48	49	[41,55]	[41,55]
SBA Communications Corp.	81	81	[77,85]	[76,85]
Southwestern Energy Company	58	58	[51,52],[54,62],[65],[68],[70,71]	[51,70]
St. Jude Medical, Inc.	22	22	[15,31]	[14,30]
T-Mobile US, Inc.	13	13	[6,17]	[5,17]
TCF Financial Corp.	80	80	[76,84]	[76,84]
The AES Corp.	70	72	[56],[58],[60],[63,64],[66,76]	[58,76]
The Coca-Cola Co.	58	57	[52,64],[66]	[52,66]
The Hain Celestial Group, Inc.	5	5	[1,8]	[1,9]
The Southern Co.	45	46	[38,52]	[38,52]
United-Guardian, Inc.	14	13	[7,17],[19,21]	[7,21]
Urban Outfitters, Inc.	29	29	[18,19],[21,36],[40,43]	[18,42]
VCA Inc.	88	88	[84,91]	[84,92]
Vertex Pharmaceuticals Inc.	63	64	[56,68]	[55,68]
Visteon Corp.	23	20	[13],[15,22],[24,33]	[13,33]
Wal-Mart Stores, Inc.	88	87	[84,90]	[85,91]
Walgreens Boots Alliance, Inc.	57	57	[50,65]	[49,64]
Westmoreland Coal Company	14	14	[7,20]	[7,20]
eBay Inc.	48	49	[40,53]	[40,53]

Table 2. Mutual Funds' Governance Preference Ranking of Firms (*—Continued*)

Panel B. Ranking: Based on Votes on G-Index Proposals (2004)

Firm	Mean	Median	HPDI (Highest Posterior Density Interval)	CI (Central Interval)
99 (Cents) Only Stores	85	82	[71,75],[77,85],[87],[89],[91,92],[94,95],[97,103]	[72,102]
AT&T Corp.	51	51	[36,40],[43],[45,60],[64]	[37,63]
Aetna Inc.	93	94	[83,99],[101,103]	[83,103]
Alaska Air Group, Inc.	51	53	[39,59],[61,65]	[39,65]
Albertson	60	60	[49],[51,67]	[50,69]
Alcoa Inc.	121	122	[115,125]	[113,125]
Allegheny Energy, Inc.	4	3	[1,11]	[1,13]
American Airlines Group Inc.	93	94	[83,101]	[82,101]
American Electric Power Company, Inc.	51	52	[39,59]	[39,59]
Archstone Smith Trust	17	18	[5,28]	[4,27]
Arden Realty, Inc.	33	28	[12,24],[26,28],[31,38],[40,41],[43,44],[48,50],[55,65]	[14,64]
AvalonBay Communities, Inc.	118	118	[112,125]	[108,124]
Avon Products, Inc.	79	79	[71,86]	[70,86]
BKF Capital Group, Inc.	25	25	[16,34],[36]	[15,34]
Baker Hughes Inc.	117	117	[107],[109,110],[112,125]	[107,125]
Baxter International Inc.	32	31	[16,17],[19,30],[33],[36,46]	[17,46]
Beam Suntory Inc.	26	27	[9,20],[24,34],[36,39],[41,44]	[10,44]
Becton, Dickinson & Co.	73	73	[60,61],[63],[65,85]	[60,84]
Borland Software corp.	100	98	[89,103],[105,114],[116,117]	[89,118]
Boston Properties, Inc.	86	86	[77,94]	[77,95]
Brandywine Realty Trust	54	53	[43,61],[63],[65],[70,73]	[44,72]
CSX Corp.	26	26	[17,34],[36]	[17,35]
Cardinal Health, Inc.	21	21	[3,8],[10,24],[26],[31,35],[37,39],[41]	[3,38]
Caterpillar Inc.	60	60	[48],[50],[52,71]	[48,70]
CenterPoint Energy, Inc.	121	122	[114,115],[117,125]	[113,125]
Coca-Cola Enterprises, Inc.	28	27	[16],[18,20],[22,38]	[18,39]
Colgate-Palmolive Co.	64	65	[52,76]	[51,76]
Corning Inc.	25	29	[3,20],[26,39]	[4,39]
Costco Wholesale Corp.	116	117	[107,125]	[106,124]
Covance Inc.	108	109	[94],[96,124]	[94,124]
DPH Holdings Corp.	53	55	[37,46],[48,49],[52,66]	[38,65]
Delta Air Lines, Inc.	100	100	[91,107]	[91,108]
Dex Media, Inc.	80	80	[73],[75,88]	[73,88]
Duke Energy Corp.	62	61	[55,66],[69,71]	[56,71]
Edison International	116	116	[108,111],[113,125]	[108,125]
Electronic Data Systems Corp.	44	47	[24,28],[32,36],[38],[41],[43,53]	[26,53]
Enterasys Networks Inc	8	9	[1,14]	[1,15]
Entergy Corp.	113	113	[107,121]	[107,121]
Fannie Mae	81	80	[68],[70],[73,85],[87,91],[93,94]	[70,94]
Farmer Bros. Co.	103	103	[95,112]	[95,113]
First Aviation Services Inc.	88	88	[80],[82,96]	[80,96]
FirstEnergy Corp.	61	62	[44,46],[51,69],[71,72]	[45,71]
Frontier Communications Corp.	12	11	[1,15],[17,18],[21,25],[27,28]	[1,27]
General Dynamics Corp.	73	73	[61,78],[80,81],[83,84]	[61,84]
General Electric Co.	123	123	[119,125]	[119,125]
General Motors Co.	74	75	[63,66],[68,80],[82]	[63,82]
Genuine Parts Company	14	15	[4,21],[23,24]	[2,24]
Goodyear Tire & Rubber Co.	119	120	[112],[114,125]	[112,125]
Greater Bay Bancorp	110	109	[100,114],[116,118],[120,125]	[100,125]
Hector Communications Corp.	74	74	[60],[62,83],[85,86]	[61,86]
Hilton Worldwide Holdings Inc.	105	106	[91],[93,116]	[91,116]
Honeywell International Inc.	57	58	[39],[43,45],[48],[51],[53,66]	[41,65]
IMS Health Inc	44	44	[34,48],[51,53]	[34,53]
Ingersoll-Rand plc	89	90	[80],[83,96]	[80,95]
Intermec, Inc.	10	9	[1,16],[19],[21]	[2,21]
International Business Machines Corp.	90	90	[79],[83,95],[97,99],[101]	[81,101]
Jones Lang LaSalle Inc.	23	24	[9],[12,17],[19,34],[37]	[10,34]
KeySpan Corp.	23	24	[14,32]	[13,32]
Kimberly-Clark Corp.	8	8	[1,17]	[1,18]
Lear Corp.	40	40	[27],[31,49]	[27,49]
Lockheed Martin Corp.	121	121	[116,125]	[115,125]

Table 2. Mutual Funds' Governance Preference Ranking of Firms (*—Continued*)

Firm	Mean	Median	HPDI (Highest Posterior Density Interval)	CI (Central Interval)
Loews Corp.	117	116	[109,125]	[108,125]
Luby's, Inc.	107	106	[98,111],[116,119],[125]	[98,124]
Lucent Technologies Inc.	15	15	[1,18],[21,28]	[2,29]
Macy's, Inc.	73	73	[58,63],[65,76],[78,81],[83],[85,89]	[58,90]
Marathon Oil Corp.	43	40	[28,46],[48,49],[53,54],[56,61]	[29,61]
Marriott International, Inc.	42	42	[35,50]	[34,50]
Massey Energy Company	8	8	[1,15]	[1,15]
Maytag Corp.	7	7	[1,14]	[1,14]
McGraw Hill Financial, Inc.	26	26	[15,16],[18,37]	[15,37]
Merrill Lynch & Co., Inc.	79	78	[70,88]	[69,88]
Mesa Air Group, Inc.	96	97	[77,79],[82,83],[85,88],[90],[92,105],[109]	[78,108]
Monsanto Co.	31	33	[19,20],[22,41]	[18,41]
Morgan Stanley	90	90	[84,97]	[84,97]
NV Energy, Inc.	34	34	[17,23],[25,43],[46],[48],[50,53]	[19,55]
Newmont Mining Corp.	38	38	[29,46]	[29,46]
Nicor Inc.	11	10	[1,16],[18,20],[24,27]	[1,27]
Northrop Grumman Corp.	37	37	[25,48],[51,53]	[25,52]
Northwest Airlines Corp.	25	25	[17,30],[32,35]	[17,35]
P. H. Glatfelter Company	87	86	[73,85],[87,100]	[73,100]
PACCAR Inc	5	5	[1,11]	[1,12]
PG&E Corp.	83	84	[75,91]	[75,91]
Pepco Holdings, Inc.	37	36	[25],[27,43],[47,51]	[26,51]
Phoenix Gold International, Inc.	9	8	[1,16],[18]	[1,18]
Prudential Financial, Inc.	57	55	[35,46],[48],[51],[53,56],[62,66],[68,77]	[36,76]
QUALCOMM Inc.	95	95	[85,102]	[86,103]
Raytheon Co.	50	50	[42,56],[59],[61]	[42,61]
Safeway Inc.	95	96	[78,82],[85,86],[91,107]	[78,106]
Saks Inc.	38	37	[21,24],[27,41],[43],[45,54]	[22,53]
Sears, Roebuck & Co.	50	49	[42,55],[57,60]	[42,61]
Sempra Energy	24	23	[11,28],[33,37]	[11,37]
Standard Motor Products, Inc.	48	48	[23,38],[40,42],[45,51],[55,70],[72]	[23,71]
Stanley Black & Decker, Inc.	75	76	[56,58],[60,65],[68],[71,83],[88,92]	[57,91]
Staples, Inc.	67	63	[55,65],[69,70],[75,80],[82,83],[85,90]	[56,88]
Storage Technology Corp.	110	110	[103,116],[118,120]	[101,119]
TF Financial Corp.	62	65	[35],[42,47],[52,62],[64,74],[76]	[40,76]
Telular Corp.	48	49	[34,35],[40,55],[58,59]	[34,58]
The Allstate Corp.	106	106	[101,113]	[101,114]
The Bank Of New York Mellon Corporation	60	63	[41],[44,46],[48,53],[55,56],[59,70]	[42,69]
The Boeing Co.	68	68	[63,74]	[62,74]
The Gillette Co.	66	66	[58],[60,74]	[58,74]
The Goldman Sachs Group, Inc.	99	100	[85],[87,92],[94,111]	[85,110]
The Home Depot, Inc.	53	53	[47,60]	[47,62]
The Kroger Co.	107	107	[100,114]	[100,114]
The Liberty Corp.	56	56	[43,62],[65,66],[68,69],[73],[76,77]	[44,77]
The May Department Stores Co.	83	83	[72],[74,91],[93,94]	[72,93]
The Neiman Marcus Group, Inc.	73	72	[65],[68,81],[84]	[67,84]
The Pep Boys - Manny, Moe & Jack	58	64	[35],[38,48],[53,54],[61,74]	[36,73]
The Servicemaster Company	14	14	[1],[5,24]	[2,24]
The TJX Companies, Inc.	114	113	[108,118],[120],[125]	[108,124]
Thomas Industries Inc.	94	94	[84],[86,102]	[84,102]
Tidewater Inc.	31	27	[11,13],[15],[18,27],[29,38],[40,44],[46,50],[54,57]	[13,56]
U.S. Bancorp	69	69	[56,78],[81]	[56,81]
UGI Corp.	12	11	[1,17],[22,24],[26,29]	[1,29]
UST Inc.	38	38	[29,45]	[29,45]
UnionBanCal Corp.	103	102	[92,102],[105,115]	[92,115]
United Rentals, Inc.	23	22	[6],[9,37]	[6,37]
VF Corp.	86	86	[74,78],[80,95]	[74,95]
Verizon Communications Inc.	103	103	[98,106]	[98,107]
Visteon Corp.	117	118	[110,125]	[109,125]
WGL Holdings, Inc.	108	106	[98,110],[112,118],[121]	[99,121]
Water Pik Technologies, Inc.	9	9	[1,17]	[1,17]
Whole Foods Market, Inc.	34	35	[14],[16],[18,30],[32],[34,51],[54]	[14,51]
Winn-Dixie Stores, Inc.	102	103	[87],[89,94],[96,117]	[87,117]
Zimmer Biomet Holdings Inc.	13	14	[1,10],[13,24],[26]	[1,26]

Table 3. Firm Characteristics and Governance Preference Rankings

This table reports the relation between the firms' preference rankings and firm characteristics. The firm characteristics are indicated by the panel titles and the governance provision under consideration in each subpanel is indicated by the subpanel's title. Column (1) is a linear regression of the percentile ranks of the funds' preferences on the firm characteristics and their percentiles. Column (2) is a linear regression of the percentile ranks of the votes in favor on the firm characteristics and their percentiles. Each firm characteristic percentile is calculated among the firms that received a related proposal during a given year. Columns (3) and (4) show the mean of each firm characteristic and its percentile, and it includes firms that received and did not receive a proposal on the given topic, respectively. In column (4), the asterisks indicate significant differences between the values in columns (3) and (4). Columns (5) and (6) are similar to columns (3) and (4), except that they exclude firms that have already adopted the governance provision under consideration. These values are missing when information on adoption is not available, and the years without information on this subject are excluded from the analysis. In column (6), the asterisks indicate significant differences between the values in columns (5) and (6). The observations in columns (3)–(6) are limited to years in which the rankings are calculated and each firm characteristic percentile is calculated among the firms that are covered by the ISS governance provision databases each year. Column (7) shows the mean of each firm characteristic and its percentile for the firms that have adopted the various governance provisions, and column (8) shows the mean of each firm characteristic and its percentile for the firms that did not adopt these governance provisions. The variable definitions are available in Appendix Table A.2. The firm characteristic variables are winsorized at the 1 percent level. The number of observations are reported in parentheses below the estimates. ***, **, and * indicate significance at the 1, 5, and 10% levels.

Panel A. Board Independence

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor	All firms		Excludes firms already adopted provision			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A.1. Require Independent Board Chairman							
Percentile of Board Independence							
−0.27***	0.03	62	47***	67	51***	43	52***
(552)	(540)	(547)	(18,816)	(471)	(10,179)	(8,713)	(10,650)
Board Independence (%)							
−0.77***	0.18	82	78***	84	78***	77	78***
(552)	(540)	(552)	(18,816)	(476)	(10,179)	(8,827)	(10,884)
A.2. Declassify Board							
Percentile of Board Independence							
−0.17***	0.15***	53	48***	52	47***	50	46***
(338)	(326)	(331)	(13,018)	(309)	(5,879)	(10,077)	(8,210)
Board Independence (%)							
−0.35***	0.37***	78	77***	78	76***	79	77***
(338)	(326)	(338)	(13,018)	(309)	(5,879)	(10,077)	(8,210)

(*Continued*)

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
		All firms		Excludes firms already adopted provision			
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A.3. Require Majority Vote for Directors							
Percentile of Board Independence							
-0.09^{*}	0.08	52	48^{***}	48	42^{***}	55	41^{***}
(363)	(355)	(359)	(13,281)	(177)	(4,895)	(6,440)	(6,820)
Board Independence (%)							
−0.17	0.28^{**}	78	78	79	77^{**}	82	77^{***}
(363)	(355)	(363)	(13,281)	(177)	(4,895)	(6,440)	(6,820)
A.4. Proxy Access							
Percentile of Board Independence							
−0.05	0.17^{**}	50	47	·	·	·	·
(180)	(175)	(180)	(4,337)				
Board Independence (%)							
−0.22	0.56^{***}	81	81	·	·	·	·
A.5. Right to Call Special Meeting							
Percentile of Board Independence							
−0.02	0.19^{**}	70	47^{***}	71	46^{***}	48	48
(136)	(136)	(136)	(5,673)	(75)	(2,662)	(10,115)	(8,172)
Board Independence (%)							
−0.05	1.06^{***}	85	78^{***}	86	78^{***}	77	79^{***}
(136)	(136)	(136)	(5,673)	(75)	(2,662)	(10,115)	(8,172)
A.6. Say-on-Pay							
Percentile of Board Independence							
−0.09	0.18^{***}	62	47^{***}	·	·	·	·
(198)	(197)	(198)	(5,260)				
Board Independence (%)							
−0.39	0.84^{***}	83	77^{***}	·	·	·	·
(198)	(197)	(198)	(5,260)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel B. Insider Ownership

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor	All firms		Excludes firms already adopted provision			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
B.1. Require Independent Board Chairman							
Percentile of Insider Ownership							
0.11***	0.08**	25	43***	24	42***	45	41***
(567)	(555)	(538)	(17,779)	(450)	(9,203)	(7,778)	(9,653)
Insider Ownership							
2.22***	0.46	1.13	2.74***	1.02	3.03***	2.43	2.89***
(567)	(555)	(567)	(17,779)	(454)	(9,203)	(7,880)	(9,857)
B.2. Declassify Board							
Percentile of Insider Ownership							
0.01	−0.03	32	38***	35	43***	42	47***
(372)	(359)	(315)	(12,250)	(292)	(5,492)	(9,443)	(7,732)
Insider Ownership							
0.09	−0.82**	1.84	2.69***	1.98	3.13***	2.57	3.22***
(372)	(359)	(372)	(12,250)	(292)	(5,492)	(9,443)	(7,732)
B.3. Require Majority Vote for Directors							
Percentile of Insider Ownership							
0.12***	0.05	29	44***	43	59***	41	60***
(378)	(369)	(355)	(12,243)	(166)	(4,283)	(5,928)	(6,166)
Insider Ownership							
0.88**	−0.06	1.8	2.99***	2.45	4.32***	1.87	4.22***
(378)	(369)	(378)	(12,243)	(166)	(4,283)	(5,928)	(6,166)
B.4. Proxy Access							
Percentile of Insider Ownership							
0.19***	−0.06	41	51***	·	·	·	·
(175)	(171)	(168)	(4,221)				
Insider Ownership							
0.63	−0.98*	2.15	2.75	·	·	·	·
(175)	(171)	(175)	(4,221)				
B.5. Right to Call Special Meeting							
Percentile of Insider Ownership							
0.05	−0.04	21	50***	19	49***	42	48***
(142)	(142)	(130)	(4,896)	(73)	(2,297)	(9,686)	(7,489)
Insider Ownership							
−0.08	−2.41***	0.83	3.56***	0.95	3.67***	2.7	3.07***
(142)	(142)	(142)	(4,896)	(73)	(2,297)	(9,686)	(7,489)
B.6. Say-on-Pay							
Percentile of Insider Ownership							
0.07	0.01	24	48***	·	·	·	·
(229)	(228)	(201)	(4,684)				
Insider Ownership							
1.99***	−1.12*	1.09	3.58***	·	·	·	·
(229)	(228)	(229)	(4,684)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel C. CEO Ownership

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
		All firms		Excludes firms already adopted provision			
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
C.1. Require Independent Board Chairman							
Percentile of CEO Ownership							
0.17***	0.11**	34	51***	35	56***	46	55***
(403)	(395)	(393)	(13,216)	(328)	(6,465)	(6,434)	(6,793)
CEO Ownership							
2.62***	0.83*	1.07	2.25***	0.99	3.18***	1.24	3.08***
(403)	(395)	(403)	(13,216)	(328)	(6,465)	(6,456)	(6,828)
C.2. Declassify Board							
Percentile of CEO Ownership							
−0.02	−0.10	44	50***	44	54***	47	55***
(224)	(215)	(195)	(7,792)	(195)	(3,672)	(7,827)	(5,775)
CEO Ownership							
0.02	−1.31**	1.75	2.61***	1.67	2.98***	1.83	2.73***
(224)	(215)	(224)	(7,792)	(195)	(3,672)	(7,827)	(5,775)
C.3. Require Majority Vote for Directors							
Percentile of CEO Ownership							
0.37***	0.28***	45	50***	43	58***	42	59***
(204)	(199)	(193)	(9,117)	(162)	(4,143)	(5,772)	(5,987)
CEO Ownership							
1.44***	0.01	2.1	2.47	1.58	2.62***	1.14	2.57***
(204)	(199)	(204)	(9,117)	(162)	(4,143)	(5,772)	(5,987)
C.4. Proxy Access							
Percentile of CEO Ownership							
0.14*	0.00	42	51***	·	·	·	·
(171)	(167)	(165)	(4,121)				
CEO Ownership							
0.18	−1.41**	1.37	1.69	·	·	·	·
(171)	(167)	(171)	(4,121)				
C.5. Right to Call Special Meeting							
Percentile of CEO Ownership							
0.08	0.04	22	51***	20	50***	52	49***
(117)	(117)	(113)	(4,139)	(67)	(1,949)	(6,818)	(6,784)
CEO Ownership							
−0.28	−1.85*	0.66	2.52***	0.84	2.56***	2.4	2.02***
(117)	(117)	(117)	(4,139)	(67)	(1,949)	(6,818)	(6,784)
C.6. Say-on-Pay							
Percentile of CEO Ownership							
0.09	0.06	28	51***	·	·	·	·
(135)	(134)	(122)	(3,457)				
CEO Ownership							
1.68**	−1.49*	1.18	3.02***	·	·	·	·
(135)	(134)	(135)	(3,457)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel D. Abnormal Executive Compensation

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor	All firms		Excludes firms already adopted provision			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
D.1. Require Independent Board Chairman							
Percentile of Abnormal Executive Compensation							
0.02	0.00	48	51	49	52*	49	52***
(438)	(427)	(420)	(14,062)	(348)	(7,380)	(6,108)	(7,728)
Abnormal Executive Compensation							
0.11	−0.05	0.05	0.09	0.06	0.12	0.06	0.11***
(438)	(427)	(441)	(14,062)	(351)	(7,380)	(6,183)	(7,872)
D.2. Declassify Board							
Percentile of Abnormal Executive Compensation							
0.17***	0.22***	57	50***	57	50***	50	50
(265)	(257)	(236)	(9,830)	(217)	(4,466)	(7,272)	(6,260)
Abnormal Executive Compensation							
7.35***	10.31***	0.24	0.1***	0.25	0.1***	0.08	0.1
(265)	(257)	(276)	(9,830)	(217)	(4,466)	(7,272)	(6,260)
D.3. Require Majority Vote for Directors							
Percentile of Abnormal Executive Compensation							
0.13**	0.19***	54	50**	48	47	54	47***
(310)	(302)	(294)	(9,767)	(136)	(3,407)	(4,599)	(4,854)
Abnormal Executive Compensation							
5.38**	6.43***	0.21	0.11***	0.06	0.03	0.16	0.02***
(310)	(302)	(314)	(9,767)	(136)	(3,407)	(4,599)	(4,854)
D.4. Proxy Access							
Percentile of Abnormal Executive Compensation							
0.00	0.00	51	50	·	·	·	·
(155)	(151)	(147)	(3,199)				
Abnormal Executive Compensation							
−1.40	0.35	0.09	0.05	·	·	·	·
(155)	(151)	(155)	(3,199)				
D.5. Right to Call Special Meeting							
Percentile of Abnormal Executive Compensation							
0.22**	0.19**	57	50**	54	47*	52	48***
(120)	(120)	(109)	(3,901)	(59)	(1,720)	(8,006)	(5,526)
Abnormal Executive Compensation							
11.14**	8.29*	0.31	0.13***	0.24	0.06*	0.13	0.04***
(120)	(120)	(120)	(3,901)	(59)	(1,720)	(8,006)	(5,526)
D.6. Say-on-Pay							
Percentile of Abnormal Executive Compensation							
0.12*	0.00	54	50*	·	·	·	·
(183)	(182)	(163)	(3,750)				
Abnormal Executive Compensation							
5.27*	−1.09	0.26	0.14**	·	·	·	·
(183)	(182)	(183)	(3,750)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel E. Cumulative Abnormal Return

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
		All firms		Excludes firms already adopted provision			
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
E.1. Require Independent Board Chairman							
Percentile of Cumulative Abnormal Return							
−0.12***	−0.13***	49	51	50	51	50	50
(588)	(576)	(554)	(2,927)	(462)	(1,835)	(1,038)	(2,297)
Cumulative Abnormal Return							
−9.65*	−14.55***	0	0.02*	0.01	0.02	0.01	0.02
(588)	(576)	(588)	(2,927)	(465)	(1,835)	(1,040)	(2,311)
E.2. Declassify Board							
Percentile of Cumulative Abnormal Return							
−0.07	0.01	50	50	50	49	51	49
(420)	(396)	(336)	(2,041)	(311)	(605)	(2,164)	(1,117)
Cumulative Abnormal Return							
−2.01	5.23	0.01	0.02	0.02	0.01	0.01	0.01
(420)	(396)	(420)	(2,041)	(311)	(605)	(2,164)	(1,117)
E.3. Require Majority Vote for Directors							
Percentile of Cumulative Abnormal Return							
0.08	0.09*	50	50	52	51	50	51
(402)	(392)	(367)	(2,019)	(171)	(303)	(1,683)	(641)
Cumulative Abnormal Return							
8.52	7.93	0.02	0.02	0.04	0.03	0.01	0.03**
(402)	(392)	(402)	(2,019)	(171)	(303)	(1,683)	(641)
E.4. Proxy Access							
Percentile of Cumulative Abnormal Return							
0.05	0.01	51	50	·	·	·	·
(214)	(209)	(184)	(661)				
Cumulative Abnormal Return							
2.49	−5.66	−.02	0	·	·	·	·
(214)	(209)	(214)	(661)				
E.5. Right to Call Special Meeting							
Percentile of Cumulative Abnormal Return							
0.06	0.01	46	51**	45	53**	49	51**
(140)	(139)	(133)	(826)	(72)	(406)	(1,653)	(1,628)
Cumulative Abnormal Return							
8.23	1.94	0.01	0.03	0	0.05*	0.01	0.01
(140)	(139)	(140)	(826)	(72)	(406)	(1,653)	(1,628)
E.6. Say-on-Pay							
Percentile of Cumulative Abnormal Return							
−0.10	−0.05	50	50	·	·	·	·
(226)	(224)	(212)	(755)				
Cumulative Abnormal Return							
−11.16	−13.79*	0.02	0.02	·	·	·	·
(226)	(224)	(226)	(755)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel F. ROA

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor	All firms		Excludes firms already adopted provision			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
F.1. Require Independent Board Chairman							
Percentile of ROA							
0.16***	0.14***	51	50	50	52	51	52*
(578)	(565)	(530)	(18,666)	(446)	(9,045)	(7,521)	(9,491)
ROA							
43.11***	44.34***	0.12	0.12	0.12	0.13	0.13	0.13
(578)	(565)	(578)	(18,666)	(450)	(9,045)	(7,627)	(9,708)
F.2. Declassify Board							
Percentile of ROA							
−0.03	0.09*	48	51	49	50	51	50***
(418)	(395)	(302)	(12,497)	(278)	(5,688)	(9,530)	(8,402)
ROA							
−5.04	18.66	0.11	0.13***	0.13	0.12	0.12	0.11***
(418)	(395)	(418)	(12,497)	(278)	(5,688)	(9,530)	(8,402)
F.3. Require Majority Vote for Directors							
Percentile of ROA							
−0.04	0.03	53	50*	52	49	53	49***
(376)	(367)	(335)	(12,241)	(154)	(4,159)	(5,849)	(6,508)
ROA							
1.12	15.38**	0.12	0.13***	0.13	0.12	0.13	0.11***
(376)	(367)	(376)	(12,241)	(154)	(4,159)	(5,849)	(6,508)
F.4. Proxy Access							
Percentile of ROA							
−0.08	−0.18***	59	50***	·	·	·	·
(191)	(187)	(168)	(4,906)				
ROA							
−12.92	−42.82**	0.13	0.1***	·	·	·	·
(191)	(187)	(191)	(4,906)				
F.5. Right to Call Special Meeting							
Percentile of ROA							
−0.09	0.05	52	50	51	49	51	49***
(143)	(142)	(130)	(4,732)	(73)	(2,136)	(10,547)	(7,385)
ROA							
−35.48	12.19	0.13	0.13	0.13	0.12	0.12	0.12
(143)	(142)	(143)	(4,732)	(73)	(2,136)	(10,547)	(7,385)
F.6. Say-on-Pay							
Percentile of ROA							
−0.02	−0.01	54	50*	·	·	·	·
(234)	(233)	(201)	(4,536)				
ROA							
−10.89	−12.76	0.13	0.13	·	·	·	·
(234)	(233)	(234)	(4,536)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel G. Market-to-Book Ratio

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor	All firms		Excludes firms already adopted provision			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
G.1. Require Independent Board Chairman							
Percentile of Market-to-Book Ratio							
0.10**	0.09**	48	51	48	51**	51	51
(558)	(545)	(513)	(17,922)	(432)	(8,525)	(7,382)	(8,957)
Market-to-Book Ratio							
1.92	2.79*	1.71	1.9**	1.72	1.83**	1.9	1.83***
(558)	(545)	(558)	(17,922)	(436)	(8,525)	(7,483)	(9,158)
G.2. Declassify Board							
Percentile of Market-to-Book Ratio							
−0.05	0.07	46	51***	46	51***	50	51**
(392)	(372)	(285)	(11,910)	(263)	(5,397)	(9,273)	(7,985)
Market-to-Book Ratio							
−1.19	−0.22	1.65	1.81***	1.71	1.81	1.88	1.9
(392)	(372)	(392)	(11,910)	(263)	(5,397)	(9,273)	(7,985)
G.3. Require Majority Vote for Directors							
Percentile of Market-to-Book Ratio							
−0.05	−0.10*	50	50	49	51	50	50
(360)	(350)	(321)	(11,711)	(155)	(4,079)	(5,635)	(6,376)
Market-to-Book Ratio							
0.35	−2.01***	2	1.81***	1.87	1.81	1.86	1.92
(360)	(350)	(360)	(11,711)	(155)	(4,079)	(5,635)	(6,376)
G.4. Proxy Access							
Percentile of Market-to-Book Ratio							
−0.04	−0.17**	54	50*	·	·	·	·
(192)	(188)	(169)	(4,782)				
Market-to-Book Ratio							
−0.14	−2.37*	2.17	2.07	·	·	·	·
(192)	(188)	(192)	(4,782)				
G.5. Right to Call Special Meeting							
Percentile of Market-to-Book Ratio							
−0.16*	−0.19**	48	51	47	48	53	48***
(126)	(125)	(114)	(4,552)	(63)	(2,135)	(9,843)	(7,415)
Market-to-Book Ratio							
−6.90	−4.49	1.45	1.66**	1.52	1.58	1.97	1.79***
(126)	(125)	(126)	(4,552)	(63)	(2,135)	(9,843)	(7,415)
G.6. Say-on-Pay							
Percentile of Market-to-Book Ratio							
−0.04	−0.05	51	50	·	·	·	·
(210)	(209)	(180)	(4,332)				
Market-to-Book Ratio							
−0.30	0.05	1.57	1.71*	·	·	·	·
(210)	(209)	(210)	(4,332)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel H. Firm Age

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
		All firms		Excludes firms already adopted provision			
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
H.1. Require Independent Board Chairman							
Percentile of Firm Age							
−0.06	0.05	73	48***	75	53***	47	54***
(605)	(592)	(549)	(20,159)	(458)	(9,437)	(8,045)	(9,895)
Log of Firm Age							
−2.00	0.29	3.66	3.13***	3.73	3.25***	3.14	3.26***
(605)	(592)	(605)	(20,159)	(463)	(9,437)	(8,158)	(10,126)
H.2. Declassify Board							
Percentile of Firm Age							
−0.06	0.02	59	49***	59	45***	53	44***
(445)	(421)	(319)	(13,090)	(294)	(5,866)	(10,468)	(8,935)
Log of Firm Age							
−1.37	0.56	3.29	3.14***	3.4	3.07***	3.25	3.03***
(445)	(421)	(445)	(13,090)	(294)	(5,866)	(10,468)	(8,935)
H.3. Require Majority Vote for Directors							
Percentile of Firm Age							
−0.19***	−0.16***	64	49***	60	44***	56	46***
(409)	(399)	(361)	(12,850)	(168)	(4,397)	(6,334)	(7,135)
Log of Firm Age							
−8.35***	−7.11***	3.43	3.17***	3.44	3.1***	3.35	3.1***
(409)	(399)	(409)	(12,850)	(168)	(4,397)	(6,334)	(7,135)
H.4. Proxy Access							
Percentile of Firm Age							
−0.18***	−0.12*	60	49***	·	·	·	·
(204)	(200)	(177)	(5,709)				
Log of Firm Age							
−8.02**	−2.45	3.38	3.1***	·	·	·	·
(204)	(200)	(204)	(5,709)				
H.5. Right to Call Special Meeting							
Percentile of Firm Age							
0.03	0.07	76	48***	78	52***	45	55***
(147)	(146)	(130)	(4,973)	(73)	(2,340)	(11,079)	(8,324)
Log of Firm Age							
1.74	1.91	3.75	3.16***	3.8	3.25***	3.04	3.3***
(147)	(146)	(147)	(4,973)	(73)	(2,340)	(11,079)	(8,324)
H.6. Say-on-Pay							
Percentile of Firm Age							
−0.22***	−0.17**	71	48***	·	·	·	·
(237)	(236)	(201)	(4,763)				
Log of Firm Age							
−6.64**	−6.23**	3.58	3.14***	·	·	·	·
(237)	(236)	(237)	(4,763)				

Table 3. Firm Characteristics and Governance Preference Rankings (*—Continued*)

Panel I. Market Capitalization

Regressions		*t*-tests					
		Received Proposal				Adopted	
Dependent Variable:	Dependent Variable:	Yes	No	Yes	No	Yes	No
Percentile rank of firm based on fund preferences	Percentile rank of votes in favor	All firms		Excludes firms already adopted provision			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I.1. Require Independent Board Chairman							
Percentile of Market Capitalization							
−0.02	−0.01	85	50***	86	54***	47	56***
(597)	(584)	(546)	(19,559)	(455)	(9,367)	(7,938)	(9,822)
Market Capitalization							
−0.67	−0.17	9.74	7.82***	9.93	8.05***	7.75	8.12***
(597)	(584)	(597)	(19,559)	(459)	(9,367)	(8,051)	(10,050)
I.2. Declassify Board							
Percentile of Market Capitalization							
0.06	0.12***	68	50***	68	46***	55	45***
(439)	(416)	(318)	(13,023)	(293)	(5,837)	(10,170)	(8,634)
Market Capitalization							
0.91	2.26***	8.01	7.76***	8.55	7.53***	8.15	7.56***
(439)	(416)	(439)	(13,023)	(293)	(5,837)	(10,170)	(8,634)
I.3. Require Majority Vote for Directors							
Percentile of Market Capitalization							
−0.16***	−0.19***	76	50***	71	38***	64	39***
(407)	(397)	(361)	(12,769)	(168)	(4,360)	(6,192)	(6,814)
Market Capitalization							
−2.97***	−2.82***	8.94	7.82***	8.87	7.29***	8.69	7.33***
(407)	(397)	(407)	(12,769)	(168)	(4,360)	(6,192)	(6,814)
I.4. Proxy Access							
Percentile of Market Capitalization							
−0.05	−0.09	76	50***	·	·	·	·
(199)	(195)	(175)	(5,194)				
Market Capitalization							
0.20	−0.56	9.15	7.96***	·	·	·	·
(199)	(195)	(199)	(5,194)				
I.5. Right to Call Special Meeting							
Percentile of Market Capitalization							
−0.12	−0.16*	89	49***	91	47***	50	51*
(143)	(142)	(130)	(4,964)	(73)	(2,336)	(10,729)	(8,075)
Market Capitalization							
−0.50	−1.03	9.86	7.62***	10.24	7.52***	7.81	7.97***
(143)	(142)	(143)	(4,964)	(73)	(2,336)	(10,729)	(8,075)
I.6. Say-on-Pay							
Percentile of Market Capitalization							
−0.09	−0.12*	88	49***	·	·	·	·
(233)	(232)	(201)	(4,750)				
Market Capitalization							
−2.24	−2.43*	9.78	7.6***	·	·	·	·
(233)	(232)	(233)	(4,750)				

Table 4. Governance Preference Rankings vs. Voting Outcomes

Panel A presents the Spearman's correlation coefficients between each firms' rank based on the funds' preferences and its rank based on the votes in favor, calculated as votes in favor/(votes in favor + votes against). Panel B converts the ranks in Panel A to percentile ranks and reports a linear regression of the percentile ranks based on fund preferences on the percentile ranks based on votes in favor for all the years examined. The topics are indicated at the top of each panel. ***, **, and * indicate significance at the 1, 5, and 10% levels.

Panel A. Spearman Correlation Between Governance Preference Rank and Votes in Favor

	Require Independent Board Chairman (1)	Declassify Board (2)	Require Majority Vote for Directors (3)	Proxy Access (4)	Right to Call Special Meeting (5)	Say-on-Pay (6)
2004	−0.09 (N=34)	−0.34** (N=38)	·	·	·	·
2005	−0.60*** (N=24)	0.07 (N=37)	−0.22 (N=56)	·	·	·
2006	−0.52*** (N=50)	−0.28** (N=51)	−0.54*** (N=94)	·	·	·
2007	−0.62*** (N=39)	−0.03 (N=34)	−0.50*** (N=38)	·	·	0.08 (N=48)
2008	−0.69*** (N=27)	0.00 (N=66)	−0.52*** (N=25)	·	−0.86*** (N=26)	−0.11 (N=76)
2009	−0.48*** (N=35)	−0.08 (N=58)	−0.56*** (N=43)	·	−0.24* (N=57)	−0.05 (N=76)
2010	−0.36** (N=41)	−0.20 (N=47)	−0.63*** (N=33)	·	−0.43*** (N=43)	−0.13 (N=53)
2011	−0.66*** (N=29)	−0.19 (N=39)	−0.70*** (N=36)	·	−0.21 (N=30)	·
2012	−0.58*** (N=56)	−0.48*** (N=51)	−0.63*** (N=35)	·	·	·
2013	−0.66*** (N=61)	−0.55*** (N=31)	−0.54*** (N=33)	·	·	·
2014	−0.60*** (N=63)	·	−0.28 (N=30)	·	·	·
2015	−0.56*** (N=63)	·	·	−0.34*** (N=91)	·	·
2016	−0.27* (N=47)	·	·	−0.58*** (N=84)	·	·
2017	0.01 (N=43)	·	·	−0.29* (N=36)	·	·

Panel B. Linear Regressions

	Dependent variable: Percentile rank of firm based on fund preferences Independent variable: Percentile rank of firm based on votes in favor					
Topic	Require Independent Board Chairman	Declassify Board	Require Majority Vote for Directors	Proxy Access	Right to Call Special Meeting	Say-on-Pay
	(7)	(8)	(9)	(10)	(11)	(12)
Key Coefficient	0.48***	0.20***	0.50***	0.42***	0.40***	0.06
	(0.04)	(0.05)	(0.04)	(0.06)	(0.07)	(0.06)
Constant	26.38***	41.64***	25.57***	28.47***	30.94***	47.85***
	(2.08)	(2.67)	(2.45)	(3.61)	(4.34)	(3.65)
R^2	0.23	0.04	0.25	0.18	0.16	0.00
N	612	452	423	211	156	253

	Dependent variable: Percentile rank of firm based on fund preferences Independent variable: Percentile rank of firm based on votes in favor					
Topic	Require Independent Board Chairman	Declassify Board	Require Majority Vote for Directors	Proxy Access	Right to Call Special Meeting	Say-on-Pay
	(13)	(14)	(15)	(16)	(17)	(18)
Key Coefficient	0.84***	0.28***	0.84***	0.60***	0.66***	0.13
	(0.08)	(0.07)	(0.07)	(0.09)	(0.16)	(0.18)
Constant	24.12***	32.04***	5.89	18.50***	20.80***	45.39***
	(2.77)	(5.30)	(4.04)	(5.20)	(7.79)	(8.01)
R^2	0.15	0.03	0.25	0.16	0.10	0.00
N	612	452	423	211	156	253

Table 5. Fund Preferences over G-Index Proposals vs. G-Index

Panel A presents the Spearman's correlation coefficient between the estimated rank of a firm based on the fund's preferences regarding G-Index proposals and the firm's concurrent or preceding G-Index for each year from 2004 to 2008. I use G-Index observations from 2002, 2004, and 2006. Panel B converts the ranks in Panel A to percentile ranks and reports linear regressions of the percentile rank of each firm based on the funds' preferences regarding G-Index proposals on the G-Index. ***, **, and * indicate significance at the 1, 5, and 10% levels.

Panel A. Spearman Correlation

Rank based on fund preferences over G-Index proposals	G-Index	
	Concurrent	Preceding
2004	-0.20^{**}	-0.24^{**}
	(N=102)	(N=95)
2005	·	-0.20^{*}
		(N=73)
2006	-0.12	-0.12
	(N=95)	(N=95)
2007	·	-0.1
		(N=80)
2008	·	-0.12
		(N=96)

Panel B. Linear Regressions

	Dependent variable: Percentile rank of firm based on fund preferences over G-Index proposals			
	(1)	(2)	(3)	(4)
G-Index	0.14^{*}	0.15^{***}	1.43^{*}	1.70^{***}
	(0.07)	(0.05)	(0.82)	(0.53)
Constant	44.05^{***}	43.78^{***}	35.79^{***}	34.73^{***}
	(3.87)	(3.04)	(8.50)	(5.41)
G-Index in Percentile	Yes	Yes	No	No
G-Index Concurrent or Preceding	Concurrent	Lagged	Concurrent	Lagged
R^2	0.02	0.02	0.02	0.02
N	193	391	193	434

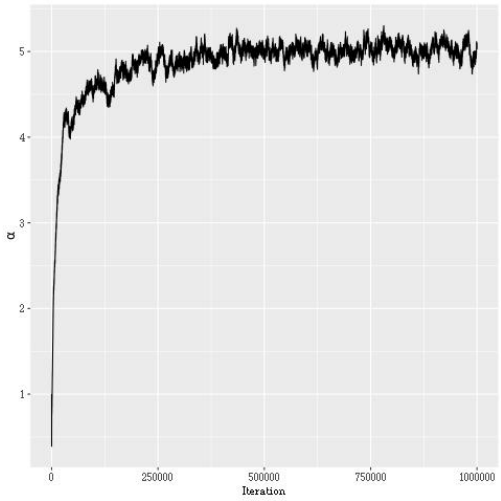
Table 6. Passive vs. Active Funds

This table presents the Spearman's correlation coefficient between the passive and active funds' governance preference rankings. The last row converts these ranks into percentile ranks and reports the Spearman's correlation coefficient between the passive and active funds' percentile ranks across all the years examined. The topics are indicated at the top of each panel. ***, **, and * indicate significance at the 1, 5, and 10% levels.

Year	Require Independent Board Chairman (1)	Declassify Board (2)	Require Majority Vote for Directors (3)	Proxy Access (4)	Right to Call Special Meeting (5)	Say-on-Pay (6)
2004	0.76*** (N=35)	0.35* (N=27)	·	·	·	·
2005	0.33 (N=21)	0.39* (N=25)	0.40*** (N=51)	·	·	·
2006	0.76*** (N=50)	0.57*** (N=53)	0.66*** (N=96)	·	·	·
2007	0.88*** (N=39)	0.35** (N=36)	0.78*** (N=38)	·	·	0.68*** (N=48)
2008	0.71*** (N=28)	0.13 (N=73)	0.65*** (N=26)	·	0.83*** (N=26)	0.65*** (N=77)
2009	0.76*** (N=36)	0.35*** (N=62)	0.77*** (N=43)	·	0.84*** (N=57)	0.41*** (N=76)
2010	0.78*** (N=42)	0.12 (N=48)	0.71*** (N=33)	·	0.88*** (N=44)	0.35*** (N=54)
2011	0.83*** (N=29)	0.23 (N=33)	0.78*** (N=39)	·	0.95*** (N=30)	·
2012	0.69*** (N=56)	0.11 (N=51)	0.83*** (N=34)	·	·	·
2013	0.88*** (N=61)	0.49*** (N=33)	0.87*** (N=32)	·	·	·
2014	0.86*** (N=64)	·	0.91*** (N=31)	·	·	·
2015	0.84*** (N=65)	·	·	0.46*** (N=93)	·	·
2016	0.87*** (N=49)	·	·	0.73*** (N=86)	·	·
2017	0.86*** (N=44)	·	·	0.71*** (N=36)	·	·
All	0.79*** (N=619)	0.29*** (N=441)	0.71*** (N=423)	0.61*** (N=215)	0.87*** (N=157)	0.52*** (N=255)

Appendix A. Additional Figures and Tables

Panel A. Convergence of the precision parameter(α)



Panel B. Posterior distribution of the precision parameter(α)

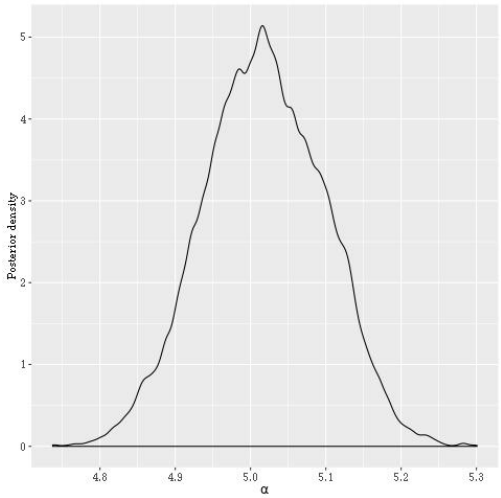


Figure A.1. Convergence and Posterior Distribution of α. Panel A presents the changes in the estimated value of the precision parameter α over 1,000,000 iterations for the firms that received proxy access proposals during 2015. In Panel A, the initial 500,000 observations are burn-ins. The distribution of the remaining 500,000 observations is shown in Panel B.

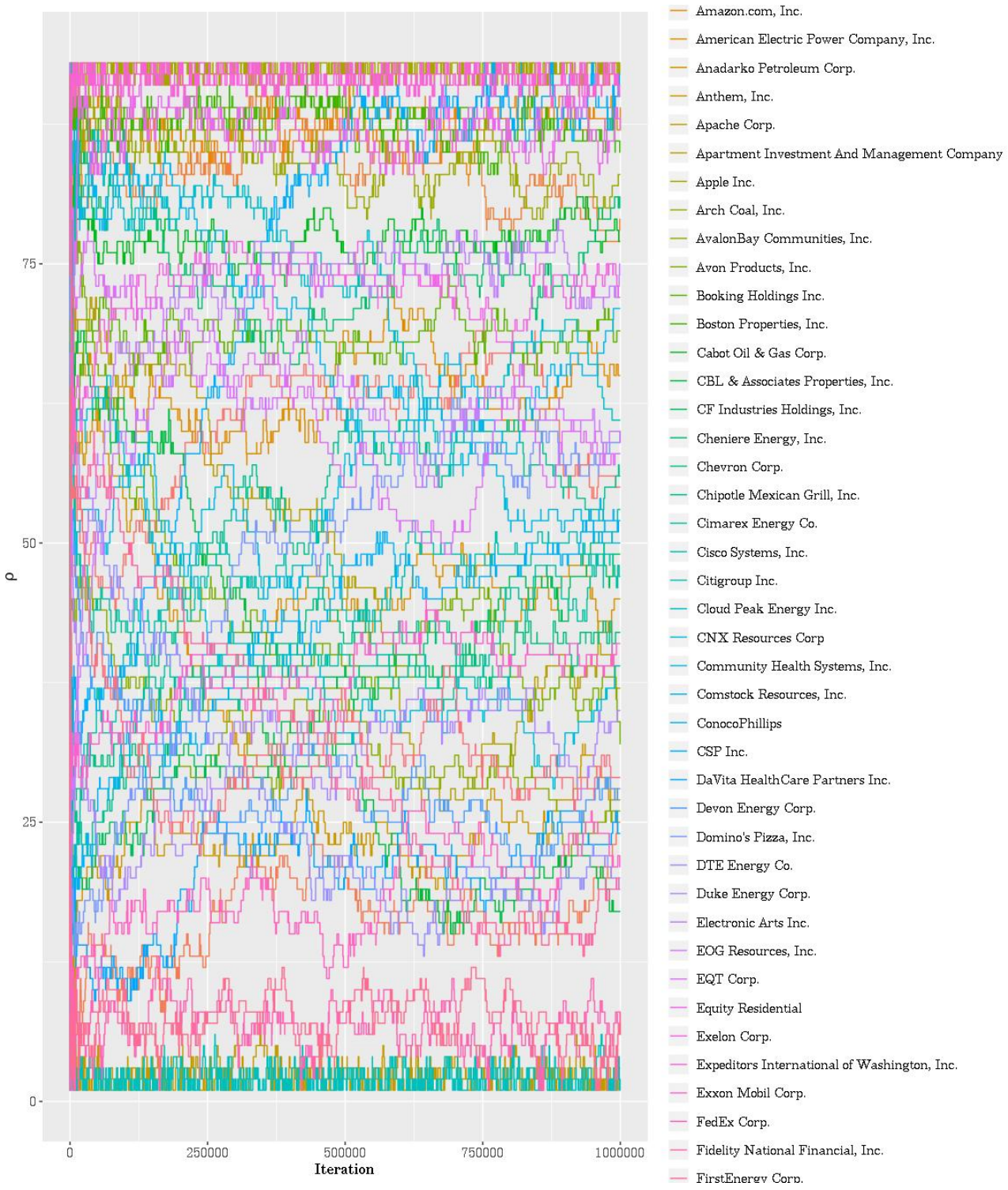
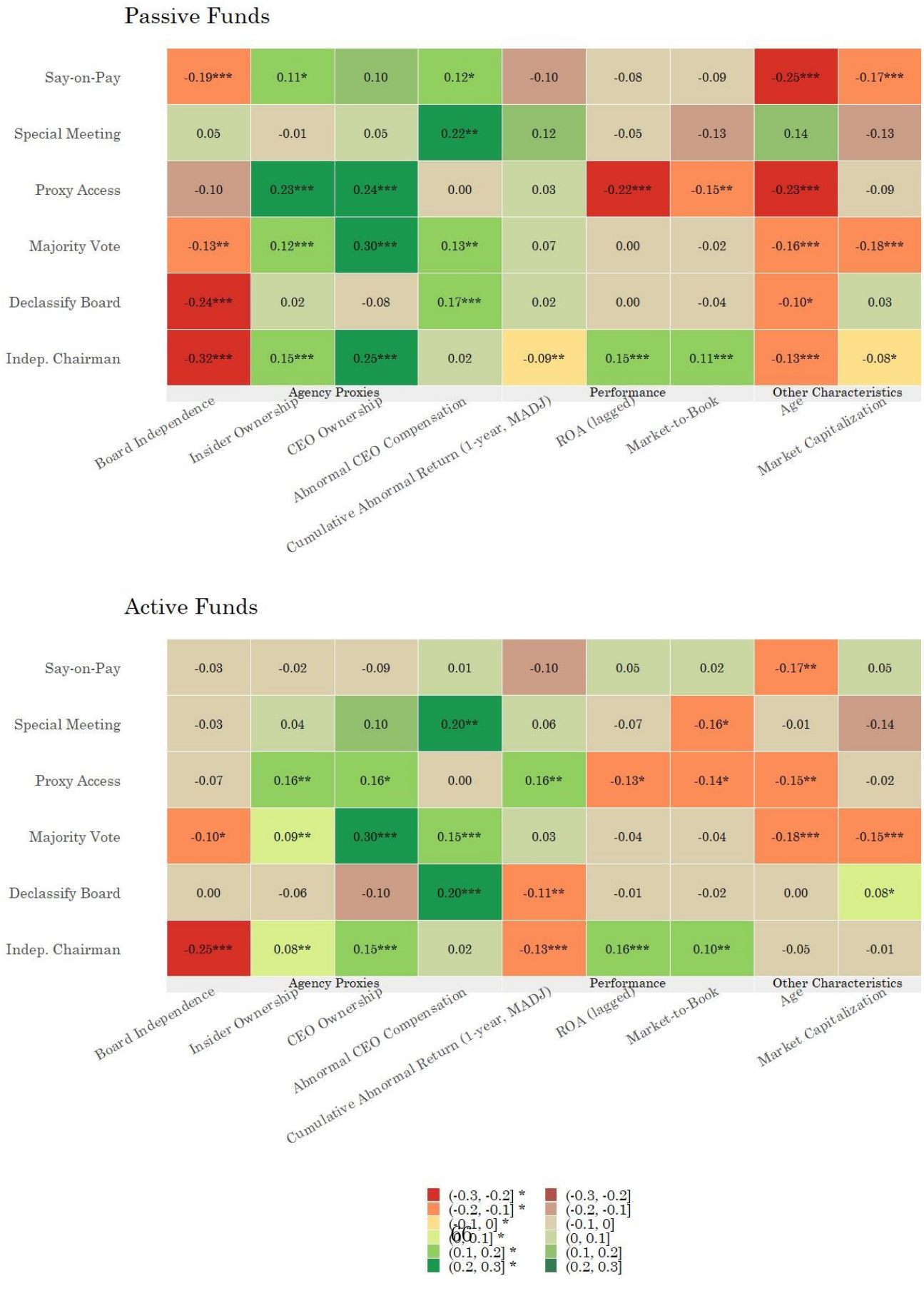


Figure A.2. Convergence of ρ. This figure shows how the estimated ranking of (ρ) changes over 1,000,000 iterations for the firms that received proxy access proposals during 2015. The initial 500,000 observations are discarded as burn-ins, and the remaining 500,000 observations are used to produce Panel A of Table 2 and Panel A of Figure 3. The results for a subset of the firms are presented to prevent visual clutter.

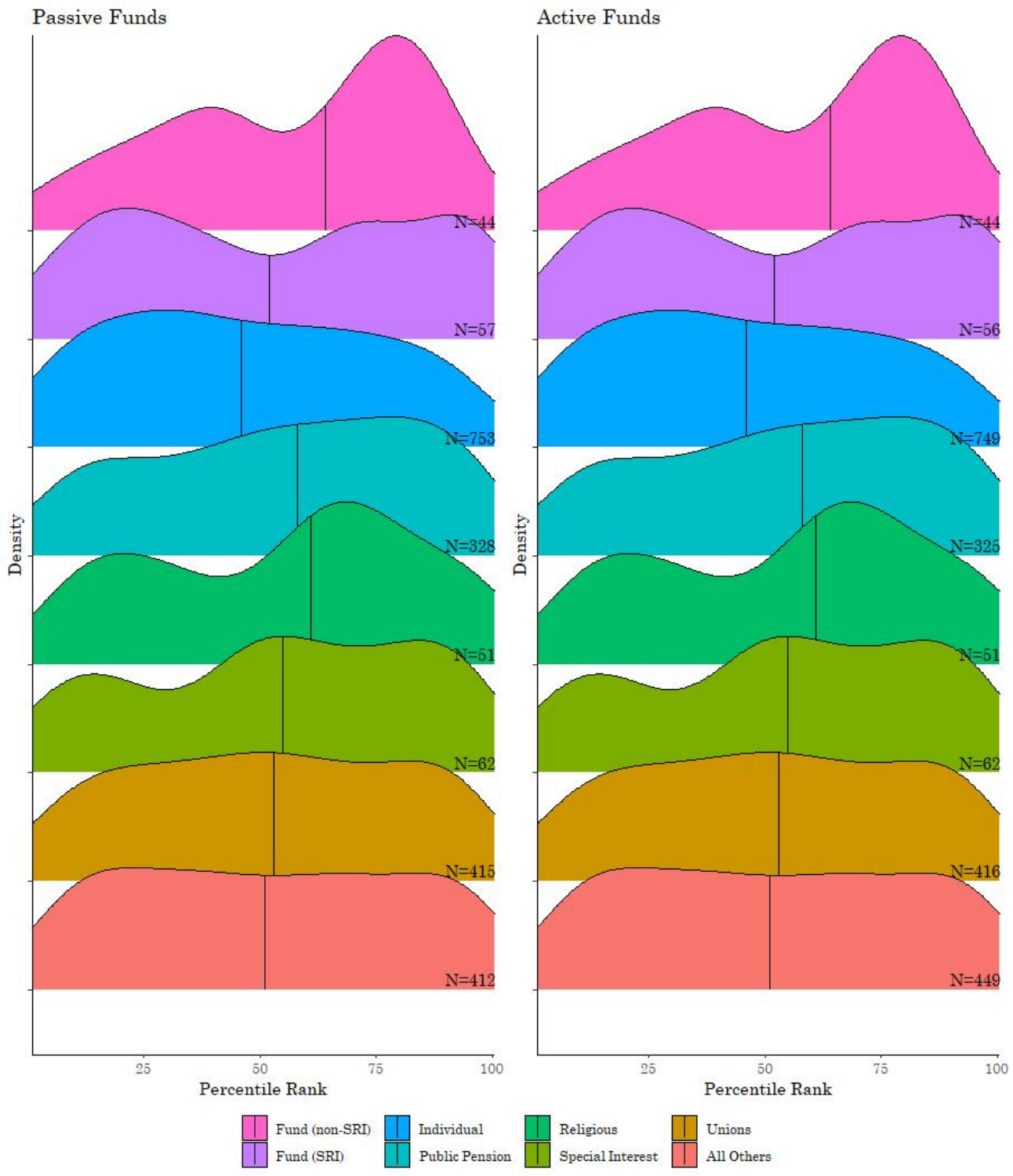
Figure A.3. Alternative Performance Measures. This figure presents the relationship between the funds' preference rankings and various performance measures. Each coefficient is an estimate from a univariate regression where the dependent variable is the percentile rank of the funds' governance preferences and the independent variable is the percentile of a performance measure as indicated at the bottom of the graph. ***, **, and * indicate significance at the 1, 5, and 10% levels. The colors show the magnitude of the coefficients and whether the coefficients are statistically significant at least at the 10% level. The second column of the legend shows the color-coding of the coefficients that are not statistically significant at the 10% level.

Panel A. Firm Characteristics



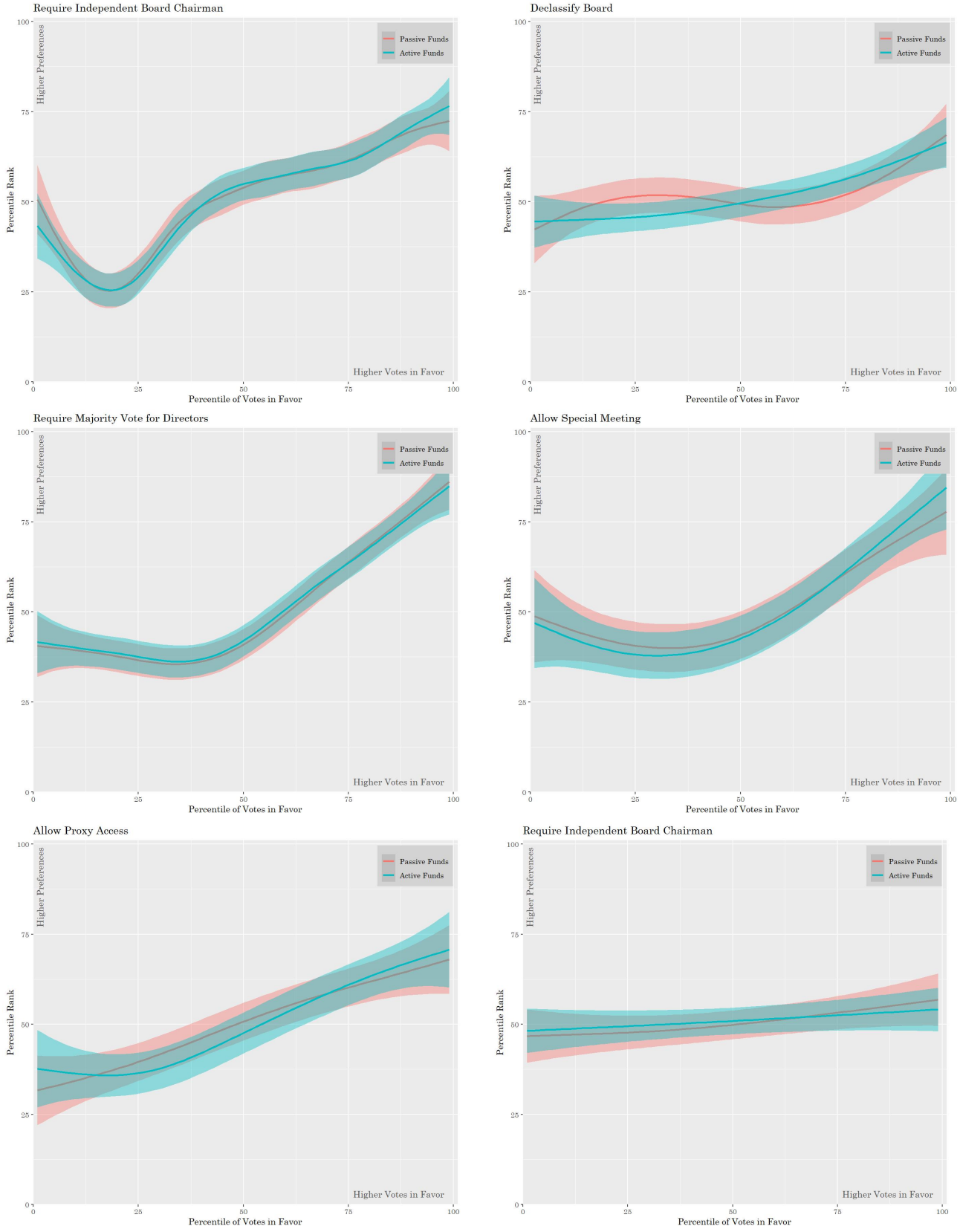
(*Continued*)

Panel B. Sponsor Type



(*Continued*)

Panel C. Correlation with Votes in Favor



(*Continued*)

Panel D. Correlation with G-Index

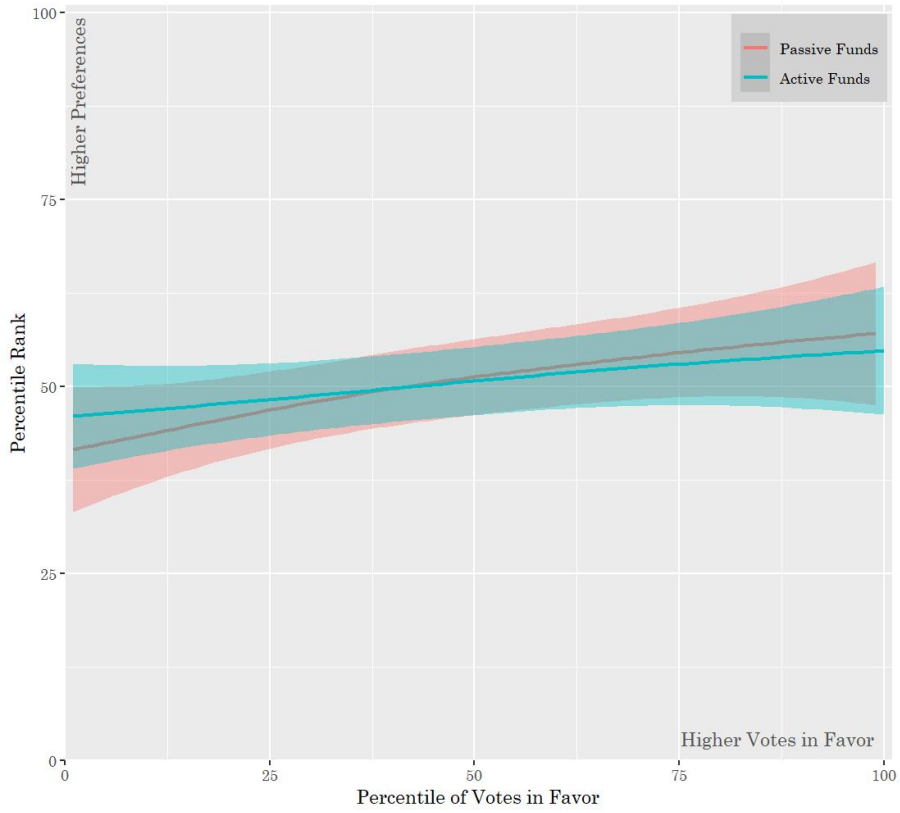


Figure A.4. Active vs. Passive Funds. This figure presents the patterns shown in Figure 4–7 separately for passive and active funds. Panel A presents the relationship between the funds' preference rankings and firm characteristics, which is analogous to Figure 4. Each coefficient is an estimate from a univariate regression where the dependent variable is the percentile rank of the funds' governance preferences and the independent variable is the percentile of a firm characteristic as indicated at the bottom of the graph. ***, **, and * indicate significance at the 1, 5, and 10% levels. The colors show the magnitude of the coefficients and whether the coefficients are statistically significant at least at the 10% level. The second column of the legend shows the color coding of the coefficients that are not statistically significant at the 10% level. Panel B presents the kernel density estimate of the percentile rank for each sponsor type, which is analogous to Figure 5. The vertical lines display the median percentile rank for each sponsor type. A higher percentile rank indicates a higher preference. Panel C shows the relation between the governance preference rankings and the votes in favor, which is analogous to Figure 6. The Spearman's correlation coefficient is indicated inside each graph. ***, **, and * indicate significance at the 1, 5, and 10% levels. Panel D shows the relation between the funds' preferences regarding the adoption of G-Index proposals and the G-Index of Gompers et al. (2003), which is analogous to Figure 7.

Table A.1. Governance Proposal Topics Mapped into ISS Codes

This table presents a mapping between the proposal topics and the topic codes used by the ISS, extending the Internet Appendix of Matsusaka et al. (2019). If a code is followed by (select), then the items with that code include multiple topics.

Topic	G-Index	E-Index	ISS codes (Voting Analytics)	ISS codes (RiskMetrics)
Board Organization and Processes				
Meetings				
Improve meeting reports	·	·	·	2120
Annual report on web	·	·	·	2121
Change annual meeting location	·	·	S0101	2130
Change annual meeting date	·	·	S0102	2131
Right to call special meeting	Yes	·	S0235	2325
Right to act by written consent	Yes	·	S0238	2326
Miscellaneous meetings	·	·	·	2903
Miscellaneous routine	·	·	·	2904*
Miscellaneous shareholder	·	·	·	2906*
Organization and Process				
Report prior government service of execs	·	·	·	2020, 3222
Board inclusiveness, diversity	·	·	S0227	2201
Increase board independence	·	·	S0215	2202
Limit director tenure/set retirement age	·	·	S0202, S0211	2203
Require directors to own stock	·	·	S0209	2204
Create shareholder committee	·	·	S0110	2212
Independent board chair	·	·	S0107	2214
Lead director	·	·	S0352*	2215
Director liability	Yes	·	S0237	2240
Create compensation committee	·	·	·	2420
Hire independent compensation consultant	·	·	·	2421, 2431
Compensation committee independence	·	·	·	2422
Audit committee independence	·	·	·	2500
Key committee independence	·	·	·	2501
Miscellaneous board related	·	·	·	2900*
Miscellaneous shareholder	·	·	·	2906*
Miscellaneous social issue	·	·	·	3907*
Compensation of Directors & Executives				
Director compensation				
Limit/restrict	·	·	·	2402
Pay in stock	·	·	·	2405
Restrict pensions	·	·	·	2407
Miscellaneous board related	·	·	·	2900*
Miscellaneous director pay	·	·	·	2905
Miscellaneous shareholder	·	·	·	2906*
Executive compensation				
Restrict/reform	·	·	·	2400
Disclose	·	·	·	2401
Limit	·	·	·	2403
Approve/advisory vote	·	·	S0517	2406, 2908
Link to social criteria	·	·	S0510	2408
Limit option repricing	·	·	·	2409
Vote on golden parachutes	Yes	Yes	S0318, S0321,	2414
Link stock/option awards to performance	·	·	S0512	2415, 2423
Expense options	·	·	S0514	2416
Approve/disclose retirement plans	·	·	S0506, S0519	2418
Requires options to be held	·	·	S0500	2419
Miscellaneous executive pay	·	·	·	2901
Miscellaneous board*	·	·	·	2900*
Miscellaneous shareholder	·	·	·	2906*

Topic	G-Index	E-Index	ISS codes (Voting Analytics)	ISS codes (RiskMetrics)
Miscellaneous shareholder	·	·	·	2908
Miscellaneous social	·	·	·	3907*
Director Elections and Qualifications				
Confidential voting	Yes	·	S0304, S0305*	2100
Counting votes	·	·	·	2101
Prohibit discretionary voting	·	·	·	2102
Equal access to proxy	·	·	S0221, S0226	2110
Majority vote to elect directors	·	·	S0212	2111
Allow union/employee reps on board	·	·	·	2205
Nominating committee independence	·	·	·	2210
Create nominating committee	·	·	·	2211
Adopt cumulative voting	Yes	·	S0207	2220
Require nominee statement in proxy	·	·	·	2230
Double board nominees	·	·	·	2231
Repeal classified board	Yes	Yes	S0201*	2300
Miscellaneous	·	·	·	2900*
Miscellaneous routine	·	·	·	2904*
Miscellaneous shareholder	·	·	·	2906*
Miscellaneous				
Auditors				
Shareholders approve auditors	·	·	·	2000
Limit non-audit fees	·	·	·	2002
Rotate auditors	·	·	·	2003
Miscellaneous routine	·	·	·	2904*
Miscellaneous shareholder	·	·	·	2906*
Labor				
Pension fund surplus	·	·	·	2417
Miscellaneous shareholder	·	·	·	2906*
Review job cuts/relocations	·	·	·	3600, 3611
Miscellaneous workplace	·	·	·	3906*
Other				
Shareholder pre-emptive rights	·	·	·	2010
Miscellaneous board	·	·	·	2900*
Miscellaneous shareholder	·	·	·	2906*
Miscellaneous shareholder	·	·	·	2907
Miscellaneous shareholder	·	·	·	2909
Politics				
Encouragement of political contributions	·	·	·	2022, 3224
Review political spending	·	·	·	3220
Limit political spending	·	·	·	3221
Miscellaneous contributions	·	·	·	3902*
Shareholder Proposals				
Miscellaneous shareholder	·	·	·	2906*
Takeovers, Mergers, and Divestitures				
Miscellaneous	·	·	·	1909
Study sale or spinoff	·	·	·	2030
Redeem or vote on poison pill	Yes	Yes	S0302, S0303	2310
Eliminate/reduce supermajority provision	Yes	Yes	S0311, S0236*	2320, 2321
Repeal fair price provision	Yes	·	S0326*	2324
Prohibit targeted stock placement	·	·	·	2330
Opt out of state takeover law	Yes	·	S0326*, S0352*	2341
Change state/country of incorporation	·	·	·	2342
Prohibit greenmail	Yes	·	S0352*, S0810*	2350
Miscellaneous antitakeover	Yes	·	S0353*	2902
Miscellaneous shareholder	·	·	·	2906*

Table A.2. Variable Description

Variable Name	Description and Definition (Source)
Abnormal Executive Compensation	Residual from regressing log of CEO's total annual compensation ($tdc1$) on the interaction of market capitalization and industry (3-digit SIC), and fiscal year dummy (Execucomp)
Active fund	A fund that is not categorized as a passive fund (ISS)
Board independence	percentage of board of directors classified as independent (ISS)
Capital expenditures/Assets	$capx/at$ (Compustat)
Cash/Assets	che/at (Compustat)
CEO ownership	percentage of total shares owned by the CEO ($shrown\_tot\_pct$) (Execucomp)
Cumulative abnormal return	cumulative abnormal return using the market-adjusted, market, Fama French three factor, and Fama French four factor model over one-year (250 trading days) or half-year (125 trading days) (CRSP)
Debt/Assets	$(dltt + dlc)/at$ (Compustat)
Market capitalization	natural log of market value of common equity, in $ million, $ln\ (prcc\_f \times csho)$ (Compustat)
Market-to-Book ratio	$(at + csho \times prcc\_f - ceq - txdb)/at$ (Compustat)
Firm age	year minus the year in which the firm was incorporated; log of firm age: $ln(1 + Firm\ age)$ (Jay Ritter's website)
Passive fund	A fund is categorized as passive if its name contains any of the following strings, following Appel et al. (2016): *INDEX*, *IDX*, *INDX*, *IND_* (_ indicates a space), *RUSSELL*, *S & P*, *S AND P*, *S&P*, *SANDP*, *SP*, *DOW*, *DJ*, *MSCI*, *BLOOMBERG*, *KBW*, *NASDAQ*, *NYSE*, *STOXX*, *FTSE*, *WILSHIRE*, *MORNINGSTAR*, *100*, *400*, *500*, *600*, *900*, *1000*, *1500*, *2000*, *5000* (ISS)
ROA	$oibdp/at$ (Compustat)
Total assets	at (Compustat)
Votes in favor	votes in favor/(votes in favor + votes against) (ISS)

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