EPFL

Thèse n° 8027

Empirical Evidence on the Effectiveness of Shareholder Democracy

Présentée le 9 juillet 2021

Collège du management de la technologie
Chaire du Prof. ordinaire Fahlenbrach
Programme doctoral en finance

pour l'obtention du grade de Docteur ès Sciences

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2021

To my friends and family.

Acknowledgments

I am forever indebted to my advisor, Rüdiger Fahlenbrach, whose continuous support and guidance were essential to this thesis. I am also grateful to Wei Jiang for giving me the opportunity to visit Columbia University and providing me with valuable feedback and support. I would like to thank Erwan Morellec for his support and advice throughout the years. I thank Alexander Wagner for kindly accepting to review and evaluate this thesis and Pierre Collin-Dufresne for chairing my thesis committee. I would also like to thank Sophie Cadena and Lorraine Dupart for helping me find my way through the administrative maze of pursuing a PhD. I am thankful to all my friends and colleagues, in particular Kornelia Fabisik, Marc Frattaroli, Nicolas Gauderon, and Kevin Rageth who were always up for distracting and passionate talks over a cup of coffee. Finally, I am grateful to my family members for their unconditional love and support.

Lausanne, June 16, 2021 Maxime Couvert

Abstract

This thesis is composed of two essays that study the effectiveness of shareholder democracy.

In the first essay, I analyze the firm value implications of shareholder-initiated proposals. I show that managerial resistance precludes half of shareholder-initiated proposals from reaching the ballot stage. I construct a novel dataset of excluded and withdrawn proposals from the Securities and Exchange Commission's responses to managers' exclusion requests. An examination of announcement returns to the exclusion and withdrawal decisions reveals that non-voted proposals have a value-destroying nature. Special interest investors pursuing self-serving agendas and retail investors advocating for one-size-fits-all reforms explain the harmful character of non-voted proposals. I correct for the selection bias induced by managerial resistance and show that focusing only on voted proposals overstates the shareholder proposals-driven value creation.

In the second essay, I study the impact of mutuals funds' environmental, social, and governance (ESG) preferences on portfolio firms. I construct measures of mutual funds' ESG preferences from their proxy voting guidelines in which mutual funds announce how they generally vote on the different ballot items at the shareholder meetings of their portfolio firms. I manually collect 17,000 of these voting policies for a sample of 29 of the largest U.S. mutual fund families over 2006-2018. I find that voting policies are a major predictor of funds' voting behavior. Exploiting staggered changes in funds' voting policies as an instrument, I show that investee companies adopt their mutual fund shareholders' preferred governance provisions. This adoption is the result of mutual fund shareholders' active voting. Announced voting policies also stimulate strategic proposal submissions by non-mutual fund shareholders.

Keyword: Corporate governance, corporate social responsibility, shareholder activism, proxy voting, shareholder proposals, institutional investors.

Résumé

Cette thèse est composée de deux essais qui étudient l'efficacité de la démocratie d'entreprise.

Dans le premier essai, j'analyse l'impact des propositions actionnariales sur la valeur des entreprises. Je démontre que la résistance managériale empêche la moitié des propositions initiées par les actionnaires d'atteindre l'étape du scrutin. A l'aide des réponses de la « Securities and Exchange Commission » aux demandes d'exclusion des gestionnaires, je construis une nouvelle base de données de propositions exclues et retirées. Un examen des rendements suivant les annonces de décisions d'exclusion et de retrait révèle que les propositions non-votées ont un caractère destructeur de valeur. Les investisseurs qui poursuivent des intérêts privés et les investisseurs particuliers qui préconisent des réformes universelles expliquent le caractère néfaste des propositions non-votées. Je corrige le biais de sélection induit par la résistance managériale et montre que se concentrer uniquement sur les propositions votées surestime la création de valeur induite par les propositions d'actionnaires.

Dans le deuxième essai, j'étudie l'impact des préférences environnementales, sociales et de gouvernance (ESG) des fonds mutuels sur les entreprises de leur portefeuille. Je construis des mesures des préférences ESG des fonds mutuels à l'aide de leurs directives de vote dans lesquelles les fonds mutuels annoncent leurs politiques de vote pour les assemblées des actionnaires des entreprises de leur portefeuille. Je recueille manuellement 17.000 de ces politiques de vote pour un échantillon de 29 des plus grandes familles de fonds mutuels aux États-Unis sur la période 2006-2018. Je trouve que les politiques de vote sont un prédicteur majeur du comportement de vote des fonds. En exploitant les changements échelonnés dans les politiques de vote des fonds comme instrument, je montre que les entreprises adoptent les dispositions de gouvernance privilégiées de leurs actionnaires-fonds mutuels. Cette adoption est le résultat du vote actif des actionnaires-fonds mutuels. Les politiques de vote annoncées stimulent également les soumissions stratégiques de propositions par des actionnaires autres que des fonds mutuels.

Mots-clefs : Gouvernance d'entreprise, responsabilité sociétale des entreprises, activisme actionnarial, propositions d'actionnaires, investisseurs institutionnels.

Contents

List of Figures

List of Tables

Introduction

Corporations resemble democracies (Gompers et al., 2003). Shareholders elect their representatives, board members. These board members appoint the executive body, the management which, in turn, governs the corporations. Specifically, corporations resemble direct democracies. Shareholders may sponsor initiatives requesting the implementation of a proposal at the corporations of which they hold shares. These initiatives are put to a referendum where shareholders cast their votes to support or reject proposals. This organizational system where shareholders elect board members, submit proposals, and cast their votes on these proposals can be referred to as the "*shareholder democracy*". The purpose of this thesis is to provide an empirical analysis of the effectiveness of shareholder democracy.

For shareholder democracy to be effective, shareholders must be able to use their right to vote and initiate proposals to foster positive policy changes at their portfolio firms. I adopt two research strategies to analyze the effectiveness of shareholder democracy. First, I study the effectiveness of the shareholder proposal system. In particular, I investigate whether shareholders enhance firm value by submitting proposals. Second, I explore mutual funds' ability to use their right to vote to effectively influence the environmental, social, and governance (ESG) structure of their portfolio firms.

In the first chapter, I construct a novel dataset of excluded and withdrawn proposals and show that managerial resistance precludes half of shareholder-initiated proposals from reaching the voting stage. I investigate the value of these non-voted proposals and what differentiates them from voted ones. I also analyze whether focussing on voted proposals has led to a sample

selection bias when assessing the effectiveness of the shareholder proposal system to create value. If such a bias exists, what are its direction and economic magnitude? Is the shareholder proposal system an effective voice mechanism?

The market reaction to exclusion announcements is positive and statistically significant. I exploit the legal grounds underlying the SEC's exclusion decisions and find that this positive reaction expresses investors' relief that value-destroying proposals will not be implemented. Regarding withdrawal settlements, I find that markets react negatively when management accommodates activists' demands.

I then study the channels explaining the harmful character of non-voted proposals. I find that the one-size-fits-all governance proposals filed by small retail investors explain most of the positive market reaction to the exclusion decisions. Furthermore, NGOs, religious groups, and labor unions negotiate settlements that pursue their own private benefits. My results therefore provide evidence that direct shareholder democracy may have negative value implications as noisy and special interest shareholders misuse and exploit their right to initiate proposals.

In the final section of this first chapter, I estimate the selection bias induced by omitting non-voted proposals. Consistent with non-voted proposals being harmful, I find that the bias is positive: omitting non-voted proposals overstates the value of shareholder proposals. However, my selection bias-adjusted estimate of the value of shareholder proposals remains positive. Therefore my results reveal that, although non-voted proposals can hurt firm value, the shareholder proposal system is an effective voice mechanism for shareholder value maximization.

The second chapter of this thesis investigates whether mutual funds, the largest type of shareholders, are effective at obtaining the implementation of their ESG preferences at their portfolio firms. I construct measures of mutual funds' ESG preferences from their proxy voting guidelines. In these mandatory disclosure documents, mutual funds describe how they generally vote on the common ballot items at the shareholder meetings of their portfolio firms. I use these announced preferences to explore how effective institutional investors are at

obtaining the implementation of their preferred policies.

I manually collect about 17,000 of these policies for a sample of 29 of the largest U.S. mutual fund families over 2006-2018. I find mutual funds exhibit a high level of heterogeneity in their ESG preferences and that these preferences change over time. I then compare these stated preferences to mutual funds' actual votes to investigate how informative these announced preferences are about mutual funds' fundamental preferences. This analysis reveals that announced preferences are a key predictor of mutual funds' votes. However, it also emphasizes the presence of greenwashing as mutual funds tend to present themselves as more friendly towards environmental and social issues than what they are in their votes.

I exploit the staggered changes in voting policies across mutual funds is to identify the impact of mutual funds' ESG preferences on portfolio firms. I find that portfolio companies adopt the preferred governance policies of their mutual fund shareholders, but not the environmental and social preferences. Mutual funds' active voting is one of the main channels through which mutual funds influence portfolio companies. Furthermore, I find evidence consistent with mutual funds conducting private negotiations to obtain the implementation of their preferred policies. Finally, I show that non-mutual fund shareholders use mutual funds' announced preferences to strategically submit proposals that are more likely to receive mutual fund shareholders' support.

This thesis demonstrates that shareholder democracy is an effective voice mechanism as it provides empirical evidence that shareholders can exercise their rights to vote and initiate proposals to enhance shareholder value as well as obtain the implementation of their preferred ESG policies. However, the empirical evidence I provide also shows that shareholder democracy can have detrimental side effects as shareholder rights can also be misused or exploited at the expense of firm value.

Part I

What are the shareholder value implications of non-voted shareholder proposals?

1 Introduction

In the United States, shareholder-initiated proposals are one of the major instruments for shareholders to exercise governance. Shareholders actively use the instrument: From 2002 through 2016, S&P1500 firms received more than 13,000 shareholder-initiated resolutions. As a result, an active academic debate has emerged as to whether shareholders can create value by submitting proposals (Pound, 1991; Bainbridge, 2006; Levit and Malenko, 2011; Renneboog and Szilagyi, 2011; Cuñat et al., 2012; Flammer, 2015). Despite the widespread attention, research has focused on a subset of shareholder proposals, voted ones (Ferri, 2012). Yet, I show that almost one out of two proposals never reaches the voting stage. There are two reasons for this. First, when hostile to a proposal, a company's management can ask the Securities and Exchange Commission (SEC) for permission to exclude it from the company's proxy. The permission is given if the proposal does not comply with procedural or substantive requirements imposed by the SEC. Second, it is also common that corporations engage in negotiations with the sponsor of a proposal to convince him to withdraw his resolution. As resisting proposals is an endogenous choice of management, it is likely that voted proposals represent a non-randomly selected subset of the full population of proposals that firms receive.

In this chapter, I explore the shareholder proposal process. I investigate how managerial selection and the SEC's decisions affect the set of proposals that reach the voting stage. I estimate the value implications of challenged proposals and study the economic channels

underlying these value implications.

To examine these questions, I collect over 5,000 challenged proposals. I obtain data on challenged proposals from the SEC's "no-action letters" that announce the SEC's decisions whether to allow the exclusion of shareholder proposals or whether the sponsor withdrew his proposal.[1] I study the stock market reaction to the publication of the SEC's no-action letters to estimate the value of challenged proposals. Exploiting the legal grounds on which the SEC bases its exclusion decisions, I assess the value impact of excluded proposals, had they been implemented. Through an analysis of withdrawal settlements, I evaluate the extent to which managers respond to shareholders' demands. Finally, I examine the topics and identities of filers of challenged proposals to determine who, between managers and shareholders, benefit from the absence of proposals on ballots and why.

One of the main challenges that scholars have faced when assessing the value of shareholder proposals is the presence of confounding factors (Thomas and Cotter, 2007). In fact, the publication of proxy materials containing a proposal or annual general meetings (AGM) where a proposal vote takes place are not isolated events. For example, proxy statements will also announce board candidates or executive compensation plans that will subsequently be voted on at the AGM. It is therefore difficult to disentangle the stock market reaction induced by a shareholder proposal from the reaction induced by all other announcements. Furthermore, Bach and Metzger (2019) and Lee and Souther (2020) show that managers can manipulate votes. It implies that one cannot routinely use a regression discontinuity design (RDD) to identify the causal value effects of shareholder proposals. Conversely, it is likely that the publication of the SEC's no-action letters will be stand-alone events, hence better enabling me to isolate the shareholder value implications of challenged proposals. One of the contributions of my paper is therefore to provide an alternative experimental setup for which market reactions to shareholder proposals can be identified clearly.

I first show that a large portion of proposals never reaches the voting stage and that this

[1] Whenever a sponsor withdraws a proposal that was challenged at the SEC before the SEC has taken a decision whether to allow the exclusion of the proposal, the SEC publishes a no-action letter announcing the withdrawal of the proposal.

phenomenon has been stable over time. Exclusions are not limited to frivolous proposals but also concern very standard corporate governance (CG) provisions such as removing a poison pill or destaggering the board. I also find that small retail investors play a very active role in the shareholder proposal system. However, their proposals are more likely to be contested by management and subsequently excluded by the SEC. In addition, managers often negotiate the withdrawal of corporate social responsibility (CSR) proposals such that they are much less likely to reach the ballots than governance resolutions. Based on these key stylized facts, I conclude that voted proposals are not representative of the full population. It is therefore important to take these non-voted proposals into account when assessing the value of shareholder proposals.

My analysis of announcement returns reveals that markets react positively to the SEC's exclusion decisions. I exploit Rule 14a-8(i)(10), which allows the exclusion of proposals that have already been substantially implemented, to identify what drives this positive market reaction. I find that the market reaction is significantly larger when the SEC considers that a proposal has not already been implemented. Such evidence therefore supports that it is the implementation of the excluded proposals that would have harmed firm value. Furthermore, I find that the market reaction following the withdrawal of challenged proposals is negative. An analysis of the correspondence between the SEC, the proposals' sponsors, and the targeted firms reveals that responding to the demands of proposals' sponsors is especially harmful. All in all, these results indicate that non-voted challenged resolutions are detrimental to shareholder value.

Why are these proposals harmful? One reason may be that sponsors use the shareholder proposal system to extract private benefits. In this respect, I find that settlements with special interest investors explain the negative stock market reactions associated with withdrawal announcements. Labor unions but also non-governmental organizations (NGOs) and religious groups, who in contrast to unions do not have access to strikes as a negotiation tool, are able to obtain value-destroying deals. These settlements have particularly negative effects when proposals address non-standards issues that are likely to be tailored to sponsors' private agenda.

Another reason why proposals may destroy firm value is that they are ill-suited for firms. If sponsors are not able to assess the value of the proposals they file or if assessment is costly, they may submit value-destroying resolutions. Such concerns are amplified by the fact that the value-generating nature of a proposal may vary across firms and time. To test this hypothesis, I examine the proposals filed by very small retail investors, often referred to as "corporate gadflies". I show that these small individual investors tend to file dozens of proposals per year, thereby casting doubts upon their ability to assess the suitability of their proposals. The proposals they submit almost always address very standard governance matters which proxy advisors tend to support. For this reason, if these proposals reach the voting stage, they may obtain the majority of the votes even if they are value-destroying. Larcker et al. (2013), Li (2016), and Gantchev and Giannetti (2020) indeed show that over-reliance on proxy advisors' recommendations can lead to the adoption of harmful policies. Consistent with corporate gadflies submitting ill-suited proposals, I find strong evidence that the proposals they file explain the positive abnormal returns following exclusion decisions.

My paper relates to the literature on the benefits and costs of shareholder empowerment. While some authors argue that shareholder rights may reduce agency conflicts by allowing shareholders to monitor and control managers (Bebchuk, 2003; Gompers et al., 2003; Bebchuk, 2004; Cuñat et al., 2012), others claim that shareholders may use their rights to pursue private benefits (Bainbridge, 2006) or may not grant managers enough independence to manage the firm (Bratton and Wachter, 2010). I add to this debate by providing new empirical evidence on the detrimental effects of enhanced shareholder rights. My results provide support to two channels through which shareholders can damage firm value, namely pursuing private benefits and advocating for ill-suited governance reforms.

Soltes et al. (2017) and Matsusaka et al. (2019a) also use no-action letters to study part of the shareholder proposal process. Soltes et al. (2017) provide a detailed description of the SEC challenge. They show that management often challenges proposals that receive shareholder support if they reach the voting stage. From these results, they infer that management regularly seeks the exclusion of proposals that shareholders value. In contrast, Matsusaka et al. (2019a)

provide evidence that markets react positively to the exclusion of corporate governance proposals and of proposals that are submitted to high-profit firms. They conclude that exclusions allow managers at high-performance companies to remove proposals that would otherwise distract them.

I significantly extend the literature beyond the results of Soltes et al. (2017) and Matsusaka et al. (2019a). I adopt a more holistic approach, analyzing the entire proposal process, including voted and withdrawn proposals. I show that it is essential to consider excluded as well as withdrawn proposals when assessing the efficiency of the shareholder proposal system. Using the content of settlements as well as the reasons behind the SEC's decisions, I demonstrate that different economic channels explain the value-destroying natures of excluded and of withdrawn proposals. My approach also allows me to show that the selection mechanism that takes place when managers decide to resist proposals leads to a sample selection bias. Consequently, I provide the first bias-adjusted estimate of the value of shareholder proposals. My results can reconcile the diverging views on the value of shareholder resolutions by demonstrating that proposals that reach the voting stage are value-enhancing while non-voted proposals hurt firm value. I therefore show that, although enhanced shareholder rights may have adverse side effects, overall the shareholder proposal system benefits shareholder wealth.

Finally, my paper provides novel and important insights on the essential role of the Securities and Exchange Commission in limiting proposals submitted by noisy or special interest investors. It thereby demonstrates that financial regulators can help mitigate the negative side effects of shareholder empowerment.

The remainder of the chapter is organized as follows. Section 2 provides a description of the shareholder proposal process, describes the data collection and presents summary statistics. Section 3 reviews the literature on shareholder proposals and derives testable hypotheses. Section 4 describes the data collection and presents summary statistics. Section 5 presents the methodological approach as well as the results. Finally, Section 6 shows robustness tests and Section 7 concludes.

2 Institutional background, data, and descriptive statistics

2.1 The shareholder proposal process

Figure 2.1 provides an illustration of the shareholder proposal process.

The first step of the shareholder proposal process is the proposal submission.[2] By SEC Rule 14a-8, any shareholder that has continuously held a minimum of $2,000 in market value, or 1% of the company's outstanding securities, for at least one year by the date of submission is eligible to submit a proposal. In addition, a proposal's sponsor has to commit to being present, or be represented, at the shareholder meeting where the vote will take place. The targeted firm is required to include the proposal in its proxy materials as well as to organize a vote on the resolution at the forthcoming shareholder meeting. The submission process is nevertheless subject to procedural requirements as well as substantive content restrictions.[3] After the receipt of a proposal, a firm's management must choose how to respond. Three strategies are available: challenge the proposal at the SEC to have it excluded for breach of

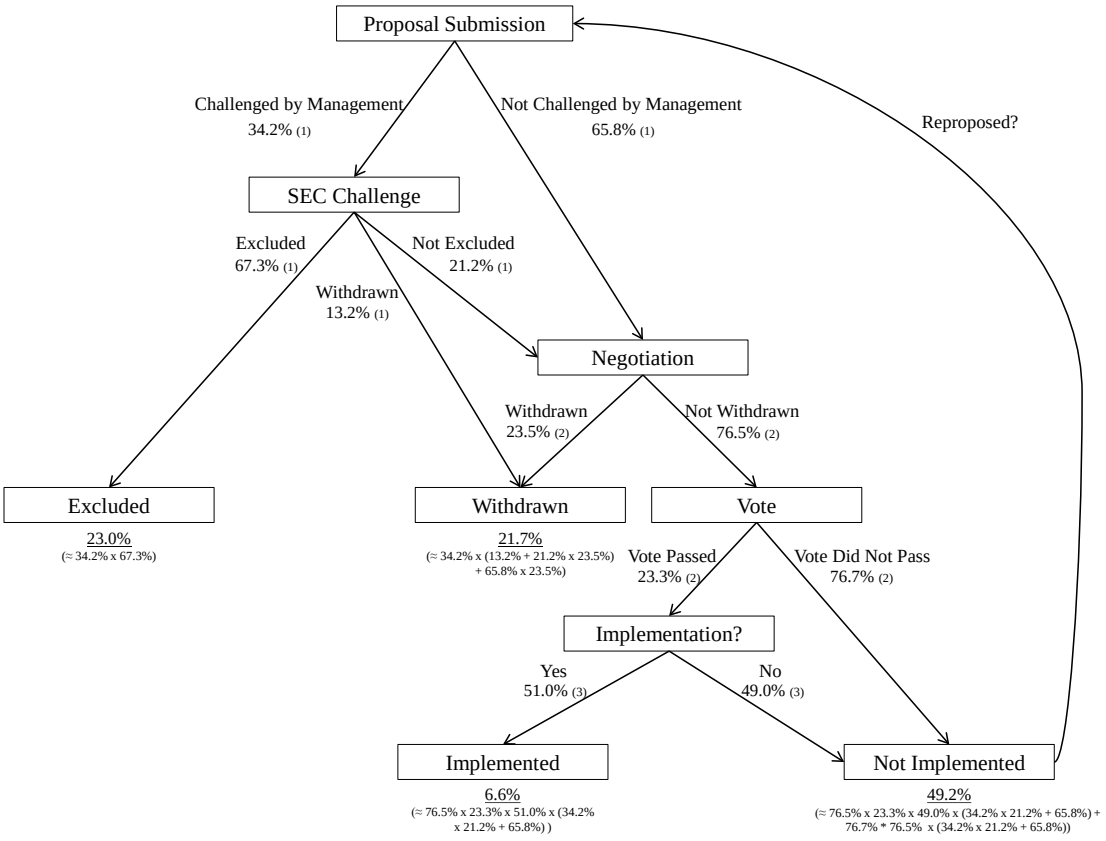
[2] Private negotiations may precede proposal submissions. In this respect, McCahery et al. (2016) provide survey evidence of widespread behind-the-scene negotiations by institutional investors. Smith (1996), Carleton et al. (1998), and Becht et al. (2010) show that large pension funds are able to negotiate changes in target firms. Finally, Bebchuk et al. (2020) find that settlements between activists and firms' boards are followed by positive stock market reactions.

[3] A complete description of the procedure to submit a proposal as well as of the topics that can be addressed can be found on the SEC website: www.sec.gov/rules/final/34-40018.htm

submission requirements, engage in negotiations with the proponent to have him withdraw his proposal, or add it to the proxy materials as is.

Figure 2.1: The shareholder proposal process

The graph presents the shareholder proposal process. Figures are obtained from different sources. Source (1) is the database that was created from no-action letters and ISS Shareholder Proposals database, hence covering S&P1500 firms over the 2002-2014 period. Source (3) is the average between the implementation rates found in Ertimur et al. (2010) and Bach and Metzger (2017). Underlined figures are unconditional probabilities. For simplification purposes, cases where a proposal does not obtain a majority support but is implemented anyway are overlooked.



The SEC challenge consists of petitioning the SEC to verify that there exist some legal grounds to omit the proposal from ballots. After having evaluated the request, the SEC issues a no-action letter that communicates its decision whether to allow the omission of the proposal. If the SEC sides with management, the no-action letter states that the SEC believes that there is "some basis to exclude the proposal under Rule 14a-8". The firm can then omit the resolution. As shown in Figure 2.1, firms challenge about 34% of the shareholder proposals they receive

and are successful in 67% of the cases.[4]

The SEC explicitly mentions that it does not judge the merits of proposals (SEC, 2016). It limits its role to assessing whether the exclusion argument of the challenger is well-founded under Rule 14a-8. Table 2.1 provides a list of the different legal grounds on which a firm can base its argument to support the exclusion of a proposal. Columns 3 and 4 of Table 2.1 present the frequency of the different legal grounds advanced by firms and their success rates at the SEC challenge. The most common grounds are that the proposal addresses ordinary business operations, that the proponent did not provide proof of his ownership, and that the proposal or its supporting statement is materially false or misleading. It is worth noting that many of the legal grounds are vague. For example, there is no clear definition of what "ordinary business operations" cover. Similarly, what constitutes "materially false or misleading statements" or the "absence of power/authority to implement [a] proposal" is ambiguous. Consequently, there remains large uncertainty regarding the SEC's reactions to no-action requests, also represented via the challenge success rate of only 67%.

The unpredictability of the SEC's decisions has been criticized widely by legal scholars (Palmiter, 1993; Lazaroff, 1997; Schwartz and Weiss, 1976; Welter, 1991; Fisch, 1993; Waite, 1995; Uhlenbrock, 2000; Stanton, 1999). One of their critiques is that one cannot rely on past decisions to predict future ones. They also highlight that management often attempts to have valid proposals excluded thanks to the vagueness of Rule 14a-8 (Palmiter, 1993; Coffee Jr, 1993; O'Brien, 1984). It is indeed common that management challenges proposals on many legal grounds, sometimes as many as nine (SEC, 2008), in the hope that one of them will convince the agency.

[4] One should also note that no-action letters are not legally binding. Therefore, although the issuance of a no-action letter usually puts an end to the process, a firm's decision to exclude a proposal can still be challenged in court by the proponent.

Table 2.1: Legal grounds for exclusion

The table explains the legal grounds on which no-action letters can be requested and delivered. Further information can be found on the SEC website, see https://www.sec.gov/rules/final/34-40018.htm. Column 3 presents the number of times that a legal ground was used by firms in the sample to support a no-action request. One should note that firms often base their no-action requests on several of these grounds. Column 4 presents the success rate (to obtain the exclusion of a proposal) for each legal ground. It is calculated as the ratio of the number of times that the SEC accepted to exclude a proposal based on a specific ground and the number of times that firms used that specific ground to challenge proposals. Data covers no-action requests received by U.S. firms over the 2002-2016 period.

Legal Ground	Explanation	Nb. of Requests	Success Rate
Procedural			
Rule 14a-8(a)	Definition of a shareholder proposal.	136	0%
Rule 14a-8(b)	A shareholder may submit a proposal if he has owned a minimum of $2.000 or 1% of outstanding shares for at least one year.	1754	29%
Rule 14a-8(c)	A shareholder may file a maximum of one proposal per year.	415	8%
Rule 14a-8(d)	The proposal and supporting statements may not exceed 500 words.	523	2%
Rule 14a-8(e)	A proposal must be received at least 120 days before the release of the proxy materials.	479	37%
Rule 14a-8(f)	Failure to meet Rule 14a-8(a), Rule 14a-8(b), Rule 14a-8(c), or Rule 14a-8(d).	1524	33%
Rule 14a-8(g)	The burden to convince the commission is on the company.	-	-
Rule 14a-8(h)	Either the proponent or his representative must appear at the AGM.	-	-
Substantive			
Rule 14a-8(i)(1)	The proposal is improper under state law.	488	11%
Rule 14a-8(i)(2)	The proposal violates the law (state, federal, or foreign).	629	17%
Rule 14a-8(i)(3)	The proposal violates proxy rules (materially false or misleading statements).	2261	18%
Rule 14a-8(i)(4)	The proposal relates to personal grievance/special interest.	287	4%
Rule 14a-8(i)(5)	The proposal is not relevant (less than 5% of total assets or net earnings or gross sales).	141	4%
Rule 14a-8(i)(6)	Absence of power/authority to implement the proposal.	687	8%
Rule 14a-8(i)(7)	The proposal relates to the company's ordinary business operations.	1772	42%
Rule 14a-8(i)(8)	The proposal relates to director elections.	281	20%
Rule 14a-8(i)(9)	The proposal conflicts with a management-sponsored proposal.	295	46%
Rule 14a-8(i)(10)	The proposal has already been substantially implemented.	1364	25%
Rule 14a-8(i)(11)	The proposal is a duplicate of another proposal.	309	35%
Rule 14a-8(i)(12)	The proposal was submitted in previous years but did not reach a sufficient number of votes.	158	44%
Rule 14a-8(i)(13)	The proposal addresses a specific amount of dividends.	62	42%

Management may also engage in negotiations with the proponent of a proposal in order to find a settlement so that the proponent withdraws his proposal. Such negotiations can take place whether management has decided to challenge the proposal or not. As illustrated in Figure 2.1, if a proposal has been challenged, a settlement may be found before the SEC takes a decision whether to allow the exclusion of the proposal but also after the decision to refuse the exclusion. In the event of the withdrawal of a proposal before the SEC's decision, a no-action letter is published by the SEC but communicates that no stand will be taken on the matter since a settlement was found. Overall, proponents withdraw their proposal in over 20% of the cases.[5] If no negotiations were undertaken or if negotiations fail, proposals that were not excluded must be added to the proxy materials and put to a vote.

When a proposal is neither excluded nor withdrawn, shareholders cast their vote on the resolution at the next shareholder meeting. It is important to note that proposals with a favorable vote are not binding. Hence, it is still up to the board of directors to decide whether the proposal should be implemented or not. However, boards have strong incentives to implement majority-supported proposals. In fact, the two largest proxy advisors, Institutional Investor Services (ISS) and Glass Lewis (GL), have policies to recommend withholding support for boards that did not implement a proposal that received strong shareholder support in the past years. Several authors have studied whether proposals were implemented in the year following the vote. For example, Ertimur et al. (2010) find that about 31% of the proposals that obtained a majority vote were implemented. More recently, Bach and Metzger (2017) find that the implementation rate of corporate governance resolutions has increased over the past decade, reaching a level of about 70%. If management does not implement a proposal that obtained a certain percentage of the votes cast, the proposal may be resubmitted the next year.[6] The whole process then restarts from the very beginning.

[5] It is worth highlighting that management may implement proposals directly, without contesting them, without announcing them on the proxy card, and without announcing their implementation. As these proposals never become public, some of them may not be included in my sample and therefore the number of withdrawals may be underestimated.

[6] One should however note that the Code of Federal Regulations imposes that a proposal has received sufficient shareholder support to be resubmitted in the coming years. For more details, see 17 CFR 240.14a-8 - Shareholder proposals.

2.2 Data construction

I first collect the no-action letters published by the SEC's Corporation Finance Division. Two sources make those no-action letters available. The Corporation Finance Division of the SEC makes no-action letters available on its website[7] from 2007 onwards. Furthermore, the Edgar platform of the SEC provides no-action letters as from 2002 under the "NO ACT" filings.[8] In addition to communicating the SEC's decision whether to allow the exclusion of a proposal or the withdrawal of a proposal, no-action letters also include the entire correspondence between the SEC, the firm, and the proposal's sponsor. Therefore, I collect information regarding the identities of the proponents, the topics of the proposals, the legal grounds advanced by the petitioners to demand the exclusion of proposals as well as the legal grounds on the basis of which the SEC allows the exclusions, if applicable. I also collect information regarding the involvement of a legal counsel.

To gather the information, I design a parsing algorithm[9] that goes through all the no-action letters. With regard to withdrawals, I analyze the correspondence manually to determine whether management responded, at least partially, to some of the demands of the proponents.[10] As it is required to have held a certain amount of shares to be allowed to submit a proposal, proponents have to provide proof of ownership. This requirement allows me to hand-collect the number of shares owned by each proposal sponsor.[11] I then classify proponents and proposals in different categories described in the Appendix, Table A.1. The remaining sample is composed of approximately 5300 challenged proposals covering the 2002-2016 period.

[7] www.sec.gov/divisions/corpfin/cf-noaction/14a-8.shtml

[8] No-action letters published on the Edgar platform under the "NO ACT" filings include all no-action letters published by all the divisions of the SEC. Consequently, I exclude the letters that do not deal with shareholder proposals.

[9] A detailed description of the data collection procedure is provided in the Appendix A.1. To assess the quality of the algorithm, I randomly selected 100 no-action letters. I then manually verified that the data collected by the parsing algorithm was coherent with regard to the actual data. The different pieces of information were collected correctly for the 100 cases.

[10] The Appendix provides a more detailed description of data selection and classification processes.

[11] I am able to collect the number of shares owned by the proponent in 70% of the cases. The main reason for which I cannot recover this information is that, in some cases, proponents provide proof that they own more than $2,000 of outstanding shares, without specifying their exact ownership size. An alternative explanation is that the proponent is a registered shareholder and hence does not need to communicate the size of his ownership. Finally, some proponents never provide evidence of ownership. Their proposal is then automatically excluded.

In addition to the database of no-action letters that I created, I obtain accounting and stock price information from Compustat. When merging Compustat with my no-action letter dataset, I lose approximately 13% of the dataset. This leaves me with a final sample of about 4600 challenged proposals for which I have accounting and stock price information. I use Thomson Reuters Institutional Holdings to obtain the percentage of institutional ownership of firms and the Institutional Shareholder Services(ISS) Directors database to obtain information on board directors.

Finally, I use the ISS Shareholder Proposal database to obtain information on proposals that reached the voting stage. The database provides the identities of the proponents, the topics of the proposals, as well as the voting results. It also includes proposals that were not challenged but were withdrawn as well as proposals that were withdrawn after the decision of the SEC to refuse the omission. ISS Shareholder Proposal is however limited to firms belonging to the S&P1500 index and I have it up to 2014. I merge this database with my dataset of challenged proposals. I manually verify whether non-excluded challenged proposals were subsequently withdrawn and if not, I match them to their voting results. After the merger, the dataset includes 9111 proposals, voted and non-voted, received by S&P1500 firms over the 2002-2014 period. I am therefore able to analyze the complete process that leads to the presence of proposals on ballots as described in Figure 2.1.

2.3 Descriptive statistics

2.3.1 Description of the dataset

Table 2.2, Panel A provides summary statistics for S&P1500 firms over the 2002-2014 period. "All Firms" columns present figures for all S&P1500 firms. "Received Proposals" columns present figures for S&P1500 firms that received proposals in year t but did not challenge them. "Challenged Proposals" columns present figures for the subset of S&P1500 firms that challenged proposals in year t. The last column displays the mean difference between firms that challenged proposals and firms that did not. All continuous variables are winsorized at

the 1% and 99% percentiles, respectively. Furthermore, institutional ownership is capped at 1.

Table 2.2: Descriptive statistics

The table presents summary statistics for S&P1500 firms over the 2002-2014 period. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. All continuous variables were winsorized at the 1st and 99th percentiles. Variables are defined in the appendix, Table B.2, and were constructed from raw data retrieved from Compustat, Thomson Reuters, ISS shareholder proposals, ISS Directors (Legacy), and SEC NO-ACT filings. Panel A focuses on firm variables. The first two columns present statistics for all S&P1500 firms. Columns 3 and 4 present statistics for firms that received shareholder proposals in a specific year but did not challenge any proposal in that year. Columns 5 and 6 present statistics for firms that challenged shareholder proposals in a specific year. The "Mean Difference" column displays the mean difference between the sample of firms that received proposals and the sample of firms that challenged proposals. "Total Assets" and "Market Capitalization" are in billions of USD. Panel B focuses on voting outcomes. The first two columns present statistics for proposals that were not challenged by management. Columns 4 and 5 present statistics for proposals that were challenged but were not excluded by the SEC. Column 7 presents the mean difference in the voting results between proposals that were challenged and proposals that were not challenged. Voting results are expressed in percent. The probability of reaching the majority is the percentage of proposals that obtained 50% or more of the votes in their favor. Statistics are provided for different subsamples (all proposals, proposals addressing corporate governance (CG) matters, proposals addressing corporate social responsibility (CSR) matters, and proposals addressing other matters). Further descriptions of the categories are provided in the appendix, Table A.1. Panel C focuses on no-action contests. "Sponsors' Investment" is the ownership of the sponsors of challenged proposals and is expressed in millions of USD. "Lawyer" is an indicator variable taking the value one if a lawyer was involved in the challenge process. "Nb. pages" is the number of pages of the no-action letter, including the correspondence.

Panel A: Firm Variables

	All Firms		Received Proposals		Challenged Proposals		Mean Difference
	Mean (1)	Median (2)	Mean (3)	Median (4)	Mean (5)	Median (6)	(7)=(3)-(5)
Book Leverage	0.22	0.20	0.25	0.24	0.27	0.25	-0.02***
Total Assets ($B)	19.06	2.45	35.66	8.32	93.45	21.86	-57.78***
Market Capitalization ($B)	8.54	2.09	15.21	7.23	35.70	15.53	-20.49***
ROA	0.04	0.04	0.05	0.04	0.05	0.05	0.00
Profit Margin	0.06	0.06	0.07	0.07	0.07	0.08	-0.00
Div. Yield	0.01	0.01	0.02	0.01	0.02	0.02	-0.00***
One Year Return	0.09	0.06	0.10	0.08	0.07	0.07	0.03**
Nb. of Proposals	0.48	0.00	1.69	1.00	2.59	2.00	-0.91***
Nb. of Challenged Proposals	0.17	0.00	0.00	0.00	1.77	1.00	-1.77***
Instit. Ownership	0.80	0.83	0.77	0.80	0.74	0.76	0.03***
CEO-Chair	0.62	1.00	0.69	1.00	0.77	1.00	-0.08***
Independent Directors	0.75	0.78	0.77	0.80	0.80	0.82	-0.02***
Observations	19849		2782		1872		4654

Table 2.2: Descriptive statistics (continued)

Panel B: Voting Outcomes

	Non-Challenged Proposals			Challenged Proposals			Mean Difference
	Mean (1)	Median (2)	Obs. (3)	Mean (4)	Median (5)	Obs. (6)	(7)=(1)-(4)
Voting Results (%)							
All proposals	33.87	30.40	4503	28.96	27.00	495	4.91***
CG proposals	42.49	40.25	2994	38.86	38.20	298	3.63**
CSR proposals	16.93	10.00	1296	14.17	8.00	158	2.75**
Other proposals	15.92	9.70	213	13.25	9.00	39	2.67
Probability of reaching the majority (%)							
All proposals	24.05		4503	17.37		495	
CG proposals	35.14		2994	28.52		298	
CSR proposals	1.85		1296	0.00		158	
Other proposals	3.29		213	2.56		39	

Panel C: No-action Contest Variables

	Mean	Median	Obs.
Sponsors' Investment ($M)	8.49	0.04	2815
Lawyer	0.48	0.00	3976
Nb. Pages	38.42	28.00	4080

I find that firms that receive proposals differ substantially from the full set of S&P1500 firms. They are larger in terms of total assets and market capitalization. They also present a higher leverage ratio, a higher profitability, and a lower level of institutional ownership. Regarding firms that challenge proposals, the aforementioned differences seem to be amplified. In fact, with a median market capitalization of $15 billion and a median balance sheet size of over $21 billion, S&P1500 firms that challenge proposals are much larger than the ones that receive proposals but do not challenge them. They also present larger leverage ratios and lower institutional ownership levels. However, they exhibit a median market return of 7%, smaller than the 8% return for firms that receive proposals but do not challenge them. On average S&P1500 firms receive one proposal every two years. Moreover, they challenge 0.17 proposals per year. In contrast, firms that challenge proposals receive an average of 2.6 proposals per year.

Panel B provides summary statistics of voting outcomes for challenged proposals that were not excluded as well as for non-challenged proposals. In addition to the voting results that

proposals receive, I include the probability that a proposal reaches the majority threshold of 50%. I find that, overall, proposals that were not challenged receive average shareholder support of 34%. However, only 24% of these proposals gain majority support. In contrast, challenged proposals receive less shareholder support, on average 29%, and are also less likely to achieve majority support (17%). The topics addressed by proposals highlight large variations in shareholder support. While non-contested corporate governance proposals obtain on average 42% of the votes in their favor, corporate social responsibility proposals receive very little support, only 17% of the votes. As a consequence, only 1.85% of non-challenged CSR proposals reach the majority threshold. This fact is amplified for challenged CSR proposals for which the probability to gain majority support is below 1%. In contrast, contested governance proposals receive on average 39% of the votes and gain majority support in 29% of the cases. Such evidence therefore suggests that contested proposals often obtain shareholder support when they address governance issues. However, shareholders seem to be extremely averse to CSR proposals that reach the voting stage.

Finally, Panel C of the table provides some statistics for variables related to no-action letters. "Sponsors' Investment" is the dollar value of sponsors' ownership. Sponsors' ownership is especially important as many authors have argued that proposals are used to pursue self-serving agendas or to submit frivolous provisions. It is indeed likely that a proponent whose goal is not to maximize firm value will purchase a small number of shares, just sufficient to be eligible to file proposals. We observe that, while the mean investment is about $8.5 million, the median investment is $40,000, thereby illustrating the high proportion of proposals filed by very small investors. Furthermore, "Lawyer" is an indicator variable that accounts for the presence of a legal counsel on either the firm or the sponsor's side. Lawyers are involved in approximately one case out of two, thereby confirming that shareholder-initiated resolutions are taken seriously. Finally, the number of pages is the number of pages of the no-action letters published by the SEC, including the correspondence. Alongside the lawyer variable, the number of pages can be considered as a proxy for the effort that was invested to support or fight a proposal.

2.3.2 Outcomes of proposals

I now turn to Table 2.3 which presents the outcomes of the shareholder proposals received by S&P1500 firms over the 2002-2014 period. Overall, 45% of the proposals never reach the voting stage. Out of these, about half are excluded after having been challenged at the SEC. The other half are withdrawn by their proponents. The table splits proposals into different subsamples according to the category of their proponents or the topics that the proposals address. The "Individuals" category includes proposals submitted by individual shareholders. The "Labor Unions" sample covers proposals that were submitted by labor unions, whether it is through their general fund or through their pension fund. "Public Pension Funds" encompasses proposals submitted by public pension funds such as CalPERS. "NGOs & Religious" includes non-governmental organizations and religious groups. Finally, "Other Funds" includes hedge funds, asset management funds, private equity funds, and index funds.[12]

Table 2.3: Descriptive statistics (outcomes of proposals)

The table presents the outcomes of proposals received by S&P1500 firms over the 2002-2014 period. The "Excluded", "Withdrawn", and "Voted" columns present the number of excluded, withdrawn, and voted proposals, respectively. Row percentages are given between brackets. Definitions of the different groups of proponents and types of proposals are given in the appendix, Table A.1.

Panel A: Types of Proponents				
	Excluded	Withdrawn	Voted	Total
	(1)	(2)	(3)	(4)
Individuals	1376	182	1719	3277
	(42.0)	(5.6)	(52.5)	(100.0)
Labor Unions	240	672	1220	2132
	(11.3)	(31.5)	(57.2)	(100.0)
NGOs & Religious	206	374	746	1326
	(15.5)	(28.2)	(56.3)	(100.0)
Public Pension Funds	98	340	659	1097
	(8.9)	(31.0)	(60.1)	(100.0)
Other Funds	190	435	654	1279
	(14.9)	(34.0)	(51.1)	(100.0)

[12] A more detailed description of the classification is provided in the Appendix, Table A.1.

Table 2.3: Descriptive statistics (outcomes of proposals) (continued)

Panel B: Types of Proposals				
	Excluded (1)	Withdrawn (2)	Voted (3)	Total (4)
All CSR	527	877	1454	2858
	(18.4)	(30.7)	(50.9)	(100.0)
Most Common CSR:				
Sustainability	136	379	459	974
	(14.0)	(38.9)	(47.1)	(100.0)
Human Rights	94	213	265	572
	(16.4)	(37.2)	(46.3)	(100.0)
Labor Rights	106	94	176	376
	(28.2)	(25.0)	(46.8)	(100.0)
Animal Rights	46	24	93	163
	(28.2)	(14.7)	(57.1)	(100.0)
All CG	1267	992	3292	5551
	(22.8)	(17.9)	(59.3)	(100.0)
Most Common CG:				
Directors	138	123	277	538
	(25.7)	(22.9)	(51.5)	(100.0)
Executive Comp.	344	328	1029	1701
	(20.2)	(19.3)	(60.5)	(100.0)
Simple Majority	123	244	447	814
	(15.1)	(30.0)	(54.9)	(100.0)
Independent Chairman	77	39	334	450
	(17.1)	(8.7)	(74.2)	(100.0)
Special Meetings	114	10	154	278
	(41.0)	(3.6)	(55.4)	(100.0)
All Other	316	134	252	702
	(45.0)	(19.1)	(35.9)	(100.0)
Total	2110	2003	4998	9111
	(23.2)	(22.0)	(54.9)	(100.0)

Proponents' identities reveal important differences in outcomes. Individual investors seem to defend their proposals poorly in comparison to other investors. In fact, 40% of proposals submitted by individual investors are excluded by the SEC. Furthermore, individual investors

are able to find a settlement in only 6% of the cases. In comparison, public pension funds, other funds, and labor unions withdraw over 30% of their proposals. Such evidence is also highlighted by Chidambaran and Woidtke (1999) as well as Bauer et al. (2015) who find that institutional investors are more likely to withdraw their proposals than individual investors.

Regarding proposals' topics, 50% of the proposals addressing corporate social responsibility issues do not reach the AGM. A large proportion of these proposals, 31%, is withdrawn. It is interesting to compare this high withdrawal rate to the very low probability (1.9%) that CSR proposals win the majority. Restricting the analysis to voted proposals is therefore likely to understate the role of CSR proposals in the shareholder proposal system. Moreover, 23% of the proposals that address corporate governance issues are excluded and 18% are withdrawn. Resolutions that do not deal with corporate governance or CSR issues are the least likely to be voted on. About 45% of them are excluded by the SEC. One explanation may come from the fact that the SEC does not allow shareholder proposals to address ordinary business operations which those proposals are very likely to do.

Table 2.3 also reports the most common corporate governance and CSR proposals. The main takeaway is that the SEC does not limit exclusion decisions to frivolous proposals. In fact, the most commonly excluded resolutions encompass very standard prescriptions such as separating the role of CEO and chairman or implementing a simple majority rule.

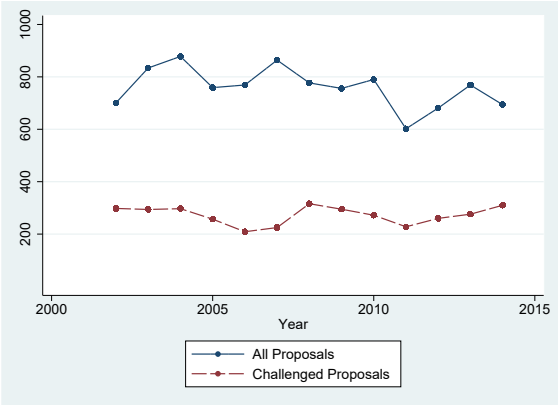
2.3.3 Time trend

Figure 2.2a shows the evolution of the number of proposals received by S&P1500 firms along with the number of proposals challenged by targeted firms.

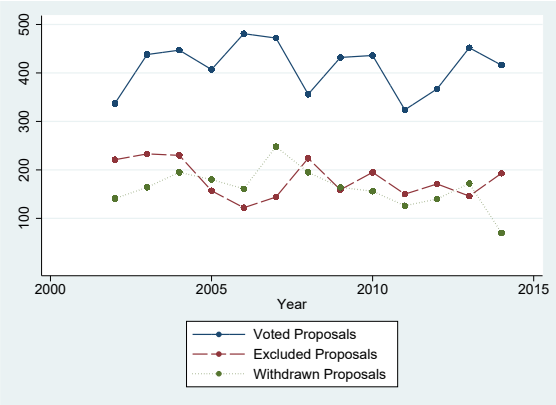
Figure 2.2: Evolution of (challenged) proposals and their outcomes

Figure (a) presents the evolution of the number of proposals received and challenged by S&P1500 firms over the 2002-2014 period. The solid line displays the total number of proposals received by firms. The dashed line displays the number of challenged proposals. Figure (b) presents the evolution of the final outcomes of the proposal process for S&P1500 firms over the 2002-2014 period. The solid line displays the number of proposals that were voted on. The dashed line displays the number of proposals for which the SEC allowed the exclusion. Finally, the dotted line displays the number of proposals that were withdrawn.

(a) Number of (challenged) proposals



(b) Outcomes of proposals



It appears that the number of challenged proposals is quite stable over time. Managers therefore do not seem to have changed their behavior towards proposals with the enhanced governance awareness that followed the Enron scandal and the Sarbanes–Oxley Act. In fact, variations in the number of challenged proposals seem to be mostly driven by the number of proposals that firms receive. In this respect, it is worth highlighting that the number of proposals that firms receive is also stable or even slightly decreasing over time. Furthermore, Figure 2.2b displays the evolution of the proposal outcomes. The solid line reports the number of proposals that were voted on. The dashed line shows the evolution of the number of proposals for which the SEC allowed the exclusion from the proxy materials. Finally, the dotted line displays the number of cases where a withdrawal occurred. Excluded and withdrawn proposals both oscillate around 20% of the proposals received by firms. Overall, the proportion of excluded, withdrawn, and voted proposals is rather stable over time.

2.3.4 Determinants of challenging a proposal

I implement a multinomial probit regression to understand how voted proposals represent a non-randomly selected subset of the full population of proposals. Estimates of the model can be found in Table 2.4. Firms are classified into three categories. The first category includes firms that did not receive a proposal in year t and is the reference category. The second category includes firms that received a proposal in year t but that did not challenge it. The third category includes firms that challenged proposals in year t. For the two specifications, the first two columns present the estimates for the second and third categories, respectively. The third column presents the difference of the coefficients between the first two columns.

From Table 2.4, it appears that firms that receive proposals tend to have a higher leverage ratio and be larger than firms that are not targeted by shareholders. They also display a worse accounting performance, as measured by their ROA. Interestingly, proposal targets have a lower level of institutional investor ownership. Firms are also more likely to be targeted with a proposal in a specific year if they had received a proposal the year before or if they challenged proposals over the three previous years. Finally, firms whose CEO is also the chairman of the board are more likely to receive proposals.

From Columns 3 and 6, one can observe that firms that challenge proposals differ from firms that receive but do not contest proposals. Consistent with Soltes et al. (2017), I find that challengers display a worse accounting performance as well as a worse market performance. They also present a lower percentage of institutional ownership. Furthermore, firms that challenge proposals tend to be larger. One explanation is that larger firms are already more likely to receive a proposal. They may therefore be more accustomed to the SEC challenge process. Firms are also more likely to contest a proposal if they have received a proposal in the previous year. Regarding board characteristics, firms tend to challenge proposals more often if they have a higher percentage of independent directors as well as if the chairman is also the CEO. These results therefore support that, because of the selection mechanism that takes place when managers decide to challenge proposals, voted proposals are not a randomly

selected subset of the full population of proposals that firms receive.

Table 2.4: Determinants of receiving and challenging proposals

The table presents the estimates of multinomial probit regressions. The dependent variable is a category variable. Firms are classified into three categories. The first category includes firms that did not receive a proposal in year t and is the reference category. The second category includes firms that received a proposal in year t but that did not challenge it. The third category includes firms that challenged proposals in year t. Columns 1, 4, and 2, 5 present the estimates for the second and third categories, respectively. Columns 3 and 6 present the difference between the coefficients of Columns 2 and 1, and Columns 5 and 4, respectively. The first specification covers S&P1500 firms over the 2003-2014 period. The second specification covers S&P1500 firms over the 2005-2014 period. Standard errors are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	Multinomial Probit 1			Multinomial Probit 2		
	Received Proposals (1)	Challenged Proposals (2)	Difference (3)=(2)-(1)	Received Proposals (4)	Challenged Proposals (5)	Difference (6) =(5)-(4)
Leverage	0.38***	0.50**	0.12	0.28**	0.49**	0.21
	(0.00)	(0.01)	(0.58)	(0.02)	(0.02)	(0.36)
ln(Market Cap.)	0.39***	0.67***	0.28***	0.34***	0.67***	0.33***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	-1.38***	-2.61***	-1.24***	-1.23***	-2.48***	-1.25**
	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.02)
Dividend Yield	0.73	2.62	1.88	0.59	2.74	2.15
	(0.56)	(0.15)	(0.33)	(0.64)	(0.17)	(0.31)
One Year Return	-0.06	-0.18**	-0.12	-0.10*	-0.28***	-0.18**
	(0.24)	(0.02)	(0.13)	(0.09)	(0.00)	(0.04)
Institutional Ownership	-0.43***	-0.85***	-0.42**	-0.16	-0.41*	-0.25
	(0.00)	(0.00)	(0.03)	(0.25)	(0.05)	(0.26)
Proposal_{t-1}	1.69***	1.80***	0.11*	1.11***	1.30***	0.19**
	(0.00)	(0.00)	(0.08)	(0.00)	(0.00)	(0.03)
CEO-Chair	0.13***	0.33***	0.20***	0.09*	0.25***	0.17**
	(0.00)	(0.00)	(0.01)	(0.05)	(0.00)	(0.03)
Independent Directors	0.08	0.82***	0.74***	0.01	0.87***	0.86**
	(0.64)	(0.00)	(0.01)	(0.95)	(0.01)	(0.01)
Challenger (3 years)				0.77***	0.66***	-0.11
				(0.00)	(0.00)	(0.29)
Constant	-4.77***	-8.28***	-3.50***	-4.71***	-8.88***	-4.17***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	15575			13026		
Model χ^2	3302.08			2976.50		
	(0.00)			(0.00)		

3 Literature review and hypothesis development

3.1 Who benefits from the absence of proposals on ballots?

There exists extensive literature on the wealth effects of shareholder proposals. Theoretical work by Levit and Malenko (2011) shows that because of their nonbinding nature shareholder resolutions are unlikely to be an effective voice mechanism. Their view is supported empirically by a wide range of papers which find that the market reaction to the publication of proxy materials containing proposals or to AGMs where a proposal obtained an absolute majority is insignificant or small and negative (Karpoff et al., 1996; Gillan and Starks, 2000; Prevost and Rao, 2000; Thomas and Cotter, 2007). However, the multitude of announcements that accompany the proxy materials' publication and shareholder votes at AGMs makes it difficult to identify such a relation causally. To tackle this issue, Cuñat et al. (2012) and Flammer (2015) implement a regression discontinuity design on the simple majority voting threshold. They find that passing a corporate governance or corporate social responsibility proposal by a small margin causes a positive market reaction of 1.3% and 1.2%, respectively.

However, reaching the voting stage depends on an endogenous choice of management. In fact, Soltes et al. (2017) find that management requests the SEC's permission to disregard 40% of the proposals they receive and is successful in 72% of the cases. They show that larger firms, firms that display a worse performance as well as firms with less institutional ownership are

more likely to contest proposals. Similarly, Chidambaran and Woidtke (1999) and Bauer et al. (2015) study the determinants of withdrawing a proposal. Both find that institutional investors are more likely to withdraw their proposals than individual investors. It therefore appears that because of the selection mechanism that takes place when managers decide to challenge or negotiate proposals, voted proposals are likely not to be representative of the full population of proposals that firms receive. Does the absence of non-voted proposals on ballots benefit management or shareholders?

In the presence of agency conflicts, entrenched managers may attempt to mitigate the impact of proposals that would be beneficial to shareholders but would hurt management's best interest. In such a case, one may expect that the exclusion of these proposals would be detrimental to firm value.

H1a Entrenched management: *Managers contest proposals that are detrimental to their own interests at the expense of shareholders.*

There is also a more positive view on management which argues that managers attempt to mitigate the impact of proposals that would harm firm value. In presence of executive compensation contracts designed such that management's and shareholders' interests are aligned, managers act to maximize shareholder wealth. Managers would then assess the value of shareholder proposals and oppose the ones that they consider as value-destroying.

H1b Harmful proposals: *Managers resist proposals that are detrimental to firm value.*

3.2 Why would non-voted proposals be detrimental to firm value?

If the harmful proposal view is right, it is important to understand the reasons behind the adverse nature of non-voted proposals. Bainbridge (2006) argues that proposals' sponsors may pursue their own agenda rather than attempt to maximize firm value. In this regard, Agrawal (2011) uses an exogenous shock to union representation of workers to show that labor unions pursue workers' interests when casting their proxy votes. Matsusaka et al. (2019b) find that

unions opportunistically sponsor proposals in contract renegotiation years. They also find that withdrawals of union proposals in contract renegotiation years are associated with negative market reactions. In addition, Del Guercio and Woidtke (2019) find that directors are punished with a loss of directorships after accepting to negotiate the withdrawal of union-sponsored proposals.

Based on the above papers, I predict that investors whose interests are not perfectly aligned with value maximization, such as NGOs, religious groups, or labor unions, file proposals that are detrimental to shareholder wealth.[13]

H2a Sponsor's private agenda (special interest investors): *Proposals filed by special interest investors are detrimental to firm value.*

An alternative test of the private agenda hypothesis consists in analyzing market reactions to non-governance proposals. In fact, while classical finance theory assumes that shareholders maximize firm value (Shleifer and Vishny, 1988), a more recent academic literature has emphasized that shareholders may accept suboptimal financial performance to pursue social, environmental, or ethical objectives (Renneboog et al., 2008; Hong and Kacperczyk, 2009). If investors derive non-financial utility from CSR improvements, they may sponsor proposals that are detrimental to firm value but promote societal objectives. It is also likely that proposals that cannot be classified under the standard corporate governance or corporate social responsibility frameworks are tailored to their sponsors' own interests. One could therefore expect that mitigating the impact of non-governance proposals, through exclusions or withdrawals, would benefit shareholder wealth.

H2b Sponsor's private agenda (non-governance proposals): *Proposals that address non-governance topics are detrimental to firm value.*

Another often-voiced concern is that proposals may have an adverse value impact because they are inadequate or frivolous (Bizjak and Marquette, 1998; Thomas and Cotter, 2007). This

[13] Del Guercio and Woidtke (2019) also argue that public pension funds' interests may differ from other shareholders'. However, they do not find concurrent evidence.

assertion is supported by anecdotal evidence such as the presence of many heedless proposals. As an illustration, in 2015, The Walt Disney Company received a proposal requiring

"[...] *the board to approve the release of the film 'Song of the South' on blu-ray in 2016 for its 70th anniversary, allowing fans new and old the ability to enjoy the film in the format and clarity as it was intended to be viewed.*" (SEC, 2015, p. 2)

In addition, several individuals, often referred to as "corporate gadflies", have made proposals filing their core activity. They file dozens of proposals per year while barely meeting the $2,000 eligibility threshold. Almost all of their proposals address standard corporate governance matters, thereby making them likely to obtain shareholder support if they reach the voting stage. For example, in 2016, a single retail investor filed 47 proposals requiring to separate chairman and CEO positions, 24 proposals to eliminate supermajority rules, 19 proposals regarding the right to call special meetings, 17 proposals addressing the right to act by written consent, and 12 proposals requiring to eliminate dual-class structures (Factset, 2016). In other words, he submitted over a hundred proposals to over a hundred different companies. As even the largest institutional investors have to use the services of specialized proxy advisory firms (Larcker et al., 2013; Iliev and Lowry, 2014; Larcker et al., 2015; Ertimur et al., 2017), one could conjecture that it would be nearly impossible for a single and very small individual investor to assess the value implications of such a large number of governance reforms. I therefore expect these proposals to be ill-suited and value-damaging.

H3 Ill-suited/frivolous proposals (corporate gadflies): *Proposals filed by gadfly shareholders are detrimental to firm value either because they are ill-suited to firms' needs or because they are frivolous.*

4 Empirical methodology and results

4.1 Empirical methodology

I conduct an event study on the SEC's no-action letters that announce the SEC's decisions whether to allow the exclusion of a shareholder proposal or the withdrawal of proposals. Predicted returns are estimated with a market model where the market portfolio is the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill such that:

$$r_{jt} - r_{ft} = \alpha_j + \beta_j(r_{mt} - r_{ft}) + u_{jt} \tag{4.1}$$

The event dates are the dates of the publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. It is important to note that several no-action letters addressed to a single firm can be published in an interval of only a few days. Therefore, I exclude all events whose event windows overlap. Cumulative abnormal returns are computed as the sum of daily abnormal returns and are winsorized at the 1st and 99th percentiles.

One should also note that to perform an event study on the outcomes of the SEC's no-action requests, these outcomes should not be fully predictable. If they were fully predictable, the

analysis of the stock market reaction to the publication of no-action letters would be trivial as the decision would have already been priced in. The concern is strengthened by the fact that the SEC publishes no-action requests and their supporting documents on its website as soon as it receives them. To assess whether markets forecast and price in the SEC's decision in advance, I analyze the stock market reaction to SEC's challenge announcements, i.e. the moment when the SEC receives and announces an exclusion request. Cumulative abnormal returns are provided in Table A.4.

It appears that there is no significant market reaction to the SEC's challenge announcement. Moreover, I construct a multinomial logit model to assess the level of predictability of the outcomes of the SEC challenges. The dependent variable is a category variable for the three potential outcomes, namely exclusions, refusals to exclude, and withdrawals. The reference group is the exclusion category. Model estimates can be found in Table A.5.

The baseline result is that the level of in-sample predictability, as measured by the pseudo R^2, is low (below 5%). The absence of a significant market reaction to challenge announcements as well as the low level of predictability of the challenge outcomes alleviate concerns regarding the possibility that markets would have already priced in the SEC's decisions. These results also confirm the unpredictability issue that was raised in the academic legal literature (Palmiter, 1993; Lazaroff, 1997; Schwartz and Weiss, 1976; Welter, 1991; Fisch, 1993; Waite, 1995; Uhlenbrock, 2000; Stanton, 1999).

4.2 Results

4.2.1 Value impact of exclusions

To assess the value of non-voted proposals and examine whether management choices to limit the impact of proposals are driven by entrenched managers protecting their interests or by the harmful nature of shareholder proposals, I study the announcement returns associated

with the publications of the SEC's decisions whether to allow exclusions.[14] Panel A of Table 4.1 presents the cumulative abnormal returns associated with exclusions. Cumulative abnormal returns are provided for a 3-day and a 5-day event windows.

Table 4.1: Market reaction to the SEC's decisions

The table presents cumulative abnormal returns (in percent) associated with the publication of the SEC's no-action decisions. Panel A includes exclusion decisions. The "Excluded" group includes all excluded proposals. The "Treatment Group" includes all proposals for which management asked the exclusion based on the substantial implementation argument but for which the SEC allowed the exclusion on any other ground than substantial implementation. The "Control Group" includes cases for which the SEC allowed the exclusion based on the substantial implementation ground. Panel B includes refusals to allow the exclusion. The event dates are the dates of publication of the no-action letters. Columns 1 and 3 present the CARs for two alternative event windows, a three-day and a five-day windows. The "Difference" column tests whether the market reaction, as proxied by CAR[-1,1], is larger for the treatment group than for the control group. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. Definitions of the subsamples are provided in the appendix, Table A.1.

Panel A: Excluded Proposals

	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
Excluded	0.24***	1933.00	0.34***	1779.00	
	(0.00)		(0.00)		
Treatment Group	0.78***	233.00	1.05***	213.00	0.61***
	(0.00)		(0.00)		(0.01)
Control Group	0.17	235.00	0.32	212.00	
	(0.26)		(0.11)		

Panel B: Not Excluded Proposals

	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.
	(1)	(2)	(3)	(4)
Not Excluded	-0.01	784.00	0.23	688.00
	(0.90)		(0.13)	

[14] One should note that the SEC publishes exclusion requests on its website as soon as it receives them. The presence of an ongoing proposal challenge is therefore public information for the whole period during which the SEC assesses the case.

For both event windows, the market reaction associated with exclusion decisions is statistically significant and positive. With an average cumulative abnormal returns of approximately 29 basis points, it is also economically meaningful. The positive sign suggests that investors consider these excluded proposals to be harmful. Such evidence contrasts with Cuñat et al. (2012), Flammer (2015), Cuñat et al. (2015), or Ertimur et al. (2015) who show that voted proposals have a positive value impact. It therefore indicates that managers challenge proposals to protect firm value rather than to protect their own interests.

Next, I explore whether the positive market reaction to exclusions is explained by investors being relieved that harmful proposals would not be implemented. I exploit Rule 14a-8(i)(10) which allows the exclusion of proposals that have already been substantially implemented by the firm. I therefore focus on cases where Rule 14a-8(i)(10) is one of the legal grounds used by management to contest proposals. In such cases, the SEC acts as an independent judge and assesses whether the proposal has been implemented or not, without any value considerations. As the exclusion of a proposal that has already been implemented should have no value impact, I classify cases where the SEC agrees with management as the control group. The treatment group is composed of cases where the SEC does not accept the substantial implementation argument but accepts another legal ground to grant the exclusion.

My results show that, when the SEC agrees with management's argument that the proposal has already been implemented, cumulative abnormal returns are not significantly different from zero. In contrast, when the SEC grants the exclusion on any other legal grounds than substantial implementation, CARs are significant and strictly positive. Furthermore, the difference between the treatment and the control group is significantly larger than zero. The results therefore confirm the conjecture that the positive CARs are indeed due to the value impact that the implementation of the proposal would have had. [15]

Table 4.1 (Panel B) also presents the stock market reactions for cases when the SEC refuses

[15] In specifications reported in Table A.9 of the Appendix, I remove proxy access and majority voting proposals from the sample. In fact, the various versions of these proposals may make the concept of substantial implementation more difficult to apprehend. However, I find that my test produces similar results after the removal of these proposals.

to allow the omission of proposals. No estimate is significantly different from zero. A probabilistic argument can explain the absence of market reaction. When a proposal passes the SEC challenge, it still needs to obtain a majority of the votes at the next shareholder meeting. Furthermore, passing the voting stage does not imply that the proposal will be implemented. In fact, as votes on proposals are precatory, boards can decide not to implement a majority-supported proposal. All in all, passing the SEC challenge improves the probability of implementation only marginally. In contrast, when a proposal is excluded, the probability that it will be implemented drops directly down to zero. It is therefore not surprising that exclusions produce market reactions that are more significant. Consequently, the remaining analyses of the paper will concentrate on excluded and withdrawn proposals.[16]

My results also highlight the essential role of the SEC in mitigating the impact of detrimental shareholder proposals.

4.2.1.1 Expected voting outcome and market reaction to exclusions

My findings so far support the argument that excluded proposals would harm firm value if implemented. However, it is important to show that the market reaction to an exclusion reflects the financial materialization of the decline in the implementation probability of the challenged proposal. One should therefore expect the market reaction to be higher (lower) for proposals that had a high (low) implementation probability before their exclusion. To test that it is indeed the case, I develop a new empirical framework. I first estimate the determinants of the voting outcomes. I then use these estimates to calculate the expected voting outcome of excluded proposals. Subsequently, I classify excluded proposals into two subsamples, one with the proposals that have a high expected voting outcome and one with the proposals that have a low expected voting outcome. I compute the cumulative abnormal return for these two subsamples. Results can be found in Table 4.2.

[16] Results for non-exclusion decisions are reported in the Appendix, Table A.3.

Table 4.2: Expected voting outcome and market reaction

In the present table, I test whether the exclusion of proposals that are more likely to be implemented generates a larger market reaction. Panel A presents the OLS estimates of the determinants of the voting outcome. The sample covers S&P1500 firms for the 2002-2014 period. I use these estimates to calculate an expected voting outcome for excluded proposals. Panel B presents that CAR[-1,1] associated with exclusions decisions for the set of proposals that have a high expected voting outcome (above the median) as well as for the set of proposals that have a low expected voting outcome (below the median). The sample covers all U.S. firms over the 2002-2016 period. The "Difference" row tests whether the market reaction for proposals with a high expected voting outcome is larger than for proposals with a low expected voting outcome. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles and are expressed in percent. Columns 2 and 4 contain proponents and proposals fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm level. One, two, and three asterisks denote the statistical significance at the 1%, 5%, 10% level, respectively. Variable are defined in the appendix, Table B.2.

Panel A: Determinants of the voting outcome

	Voting Outcome (1)	Voting Outcome (2)	Voting Outcome (3)	Voting Outcome (4)
Leverage	-4.43	-3.90	-4.29	-4.79
	(0.22)	(0.22)	(0.23)	(0.13)
ROA	-3.73	5.23	1.81	9.66
	(0.71)	(0.57)	(0.86)	(0.31)
One Year Return	2.39**	0.86	2.64**	0.97
	(0.04)	(0.39)	(0.03)	(0.35)
ln(Market Cap.)	-4.11***	-2.73***	-4.75***	-3.37***
	(0.00)	(0.00)	(0.00)	(0.00)
Dividend Yield	81.94**	97.67***	32.55	55.89*
	(0.03)	(0.00)	(0.41)	(0.07)
Institutional Ownership	20.27***	17.95***	12.54***	11.31***
	(0.00)	(0.00)	(0.00)	(0.00)
CEO-Chair			-5.02***	-3.97***
			(0.00)	(0.00)
Independent Directors			24.85***	22.55***
			(0.00)	(0.00)
Constant	58.24***	53.30***	55.02***	50.72***
	(0.00)	(0.00)	(0.00)	(0.00)
Observations	4960	4606	4650	4328
Adjusted R^2	0.12	0.35	0.14	0.37
Proponent and Proposal FE	No	Yes	No	Yes

Table 4.2: Expected voting outcome and market reaction (continued)

Panel B: market reaction for proposals with high and low expected voting outcomes				
	(1)	(2)	(3)	(4)
CAR(High expected voting outcome)	0.41***	0.41***	0.31**	0.29***
	(0.00)	(0.00)	(0.01)	(0.00)
CAR(Low expected voting outcome)	0.06	0.06	0.00	0.04
	(0.52)	(0.55)	(0.99)	(0.71)
Difference	0.35**	0.35***	0.31**	0.25**
	(0.02)	(0.01)	(0.3)	(0.03)
Observations	1685	1642	1433	1409

Panel A presents the estimates of the OLS equations of the determinants of the voting outcome. Columns 2 and 4 include fixed effects for the type of proponent (Public Pension Funds, Individuals, Labor Unions, NGOs & Religious, or Other Funds) as well as for the type of proposals (corporate social responsibility, corporate governance, or other). One can observe that the proposals submitted to larger firms tend to receive less shareholder support. Furthermore, consistent with (Gillan and Starks, 2000), I find that the voting outcome is positively associated with the level of institutional ownership. Board characteristics also seem to play a role as shareholder support correlates positively with board independence and negatively with combining chairman and CEO positions.

I then use the estimates of Panel A to calculate the expected voting outcomes of excluded proposals. I classify proposals as having a high expected voting outcome if their expected voting outcome is above the median of expected voting outcomes. Proposals with an expected voting outcome below this threshold are classified as having a low expected voting outcome.[17] Panel B provides the three-day cumulative abnormal returns for the two subsamples as well as the difference between these abnormal returns. It appears that the exclusion of proposals with a high expected voting outcome generates a significant and positive market reaction while proposals with a low expected voting outcome do not generate a significant market reaction. The difference row confirms that the market reaction for the first group is significantly larger than for the second one. It therefore demonstrates that it is indeed proposals with a high

[17] In Table A.7 of the Appendix, I show that the results are robust to alternative thresholds.

expected voting outcome that drive the market reaction to exclusion decisions.

4.2.2 Value impact of withdrawals

In Table 4.3, I turn to withdrawal announcements. It is first important to remark that, as firms may take a few days to communicate the withdrawal to the SEC, effective withdrawal dates often precede the announcement of the withdrawal by the SEC through the publication of a no-action letter. Markets may therefore have already priced in some of the impact. To capture the market reaction that may have preceded the publication of the no-action letter by the SEC, I provide the cumulative abnormal returns for the [-3,1] window.

Table 4.3: Market reaction to withdrawals

The table presents cumulative abnormal returns (in percent) associated with the publication of the SEC's no-action letters announcing withdrawals. Columns 1 and 3 present the CARs for two alternative event windows, a three-day and a five-day windows. The "Difference" column tests whether the market reaction, as proxied by CAR[-1,1], is smaller for withdrawals that include some kind of deal than for withdrawals that do not include any type of deal. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. Definitions of the subsamples are provided in the appendix, Table A.1.

Withdrawn Proposals					
	CAR[-1,1]	Obs.	CAR[-3,1]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
Withdrawn	-0.37**	506.00	-0.45**	491.00	
	(0.01)		(0.04)		
Deal	-0.62***	267.00	-0.62**	258.00	-0.52*
	(0.01)		(0.04)		(0.05)
No Deal	-0.10	239.00	-0.25	233.00	
	(0.65)		(0.34)		

With CARs of about -0.41%, the market reaction to withdrawal announcements is statistically and economically significant. However, it is difficult to derive conclusions regarding the value impact of settlements based on the negative sign of the CARs. On the one hand, managers

may try, through negotiations, to mitigate the impact of a value-destroying proposal. In such a case, the settlement, although mitigating the effect of the proposal, will be detrimental to firm value, hence producing negative CARs. On the other hand, entrenched managers may try to limit the impact of a proposal that threatens their own interests but would be beneficial to shareholder wealth. Settling would therefore preclude a value-generating resolution from being fully implemented, hence also producing negative CARs.

To distinguish between the two aforementioned situations, I study the rationales behind withdrawals. In fact, since no-action letters include the correspondence between the SEC, the firm, and the proponent, I hand-collect information on whether management responded, at least partially, to the demands of the proponent. The "Deal" subsample is therefore composed of proposals for which the proponent was able to obtain the implementation of his proposal.[18] For example, PETA, an animal rights organization, withdrew its proposal after SeaWorld Entertainment accepted to "ban captive orca breeding at all SeaWorld parks" (SEC, 2016). The "Deal" subsample also includes cases where the proponent obtained a partial implementation of his proposal. As an illustration, the Norges bank negotiated proxy access at The Western Union Company with a 3%/3-years minimum holding requirement instead of the initial 1%/1-year requirement of the submitted proposal (SEC, 2013).

In contrast, the "No Deal" subsample includes the proposals that were withdrawn without any deal. Withdrawals without any deal often occur when a proponent learns in the no-action request that he failed to meet the SEC's procedural rules. Acknowledging his failure, the proponent withdraws his proposal with no quid pro quo. Among others, these technical deficiencies include untimely receipts of the proposal or of the proof of ownership, failures to provide proof of ownership, the acknowledgment that the class of the proponent's shares do not have voting rights, the use of the wrong legal name for the company, or the proponent's inability to attend the AGM. As an illustration, the NYC Public Pension Funds withdrew a 2013 proposal acknowledging that it had missed the submission deadline (SEC, 2012).

I expect that, if markets had high expectations regarding the implementation of a value-

[18] The Appendix provides a detailed description of this classification.

generating settlement, withdrawals without any deal should lead to a larger negative market reaction than withdrawals with some sort of implementation. In contrast, if markets view settlements as value-destroying, I expect that deal-driven withdrawals will produce a larger negative market reaction than non-deal-driven ones.

From Panel C, it appears that the market reaction to deal-driven withdrawals is negative and significant while the market reaction to non-deal-driven withdrawals is not significantly different from zero. In addition, Column 5 shows the difference in market reactions between the two samples. This difference is significantly smaller than zero, thereby confirming that it is indeed the positive responses to shareholders' demands that generate negative market reactions.[19]

These results contrast Carleton et al. (1998) who find that CalPERS, a large U.S. pension fund, is able to negotiate value-increasing settlements after the submission of proposals. My sample however includes all types of proponents. It is therefore important to assess the value impact of withdrawals for the different types of proponents.

4.2.3 Identity of proposals' sponsors

I have formed two main hypotheses regarding why non-voted proposals may be detrimental to firms. The first one argues that shareholders file proposals that are inadequate or frivolous and therefore harm firm value. To examine this question, I use sponsors' ownership size and focus on small retail investors, often referred to as "corporate gadflies", that have made "proposal filing" their core activity. In fact, when analyzing the identity of proposals' sponsors, I find that 15 individuals are responsible for the submission of 22% of all the proposals filed to S&P1500 firms over 2002-2014. In other words, these 15 corporate gadflies are responsible for 62% of the proposals submitted by retail investors. It is also worth noting that these serial filers

[19] An alternative interpretation could be that managers accept to negotiate settlements only for proposals that have a high probability of obtaining majority support at the voting stage. If these proposals are value-enhancing and markets price in the high implementation probability, withdrawals may produce a negative market reaction because they preclude full implementation. However, this interpretation is inconsistent with the empirical results of the next sections as I show that managers accept to negotiate settlements for proposals that have a very small probability of obtaining shareholders' support.

mostly focus on very standard corporate governance proposals, e.g. the implementation of a simple majority rule or the declassification of the board. In this respect, I find that 88% of the proposals they submitted addressed corporate governance issues.

Furthermore, since optimal corporate governance structures may vary across firms and time (Coles et al., 2008; Linck et al., 2008; Bhandari et al., 2020), one can conjecture that it is difficult for a single individual investor to assess the value of a large number of governance reforms. These serial filers may therefore submit resolutions that are inadequate to firms' needs and would harm firm value if implemented. Gantchev and Giannetti (2020) indeed show that over-reliance on proxy advisors, which are often criticized for providing one-size-fits-all recommendations (Malenko and Shen, 2016; Hayne and Vance, 2019), leads to harmful proposals passing the voting stage. Consequently, I expect that the exclusion of proposals submitted by corporate gadflies will drive the positive stock market reaction to exclusion decisions.

It is also possible that shareholders attempt to derive private benefits from the shareholder proposal system. NGOs, religious groups, and labor unions are especially likely to have interests that are not aligned with other shareholders. I expect that the exclusion of proposals submitted by NGOs, religious groups, and labor unions will have a positive value impact. Therefore, I conjecture that markets will react negatively to the withdrawal announcements of special interest investor proposals.

Announcement returns for the different types of proponents are presented in Table 4.4. Columns 1 and 3 display the three-day and five-day windows. In addition, Column 5 provides the difference in market reactions between the types of proponents for which announcement returns were found statistically significant and the types of proponents for which they were not.

Table 4.4: Market reaction to no-action letters, by proponents

The table presents cumulative abnormal returns (in percent) associated with the publication of the SEC's no-action decisions for different types of proponents. Columns 1 and 3 present the CAR for two alternative event windows, a three-day and a five-day windows. The "Difference" column tests whether the market reaction, as proxied by CAR[-1,1], is larger for the types of proponents that present a statistically significant market reaction than for the types of proponents that do not. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. Panel A contains proposals that were excluded by the SEC. Panel B contains challenged proposals that were withdrawn before the SEC took a decision. Definitions of the proponents' categories can be found in the appendix, Table A.1.

Panel A: Excluded Proposals					
	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
Corporate Gadflies					
Gadflies	0.48***	546.00	0.59***	500.00	0.40**
	(0.00)		(0.00)		(0.01)
Non Gadflies	0.09	730.00	0.28*	662.00	
	(0.46)		(0.06)		
All proponents' categories					
Public Pension Funds	0.08	117.00	-0.04	107.00	
	(0.75)		(0.92)		
Individuals	0.27***	1231.00	0.40***	1126.00	0.17
	(0.00)		(0.00)		(0.16)
Labor Unions	0.41*	194.00	0.46*	179.00	0.32
	(0.07)		(0.07)		(0.12)
NGOs & Religious	0.12	166.00	0.24	154.00	
	(0.66)		(0.51)		
Other Funds	0.05	179.00	-0.06	167.00	
	(0.85)		(0.88)		

Table 4.4: Market reaction to no-action letters, by proponents (continued)

Panel B: Withdrawn Proposals					
	CAR[-1,1]	Obs.	CAR[-3,1]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
All proponents' categories					
Public Pension Funds	0.32	56.00	0.39	54.00	
	(0.50)		(0.53)		
Individuals	-0.01	121.00	0.02	118.00	
	(0.96)		(0.96)		
Labor Unions	-1.30***	95.00	-1.56***	91.00	-1.27***
	(0.00)		(0.01)		(0.00)
NGOs & Religious	-0.60**	147.00	-0.71*	142.00	-0.66**
	(0.03)		(0.06)		(0.03)
Other Funds	0.05	84.00	0.15	83.00	
	(0.89)		(0.74)		

Panel A exhibits the announcement returns to the exclusion of shareholder resolutions. First, I compare the market reaction to the exclusions of proposals submitted by corporate gadflies to the market reaction to the exclusions of proposals submitted by other investors. I define corporate gadflies as retail investors with ownership of less than $33,000, the median investment of all proponents.[20] Non-corporate gadflies are all other investors. I find that the exclusions of proposals filed by gadfly shareholders generate positive abnormal returns, significant at the 1% level. In contrast, the market reaction to the exclusion of proposals filed by non-gadfly shareholders is not significant for the three-day window and only slightly significant for the five-day windows. In terms of magnitude, the market reaction to the exclusion of proposals filed by gadflies is larger than for proposals filed by non-gadflies for both event windows. Column 5 confirms that the market reaction for gadflies is significantly larger than for non-gadflies.

My results therefore indicate that proposals submitted by gadflies are driving most of the positive stock market reaction to exclusion decisions. The evidence hence supports the hypothesis that corporate gadflies submit a plethora of proposals, especially governance

[20] In Table A.8 of the Appendix, I show that the results for corporate gadflies are robust to alternative definitions of gadfly shareholders.

proposals, that are inadequate and thereby destroy firm value. By this means, it also provides additional evidence that one size does not fit all in governance.

I then split the proposals into five subsamples according to the identity of their sponsors. Consistent with what was found for corporate gadflies, it appears that the exclusion of proposals filed by individual investors generates a significant market reaction. In addition, markets react positively to the exclusion of proposals submitted by labor unions. While such a result is consistent with the private benefits hypothesis, one should note that the reaction is not significantly different from the reaction associated with the exclusion of proposals submitted by other types of investors. Furthermore, I do not find that exclusions of proposals submitted by NGOs and religious groups generate a significant market reaction. It is nonetheless important to remark that, to generate a significant market reaction, proposals should not have a zero probability of passing the subsequent voting stage. As previously shown, if a proposal has a low probability of being implemented, the exclusion of the proposal should have no wealth effect. The absence of a significant market reaction may therefore reflect the fact that proposals pursuing private benefits are unlikely to obtain shareholders' support. However, special interest investors may obtain some kind of implementation of their proposal through negotiations. It is therefore essential not to limit the analysis to the exclusions but also to extend it to withdrawals.

Panel B focuses on the announcements of withdrawals. Withdrawals by labor unions are clearly associated with a strong negative market reaction. As displayed in Column 5, this market reaction is significantly more negative than for other types of investors. In terms of magnitude, settlements negotiated by labor unions cost about 1.43% of firm value. It is important to note that this market reaction may not reflect the negative value implications of the demands formulated in the proposals themselves but rather of the concessions made to the sponsors, concessions that may or may not be related to the demands formulated in the proposals. This empirical evidence nonetheless supports the hypothesis that investors whose interests are not aligned with other shareholders' use the shareholder-initiated proposal system to negotiate settlements that are detrimental to shareholder wealth.

Panel B further reveals that NGOs and religious groups are also able to use the shareholder proposal system to negotiate value-destroying settlements. While the existing literature on the use of shareholder proposals by special interest investors has primarily focused on labor unions and public pension funds (Chidambaran and Woidtke, 1999; Prevost and Rao, 2000; Agrawal, 2011; Bauer et al., 2015; Matsusaka et al., 2019b; Del Guercio and Woidtke, 2019), these findings demonstrate that other types of special interest investors, who do not have access to strikes as a negotiation tool and who are likely to be less accustomed to negotiating with management, are also able to reach settlements. It therefore provides an explanation as to why special interest investors keep filing proposals that have very little chance of obtaining shareholder support.

My evidence, however, does not allow me to provide an answer as to why managers accept settlements on proposals that are very unlikely to gain a majority of votes. Potential explanations may include costs associated with strikes or negative media campaigns. Management would therefore use the SEC challenge to strengthen its bargaining power when negotiating withdrawals. Furthermore, Matsusaka and Ozbas (2017) theoretically show that, in presence of uncertainty regarding how shareholders would vote, it may be optimal for managers to accommodate activists' demands, even if it leads to shareholder value destruction.

All in all, the analysis of the sponsors of challenged proposals reveals that non-voted proposals harm firm value because they are ill-suited to firms but also because the shareholder proposal system is used by special interest investors, including NGOs and religious groups, to obtain changes that suit their own interests.

4.2.4 Topics of proposals

The topics that the proposals address may also help us to understand better how non-voted proposals destroy value. In fact, the private benefits that a shareholder can derive from filing a proposal are likely to come from non-governance changes. A special interest investor may derive non-financial utility from pursuing social, environmental, or ethical objectives. It may

also file a very concrete non-governance-non-CSR provision that it will benefit from at the expense of other shareholders. Most of these proposals address ordinary business operations. Examples include proposals to restrict firms' purchases to "made in usa" goods, proposals to invest in or phase out of specific products or markets, proposals to change the tax status of firms, or proposals to improve firms' quality standards. For example, the International Brotherhood of Teamsters, a large U.S. labor union, submitted a proposal to Continental Airlines requesting that Continental "adopt a policy requiring all domestic and foreign contract repair facilities that perform aircraft maintenance for the Company [Continental Airlines] to meet the same operational and oversight standards as Company-owned repair facilities." (SEC, 2009). In its supporting statement, the union advocated that the outsourcing of a large portion of the maintenance to foreign countries, including Asian countries, raises questions regarding passengers' safety. The ownership of the labor union was of 400 shares, representing less than $8,000 at the time of submission. While I cannot entirely rule out the possibility that the union was pursuing value-enhancing reforms, one could also interpret their proposal as an attempt to protect local labor. In such a case, mitigating the impact of such non-governance proposals should therefore benefit firm value. I examine this hypothesis thanks to an analysis of the topics of the proposals.[21]

Table 4.5, Panel A shows the cumulative abnormal returns associated with exclusion decisions over two event windows, [-1,1] and [-1,3]. Column 5 displays the difference between the CAR[-1,1] associated with exclusions of CSR/CG proposals and the CAR[-1,1] associated with exclusions of proposals belonging to the "Other" category. The positive market reaction seems to be mostly driven by corporate governance proposals rather than be CSR proposals. One possible explanation may come from the fact that corporate gadflies tend to file very standard governance resolutions that may be ill-suited to the targeted firms' needs. It also appears that markets do not react significantly to the exclusion of "Other" proposals. As frivolous proposals are likely to be included in the "Other" category, my evidence suggests that corporate gadflies file proposals that are detrimental to firm value because of their own-size-fits-all approach to governance rather than because of their frivolous nature. However, Column 5 shows that

[21] Appendix A.2 provides a detailed description of the classification of proposals.

the difference in market reaction between governance proposals and other proposals is not significant. Exclusions of CSR proposals are only slightly significant for the [-1,3] window.

Table 4.5: Market reaction to no-action letters (by proposal topics)

The table presents cumulative abnormal returns (in percent) associated with the publication of the SEC's no-action decisions for different types of proposal topics. Columns 1 and 3 present the CAR for two alternative event windows, a three-day and a five-day windows. The "Difference" column tests whether the market reaction, as proxied by CAR[-1,1], is larger for the types of proposal topics that present a statistically significant market reaction than for the types of proposal topics that do not. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. Panel A contains proposals that were excluded by the SEC. Panel B contains challenged proposals that were withdrawn before the SEC took a decision. Definitions of the proposal topics can be found in the appendix, Table A.1.

Panel A: Excluded Proposals

	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
CSR	0.19	424.00	0.33*	383.00	0.09
	(0.17)		(0.08)		(0.36)
CG	0.32***	1139.00	0.32**	1052.00	0.21
	(0.00)		(0.01)		(0.17)
Other	0.11	319.00	0.44	295.00	
	(0.57)		(0.11)		

Panel B: Withdrawn Proposals

	CAR[-1,1]	Obs.	CAR[-3,1]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
CSR	-0.24	226.00	-0.35	222.00	
	(0.32)		(0.28)		
CG	-0.32	219.00	-0.16	209.00	
	(0.13)		(0.55)		
Other	-1.14**	57.00	-1.68**	56.00	-0.86*
	(0.03)		(0.01)		(0.06)

Since sponsors may also seek private benefits through negotiations, Panel B of Table 4.5 shows the cumulative abnormal returns associated with withdrawals of the different types of proposals. It first appears that markets do no react significantly when a corporate governance or CSR proposal is withdrawn by its sponsor. However, the market reaction is significant and negative for non-standard proposals, i.e. proposals belonging to the "Other" category.

Furthermore, Column 5 shows that the market reaction to withdrawals is significantly more negative for non-standard proposals than for CSR and CG proposals. It therefore adds to the hypothesis that the shareholder proposal system may hurt firm value as proponents negotiate settlements that are tailored to their own interests. These results also highlight the fact that managers accept to negotiate settlements for non-standard proposals although their probability of obtaining majority support if they reach the voting stage is only 2.6%, compared to 29% for challenged governance proposals.

4.2.5 Implications of accounting for non-voted proposals

The fact that resisting proposals is a voluntary choice of managers implies that voted proposals will not represent a randomly selected subset of the full population of shareholder resolutions. It is therefore likely that the assessment of the value of the shareholder proposal system through the study of voted proposals will be misspecified. To understand the impact of taking non-voted proposals into account when studying the shareholder value implications of shareholder proposals, I follow the seminal work of Acharya (1988), Eckbo et al. (1990), and Nayak and Prabhala (2001) on self-selection models in event studies.[22] Specifically, I implement a special form of the Heckman (1979) correction for sample selection bias where the only regressor is the inverse Mill's ratio (IMR). In Appendix A.5, I provide the derivation of the Heckman specification applied to the event study framework. I especially show that including the inverse Mill's ratio as the unique regressor in the second-stage regression allows to uncover the market reaction for the full population of events.

This selection bias correction could be used to correct cumulative abnormal returns following votes on shareholder resolutions. However, as many announcements are made during shareholder meetings, it would be difficult to disentangle the market reaction associated with shareholder proposals from the market reaction associated with other AGM announcements. To tackle this issue, I reverse the problem and apply the correction procedure to the

[22] Prabhala and Li (2007) provides a review of the use of self-selection models in event studies. Other articles using the conditional event study approach include Acharya (1993), Guo et al. (2008), Bayazitova and Shivdasani (2011), or Masulis and Nahata (2011).

announcement returns associated with the SEC's exclusion decisions. If focusing on voted proposals leads to a sample selection bias, focusing on non-voted proposals will lead to a similar, although opposite, bias. I can therefore obtain the market reaction to the exclusion of the full population of proposals, not only of the ones that were indeed challenged and subsequently excluded by the SEC.

In the first stage, I use a probit model to estimate the likelihood that a proposal does not reach the ballot box. In the second stage, I include the inverse Mills ratio obtained from the first-stage regression as a regressor of cumulative abnormal returns:

$$\text{1st stage: } Not\_Voted_i = \beta_0 + \Gamma' X_{i,j,t} + \epsilon_i \tag{4.2}$$

$$\text{2nd stage: } CAR_i = \beta_1 + \beta_2 \lambda_i + \eta_i \tag{4.3}$$

Not_Voted_i is an indicator variable taking the value zero if proposal i was placed on the ballot of firm j in year t and one otherwise. Proposals that were not placed on ballots encompass excluded proposals as well as challenged and non-challenged withdrawn proposals. $X_{i,j,t}$ is a vector of proposal and time-varying firm characteristics, whereas Γ is the vector of corresponding coefficients. In the second equation, λ_i is the inverse Mills ratio estimated in the first stage. CAR_i is the [-1,1] cumulative abnormal returns associated with the publication of the SEC's decisions to allow the exclusion of contested proposals. It is therefore the conditional CAR, conditional on the exclusion of the proposal. As illustrated in Appendix A.5, β_0 is the bias-corrected, or unconditional, average cumulative abnormal return following the exclusion of a shareholder proposal. It provides an estimate of the market reaction to the exclusion of all shareholder proposals, not only of the ones that were challenged by management. Table 4.6 provides the results of the selection model.

Table 4.6: Bias-corrected market reaction to exclusion decisions

The table presents the bias-corrected [-1,1] cumulative abnormal returns associated with exclusion decisions. The correction follows Heckman (1979) as described in appendix A.5. The first-stage regression is a probit model where the dependent variable takes the value one if a proposal did not reach the voting stage and zero otherwise. The dependent variable of the second-stage equation is the CAR[-1,1] associated with exclusions decisions. The CAR[-1,1] are estimated as follows: the event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasure Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Lambda is the inverse Mills ratio obtained from the first stage. P-values are given in parentheses and are calculated following Heckman (1979). One, two, and three asterisks denote the statistical significance at the 1%, 5%, 10% level, respectively. Columns 1 to 4 cover S&P1500 firms over the 2003-2014 period. Column 5 covers S&P1500 firms over the 2005-2014 period. Model χ^2 is the test that all coefficients are jointly zero. Variables are defined in the appendix, Table B.2.

	First stage				
	Not Voted	Not Voted	Not Voted	Not Voted	Not Voted
	(1)	(2)	(3)	(4)	(5)
Leverage	0.35***	0.29**	0.25**	0.27**	0.39***
	(0.00)	(0.01)	(0.05)	(0.03)	(0.00)
ROA	-0.97***	-1.10***	-1.17***	-1.11***	-0.84**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)
One Year Return	-0.18***	-0.17***	-0.17***	-0.08	-0.09
	(0.00)	(0.00)	(0.00)	(0.18)	(0.15)
ln(Market Cap.)	0.17***	0.15***	0.13***	0.14***	0.10***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Dividend Yield	0.76	0.84	-0.47	-0.60	-0.76
	(0.48)	(0.45)	(0.69)	(0.62)	(0.57)
Institutional Ownership	-0.39***	-0.40***	-0.60***	-0.60***	-0.49***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Proposal_{t-1}	-0.12**	-0.10*	-0.12**	-0.14**	-0.20***
	(0.02)	(0.05)	(0.03)	(0.01)	(0.00)
Institutional Sponsor		-0.44***	-0.45***	-0.44***	-0.43***
		(0.00)	(0.00)	(0.00)	(0.00)
Governance Proposal		-0.30***	-0.30***	-0.29***	-0.28***
		(0.00)	(0.00)	(0.00)	(0.00)
Institutional Sponsor * CG Prop.		0.55***	0.55***	0.55***	0.42***
		(0.00)	(0.00)	(0.00)	(0.00)
CEO-Chair			-0.02	-0.05	-0.04
			(0.67)	(0.29)	(0.40)
Independent Directors			0.54***	0.61***	0.22
			(0.00)	(0.00)	(0.31)
Challenger(3 years)					0.36***
					(0.00)
Constant	-2.06***	-1.62***	-1.60***	-1.82***	-1.33***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

Table 4.6: Bias-corrected market reaction to exclusion decisions (continued)

	Second stage				
	Not Voted (1)	Not Voted (2)	Not Voted (3)	Not Voted (4)	Not Voted (5)
Adj.-CAR [-1,1] (%)	-0.66*	-0.69**	-0.76**	-0.58*	-0.59*
	(0.07)	(0.04)	(0.03)	(0.08)	(0.08)
Lambda (%)	0.62**	0.67**	0.72**	0.57**	0.59**
	(0.04)	(0.01)	(0.01)	(0.04)	(0.03)
Year F.E.	No	No	No	Yes	Yes
Observations	8,133	7,765	7,314	7,314	5,998
Model χ^2	209.34	295.89	258.86	322.07	266.69
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

The estimates of the first-stage probit model help understand what differentiates proposals that reach the voting stage from the ones that do not.[23] Results reflect what I find on the determinants of challenging proposals. In fact, proposals submitted to larger firms, firms that are underperforming, and firms with a lower level of institutional ownership are less likely to reach the voting stage. Moreover, proposals appear to be more likely to reach the voting stage if they were submitted by an institutional investor. This evidence is consistent with institutional investors having more experience and means helping them defend their contested proposals. Furthermore, institutional investors may submit proposals that are less likely to be challenged by managers. In this respect, one should note that governance proposals have a higher probability of reaching the ballot box. Finally, it is interesting to remark that corporate governance proposals submitted by institutional investors are surprisingly less likely to attain the AGM.

In the second stage, the coefficient of the inverse Mills ratio, λ, is significantly different from zero. It therefore confirms that assessing the value of shareholder proposals through an analysis of voted proposals leads to a sample selection bias. Furthermore, the positive sign of the IMR coefficient implies that the selectivity bias is positive. In other words, the value of voted proposals exceeds the value of non-voted ones. The focus of the existing literature on

[23] While the specification in Column 4 includes year fixed effects, one should bear in mind that such a specification may be subject to the incidental parameter problem (Neyman and Scott, 1948; Lancaster, 2000).

voted proposals has therefore led to an overestimation of the value of shareholder-initiated proposals. $Adj. - CAR$ provides the bias-corrected market reaction to exclusion decisions. Markets appear to react negatively to the exclusion of shareholder proposals, thereby implying that these resolutions would have benefited shareholder wealth had they not been excluded. These results indicate that the overall impact of the shareholder proposal system is value-enhancing. They also support the fact that managerial resistance effectively mitigates the adverse side effects of the shareholder proposal system such that it remains a powerful voice mechanism.

It is nonetheless important to note that this selection bias-correction should be interpreted carefully for two main reasons. First, the shareholder proposal system may have indirect value implications as it may discourage management from engaging in activities that would trigger the submission of shareholder proposals. Furthermore, management may decide to directly implement a proposal without challenging it at the SEC and without organizing a vote. In such circumstances, the proposal would never become public and may not be included in my dataset. Finally, Heckman's two-step sample selection correction relies on the assumption that the joint density function of the error terms is bivariate normal (cf. Appendix A.5).

5 Robustness tests

In this section, I provide three robustness tests. I first verify that my results are not driven by contaminating events. I then show that my results are robust to the use of alternative thresholds for expected voting outcomes. Finally, I demonstrate that my results are not driven by my definition of corporate gadflies.

5.1 Exclusion of potentially contaminated events

A potential concern with the event study methodology is that events may be contaminated by other concomitant events. The large number of no-action letters associated with the fact that the publication of no-action letters is not systematically related to other corporate events mitigates this concern. Nonetheless, it is important to verify that my results are not driven by common corporate announcements. To do so, I replicate Tables 4.1, 4.3, 4.4, and 4.5 but I exclude all events that coincide with the publication of 10-K, 10-Q, and 8-K forms. 10-K and 10-Q forms announce earnings. 8-K forms announce major corporate events such as the departure of certain directors or officers, the completion of acquisitions, or amendments to articles of incorporation or bylaws. These forms should therefore cover a large portion of potentially contaminating events. Table A.6 presents the robustness test. All in all, it appears that my results are not driven by earnings announcements or other major corporate

announcements.

5.2 Alternative thresholds for expected voting outcomes

I test that my results in Table 4.2 are robust to the use of alternative thresholds for defining high expected voting outcomes. Table A.7 of the Appendix provides two alternative thresholds. In Panel A, proposals are classified as "High expected voting outcome" if their expected outcome is above the sixtieth percentile and as "Low expected voting outcome" otherwise. In Panel B, proposals are classified as "High expected voting outcome" if their expected outcome is above the seventieth percentile and as "Low expected voting outcome" otherwise. It appears that the higher the threshold of expected voting outcome, the larger the stock market reaction to exclusions. It therefore confirms that markets react more to the exclusions of proposals with a large probability of implementation.

5.3 Alternative definitions of corporate gadflies

In Table A.8 of the Appendix, I test that my results regarding corporate gadflies are robust to the use of alternative definitions. I provide two alternative definitions of corporate gadflies. Under definition 2, corporate gadflies are retail investors whose investment is smaller than $12,500, the median investment of retail proponents. Under the third definition, corporate gadflies are the 15 individual investors that have filed the highest number of proposals over the sample period. Table A.8 presents the results associated with the use of these two alternative definitions. All in all, my results appear to be robust to the use of alternative definitions of corporate gadflies.

6 Conclusion

The academic literature on shareholder-initiated proposals has focused on voted proposals. I analyze the complete process that leads to the presence of proposals on ballots. I show that many proposals do not reach the voting stage as they are excluded or withdrawn. Therefore, voted proposals are a biased subset of all proposals. Using the SEC's decisions whether to allow the exclusion of a proposal, I provide a new empirical setup in which I can cleanly identify the market reaction to non-voted proposals.

I find that markets react positively to the exclusion of contested proposals, thereby implying that excluded proposals are detrimental. I exploit the legal grounds underlying the exclusion decisions to show that the positive reaction expresses the market's relief that a harmful proposal will not be implemented. I also study withdrawal settlements and find that markets react negatively to the announcement of settlements when management accommodates activists' demands. It therefore appears that non-voted challenged proposals have a value-destroying nature. Such evidence also suggests that managerial resistance effectively mitigates the adverse side effects of the shareholder proposal system. It also emphasizes the crucial role of the SEC in mitigating the negative side effects of shareholder empowerment.

I analyze the channels through which proposals can harm firm value. I find that one-size-fits-all governance proposals filed by small retail investors explain most of the positive market

reaction to exclusion decisions. Furthermore, I find that NGOs, religious groups, and labor unions use the shareholder proposal system to negotiate settlements that are beneficial to their cause but destroy overall shareholder value. These settlements are especially harmful when they address non-standard matters that are likely to be tailored to their sponsors' private agenda. My results thereby provide new evidence that enhanced shareholder rights can have detrimental value implications.

Finally, I exploit my empirical setup to provide a selection bias-adjusted estimate of the value of shareholder proposals. I find that omitting non-voted proposals overstates the shareholder proposals-driven value creation. The average bias-corrected value impact of shareholder proposals is nonetheless positive. My evidence therefore reconciles the diverging views on the value implications of shareholder proposals by demonstrating that, while non-voted proposals can hurt firm value, overall the shareholder proposal system is an effective voice mechanism for shareholder value maximization.

Part II

What is the impact of mutual funds' ESG preferences on portfolio firms?

7 Introduction

Institutional ownership has increased tremendously over the past decades. Assessing how effective institutional investors are in their stewardship activities has therefore become central. Yet such an assessment has proven difficult, given that one does not observe the ex-ante preferences of institutional investors. I overcome this challenge by constructing measures of mutual funds' environmental, social, and governance (ESG) preferences from their proxy voting guidelines. In fact, since 2003 the Securities and Exchange Commission (SEC)[24] requires that registered management investment companies prepare and disclose proxy voting policies describing how they generally vote on the different ballot items at the shareholder meetings of their portfolio firms. Although scholars have widely discussed institutional investors' preferences revealed in votes, very little is known about the preferences announced in voting guidelines and their impact on firm ESG policies.[25] My announced preferences approach allows me to observe directly how effective institutional investors are at obtaining what they want.

In this paper, I provide the first analysis of preferences announced in proxy voting guidelines. I study whether portfolio firms adopt the announced ESG preferences of their mutual fund shareholders. If investee companies adopt their mutual fund shareholders' preferred ESG

[24] See https://www.sec.gov/rules/final/33-8188.htm

[25] Academic papers studying institutional investors' preferences revealed in votes include, for instance, Morgan et al. (2011), Matvos and Ostrovsky (2010), Iliev and Lowry (2014), Bolton et al. (2020), or Bubb and Catan (2020).

policies, through which channels does the adoption take place? Finally, I investigate whether beneficial investors reward mutual funds for their ESG consciousness.

To answer the questions above, I hand-collect the proxy voting guidelines of 29 of the largest U.S. mutual fund families for the 2006-2018 period from funds' statements of additional information (SAIs). The dataset covers 2,600 funds that represent over 30% of the equity and balanced funds included in the CRSP Mutual Funds database. I focus on 100 common ESG proposal topics. The final dataset contains over 17,000 family-year-item voting policies.

I find substantial cross-sectional and time variations in mutual funds' announced ESG preferences. I show that these announced preferences are a key predictor of mutual funds' votes, ahead of ISS and management recommendations. The staggered changes in voting policies across mutual fund families are key to my identification strategy: It allows me to separate active decisions of mutual fund families from general time trends or recommendations of proxy advisory firms. My analysis reveals that portfolio companies adopt the governance preferences of their mutual fund shareholder base, but not the environmental and social ones. I find that mutual funds convey their governance preferences through their impact on voting results rather than through the use of outspoken activism tools such as proposal submissions. I also find consistent evidence with mutual funds conducting private negotiations to obtain the implementation of their preferred policies. Finally, I show that proxy voting guidelines do not only reflect preferences but are also an effective governance tool on their own, allowing non-mutual fund shareholders to strategically submit proposals that are more likely to receive shareholder support.[26]

One challenge for my analysis is the endogenous nature of mutual funds' portfolio selection. Mutual funds may simply select firms that display their preferred ESG policies. For example, McCahery et al. (2016) document widespread governance-motivated exits among institutional investors. Similarly, Aguilera et al. (2020) show that Norway's sovereign wealth fund significantly re-balanced its portfolio to meet its governance preferences. I tackle this challenge by

[26]Throughout the paper, I refer to shareholders that are not included in my sample of the 29 mutual fund families as "non-mutual fund shareholders".

using the staggered changes in voting policies across mutual fund families as an instrumental variable (IV) to identify the impact of funds' announced ESG preferences on portfolio firm policies. A key element of this identification strategy arises from the fact that proxy voting guidelines are designed at the mutual fund family level. Therefore, changes in guidelines are plausibly exogenous to individual portfolio firm characteristics.

I first examine the announced preferences of mutual funds. I find that funds exhibit a wide variety of announced preferences. Some support shareholder rights enhancement, while others support management independence. Similarly, some advocate that firms should take the environmental and social (E&S) implications of their actions into consideration, while others defend their fiduciary duty to maximize shareholder value. A time-series analysis reveals that announced preferences change over time, with a tremendous increase in the support of E&S issues between 2006 and 2018. Therefore, my results indicate that different ESG preferences coexist among institutional investors. It also provides novel evidence that these preferences are not stable over time.

One could however claim that proxy voting guidelines are solely designed to meet the regulatory requirement, without conveying any information on preferences. In fact, guidelines are not binding, and policies are often constructed such that they allow their issuers to deviate easily. For example, they usually contain phrases like "we will *generally* vote" or "we may deviate from voting policies on a case-by-case basis". In addition, there is ample evidence that proxy advisors' recommendations significantly influence mutual funds' voting behavior (Larcker et al., 2015; Malenko and Shen, 2016; Ertimur et al., 2017). Scholars have also shown that mutual funds side in their voting with management when they have other business ties to the firm (Davis and Kim, 2007; Ashraf et al., 2012; Cvijanović et al., 2016). All in all, the informativeness of proxy voting guidelines about institutional investors' preferences is unclear. If proxy voting policies reflect institutional investors' fundamental preferences, they should, to a certain extent, be informative about preferences revealed in votes. It is therefore important to first analyze the correlation between announced policies and actual votes.

A comparison of over 500,000 mutual funds' votes on ESG issues to their corresponding voting

policies reveals a compliance rate of 80%, with lots of cross-sectional differences. For example, funds follow their policies in less than 45% of the cases when the policies support E&S issues. In comparison, when their policies oppose E&S issues, their level of compliance is of 96%. Furthermore, the level of compliance with proxy voting guidelines varies widely from one fund family to another. Some families rely on their guidelines for over 95% of the votes while others fall below 50%. Through a panel regression, I find that proxy voting guidelines are a major predictor of votes, ahead of ISS, the largest proxy advisor, and of management recommendations. Moreover, I show that changes in voting policies are followed by analogous changes in voting behavior. It therefore appears proxy voting policies do provide information about mutual funds' ESG preferences.

I then examine why mutual funds deviate from their announced preferences. Although I find that greenwashing may explain deviations from E&S-supportive voting policies, I show that one of the main reasons explaining discrepancies between announced and revealed preferences is tailored voting. In fact, while general voting policies represent a one-size-fits-all approach to voting, most funds provide additional details describing the circumstances under which they would not respect their general voting policy. My results highlight that the more detailed and numerous these exceptions are, the less likely a fund will vote in compliance with its general policy. It therefore provides evidence that funds are aware that one size does not fit all in corporate governance (Coles et al., 2008; Linck et al., 2008; Bhandari et al., 2020) and deviate from their general voting policy to provide better oversight. It also implies that mutual funds analyze voting items at the firm-item level, hence reinforcing the existing evidence that mutual funds are active monitors (Morgan et al., 2011; Iliev and Lowry, 2014; McCahery et al., 2016). In addition, I provide anecdotal evidence that mutual funds use proxy voting guidelines to outsource their own voting strategy to proxy advisory firms. Such a business model reconciles the existing evidence of active voting with the anecdotal evidence regarding the very small size of mutual fund families' stewardship teams (Krouse et al., 2016; Bebchuk et al., 2017). One major implication of this result is that proxy voting guidelines act as a governance mechanism that allows mutual funds to do governance at scale.

As I have established that mutual funds' proxy voting guidelines represent more than a mere regulatory requirement, I investigate whether portfolio companies adopt the announced preferred ESG policies of their mutual fund shareholders. For every firm in my sample, I use voting policies to construct time-varying measures of the preferences of their mutual fund shareholders towards a set of major governance provisions as well as towards E&S provisions. Through an ordinary least squares (OLS) approach, I show that a high level of support to a certain governance provision is positively associated with the presence of that provision at portfolio firms. However, as mutual funds may simply select the firms that display the ESG structure they favor, I exploit the staggered changes in proxy voting policies to instrument mutual funds' announced preferences. This instrumental variable approach confirms that portfolio companies adopt the governance preferences of their mutual fund shareholders. With regard to environmental and social issues, I do not find evidence that portfolio companies adopt the policies favored by their mutual fund shareholder base.

I then explore the channels through which mutual funds convey their governance preferences to investee firms. I show that the more supportive mutual fund shareholders are of a certain provision, the more likely the provision will receive majority support, conditional on being placed on ballots. Furthermore, I find a significant relationship between mutual funds voting policies and the adoption of provisions in the absence of shareholder proposals. Such evidence is consistent with mutual funds conducting private negotiations or with portfolio firms adopting the preferred policies of their mutual fund shareholders on their own initiative. However, I do not find that mutual funds play an outspoken activism role by submitting shareholder proposals. Finally, I find that proxy voting guidelines stimulate activism by non-mutual fund shareholders as they allow them to identify and submit proposals that will be more likely to receive support from mutual funds.

Next, I investigate whether mutual funds' clients reward funds' ESG consciousness. I implement an event study and analyze fund flows around changes in proxy voting guidelines. I do not observe significant abnormal inflows when comparing funds that experienced a guideline change to funds that did not. I confirm this absence of significant inflows when distinguishing

changes that enhance shareholder rights from changes that oppose them. Such results are inconsistent with the assumption that mutual funds' clients reward ESG consciousness. The absence of reward by mutual fund investors may explain why mutual funds deviate from their E&S-friendly policies more easily.

Most of the literature on the ESG preferences of institutional investors has adopted a revealed-preferences approach, analyzing votes (Matvos and Ostrovsky, 2010; Bubb and Catan, 2020; Bolton et al., 2020). It allowed scholars to uncover large cross-sectional variations in the voting behavior of institutional investors, thereby leading them to argue in favor of the existence of different "ideologies" across investors. Nevertheless, ideologies implied from votes may be very different from the fundamental preferences of institutional investors. They may, for example, reflect the choice of proxy advisor (Larcker et al., 2015; Malenko and Shen, 2016; Duan and Jiao, 2016; Ertimur et al., 2017), the level of managerial resistance (Bach and Metzger, 2019; Lee and Souther, 2020), or network and coordination effects (Crane et al., 2019; He et al., 2019; Calluzzo and Kedia, 2019). My announced preferences approach contributes to this literature by allowing me to provide measures of mutual funds' preferences that abstract from the different external forces that may influence votes. I demonstrate that mutual fund families have heterogeneous stated preferences and that these preferences vary over time. Thanks to the comparison of votes with voting policies, I also shed light on a growing concern among mutual funds' investors and policy-makers, namely that mutual funds' public statements and policy positions reflect marketing rather than stewardship intentions (Mooney, 2017; Ceres, 2018; Riding, 2019; Bain, 2020). My results confirm that their concerns are well-founded for environmental and social issues.

I also considerably extend the literature on the impact of institutional investors on firms' policies (Smith, 1996; Becht et al., 2010; Dimson et al., 2015; Aguilera et al., 2020). While a large portion of this literature relies on studying the effects of a single activist investor, I study a set of 29 mutual fund families, hence covering thousands of mutual funds. Furthermore, I show that voting, a low-cost voice mechanism, is sufficiently meaningful to influence investee firms' policies. In this literature, the closest paper to mine is Aguilera et al. (2020) who show

that the announced governance expectations of Norway's sovereign wealth fund influence systemic governance. I differ from this paper by studying the proxy voting guidelines of a large set of institutional investors. I am therefore able to show that investors differ in their support of ESG policies. In addition, conducting my analysis at the provision level allows me to identify the channels through which mutual funds convey their preferences. My paper also goes beyond governance issues and provides evidence that institutional investors' influence on E&S policies differs from their influence on governance policies.

Finally, my results have important implications for the debate over the influence of passive ownership on governance (Appel et al., 2016; Schmidt and Fahlenbrach, 2017; Appel et al., 2019; Heath et al., 2021). In this debate, an often-voiced concern is that passive investors do not have incentives or tools to closely monitor portfolio firms' governance (Schmidt and Fahlenbrach, 2017; Bebchuk and Hirst, 2019). While Appel et al. (2016) and Appel et al. (2019) find that passive ownership is associated with improvements in governance practices, Schmidt and Fahlenbrach (2017) and Heath et al. (2021) find evidence of the opposite. I add to the debate by demonstrating that proxy voting guidelines are an effective governance tool on their own. They allow passive shareholders to do governance at scale through the outsourcing of their monitoring role to proxy advisors. Furthermore, proxy voting guidelines allow active investors to identify the preferences of large institutional investors, and subsequently to submit proposals strategically. Such a mechanism indicates that active investors may replace passive ones in their governance role. Overall, my evidence alleviates concerns about the potentially detrimental impact of passive ownership on firm governance as proxy voting guidelines allow them to do governance at low cost.

The remainder of the chapter is organized as follows. Section 2 provides institutional details on proxy voting guidelines. Section 3 derives testable hypotheses. Section 4 describes the sample, the methodology, and presents descriptive statistics. Section 5 reports the results. In Section 6, I discuss the main results of the paper. Finally, Section 7 concludes.

7.1 Institutional framework

In April 2003, the SEC adopted Rule 206(4)-6 that requires that investment advisors registered with the SEC adopt proxy voting policies and, upon request, provide clients with a copy of those policies. The SEC claimed that "*Advisers' proxy voting policies and procedures should address (although the rule does not require) how the adviser will vote proxies (or what factors it will take into consideration) when voting on particular types of matters, such as changes in corporate governance structures, adoption or amendments to compensation plans (including stock options) and matters involving social issues or corporate responsibility.*" (SEC, 2003, endnote 14). It is especially important to note that the SEC did not propose specific policies or procedures for advisers, hence leaving advisers the flexibility to decide what they want to address in their proxy voting guidelines and how. Proxy voting policies may therefore vary extensively from one investor to the other as well as over time. Figure 7.1 provides snapshots of the 2018 proxy voting guidelines of Morgan Stanley as well as of Alliance Bernstein to illustrate how they design their voting policies.

From the figure, it appears that some families, such as Morgan Stanley, provide very detailed explanations of how they take their decisions while others, such as Alliance Bernstein, may provide very clear and succinct voting policies.

Although there is quite some heterogeneity in guideline design, some common patterns can be pointed out. First, guidelines are generally adopted at the fund family level and apply to all the funds of the family unless stated otherwise.[27] Second, policies usually address very specific provisions, such as separating the roles of CEO and Chairman, and provide the mutual fund's position towards those provisions. A policy will hence state that the fund will generally vote "for" or "against" a specific provision. It may also state that the fund will decide how to vote on a "case-by-case" basis. In such circumstances, advisers often describe the different factors

[27] I manually verify in Statements of Additional Information that all mutual funds in my sample use the fund family voting guidelines. Some fund families have developed specific guidelines for ESG funds. I do not include funds that use specific ESG guidelines. Invesco is an exception as it has adopted different guidelines for its different advisers. I only consider the guidelines of Invesco Advisers, Inc. Geode is a subadviser of Fidelity. As it is a very large asset manager, I have decided to also collect its guidelines.

they take into account to reach a decision. Less frequently, guidelines state that advisers will abstain from voting on certain matters. In rare cases, the policy may be to follow the recommendations of their proxy advisor or management.

Figure 7.1: Snapshot of proxy voting guidelines

Figure a presents a snapshot of Morgan Stanley's 2018 proxy voting guidelines. Figure b presents a snapshot of Alliance Bernstein's 2018 proxy voting guidelines.

(a) Snapshot of Morgan Stanley' 2018 proxy voting guidelines

10. Separation of Chairman and CEO positions: We vote on shareholder proposals to separate the Chairman and CEO positions and/or to appoint an independent Chairman based in part on prevailing practice in particular markets, since the context for such a practice varies. In many non-U.S. markets, we view separation of the roles as a market standard practice, and support division of the roles in that context. In the United States, we consider such proposals on a case-by-case basis, considering, among other things, the existing board leadership structure, company performance, and any evidence of entrenchment or perceived risk that power is overly concentrated in a single individual.

(b) Snapshot of Alliance Bernstein' 2018 proxy voting guidelines

Shareholder Proposal	For	Against	Case-by-Case
Environmental & Social, Disclosure Proposals			
Animal Welfare			+
Carbon Risk	+		

Another key aspect of proxy voting guidelines is that, while funds often provide their "general policy" which states how they "generally" vote on specific ballot items, they may also provide additional details explaining the criteria that they take into account when deciding whether to respect their general policy. As an illustration, State Street Global Advisors states, in its 2010 guidelines, that it generally votes in favor of "*the establishment of annual elections of the board of directors unless the board is comprised of a supermajority of independent directors (e.g., 80%*

or more), including wholly independent board committees, and the company does not have a shareholder rights plan (poison pill)". In the remainder of this article, I refer to general policies as "policies" and to the exceptions to the general policy as "exceptions".

7.2 Hypotheses development

The main research question of this paper is to assess the influence of mutual funds' ESG preferences on portfolio firms' policies. A necessary condition to answer this question is that proxy voting guidelines reflect mutual funds' fundamental preferences. Assuming that this condition holds, I hypothesize that, if mutual funds influence the ESG policies of their portfolio firms, investee firms should adopt their mutual fund shareholders' ESG preferences as announced in proxy voting guidelines.

H1 Impact on firms: *Firms adopt the announced ESG preferences of their mutual fund shareholders.*

Mutual funds may convey their announced preferences to portfolio firms through several channels. The most straightforward channel through which proxy voting policies could impact firms' ESG structure is the voting process itself. In fact, when applying its voting policy to its votes, a fund may increase (decrease) the support given to a specific provision. The provision will therefore be more (less) likely to win a majority which would subsequently encourage (discourage) its implementation.

H2a Voting channel: *Mutual funds' votes are meaningful enough to impact the likelihood that a policy wins a majority.*

Mutual funds may also play a more active role to obtain the implementation of their preferred policies. As an illustration, Carleton et al. (1998) show that CalPERS, a large US pension fund, effectively submits proposals requesting governance reforms. Mutual funds may therefore engage publicly and submit proposals requiring the implementation of their preferred ESG policies.

H2c Mutual fund proposals channel: *Mutual funds submit proposals that demand the implementation of the ESG policies they favor.*

Furthermore, Smith (1996), Becht et al. (2010), Dimson et al. (2015), McCahery et al. (2016), Couvert (2019) show that institutional investors conduct behind-the-scenes negotiations. Mutual funds may therefore engage privately to negotiate the implementation of their preferred policies.

H2d Private negotiations channel: *Mutual funds conduct private negotiations to obtain the implementation of their preferred ESG policies.*

Finally, Brav et al. (2018) show that activist hedge funds tend to launch campaigns at firms where the shareholder base is activist-friendly. A similar phenomenon could happen with mutual funds. Non-mutual fund shareholders may strategically submit proposals that are likely to obtain the support of the institutional shareholder base. These shareholders could derive the voting strategies of large institutional investors from the proxy voting guidelines of these investors.

H2b Non-mutual fund proposals channel: *Non-mutual fund shareholders strategically submit proposals that meet mutual fund shareholders' announced preferences.*

Next, I study whether clients reward mutual funds for their ESG consciousness. In fact, Riedl and Smeets (2017) show that some investors express preferences for socially responsible mutual funds. Martin and Moser (2016) show that investors react positively when managers disclose the societal benefits of their investments. Furthermore, Hartzmark and Sussman (2019) provide causal evidence that mutual funds' clients value sustainability. However, Larcker and Watts (2020) find no evidence that investors accept to pay a premium for green securities. If investors value the proxy voting strategy adopted by mutual funds, I expect to observe inflows when mutual funds adopt more shareholder- or E&S-friendly policies.

H3 Rewards for ESG consciousness: *Mutual funds experience inflows when they adopt shareholder- or E&S-friendly policies.*

8 Data, methodology, and descriptive statistics

This section presents data collection and sample construction. It also provides the methodology for assessing the impact of mutual funds' preferences. Finally, it provides descriptive statistics on the sample.

8.1 Data

I collect the proxy voting guidelines of mutual funds from several sources. First, mutual fund families' websites often provide the current version of their voting guidelines. As most funds do not keep the historical versions on their website, I collect them from their statements of additional information (SAIs). In fact, the SEC requires that proxy voting guidelines be included in the SAIs that supplement funds' prospectus. However, the SEC also allows funds to provide a summary of their policies in their SAIs while still being required to provide detailed guidelines upon client's requests. I obtain the missing guideline documents thanks to internet searches, contacting funds, and through the SAIs of funds of funds that requested the proxy voting guidelines of all the funds in which they have invested. I focus my search on the largest U.S. mutual fund families. I can construct a complete history of voting policies for the 2006-2018 period for 29 of the 60 largest U.S. mutual funds families. My sample therefore includes 377 guideline documents. I also collect the complete history of voting policies for ISS, the

largest proxy advisory firm. Table B.1a provides the list of the mutual fund families included in the collected sample.

Next, I analyze guideline documents to construct a database of mutual funds' voting policies. I collect the policies concerned with management and shareholder proposals addressing governance, environmental, or social issues. As guideline documents vary widely on the ballot items they address, I concentrate on one hundred very common items. Table B.1b provides a list of all the policies that I collect. Among others, the most common items encompass the implementation of majority voting for board elections, the publication of political contributions, or the limitation of CO2 emissions. My final dataset of proxy voting policies includes over 17,000 family-year policies.

A fund policy regarding a specific issue usually states whether the fund will *generally* vote "for", "against", or "on a case-by-case basis". However, as some funds may have exceptions to their general policy, I also collect the number of exceptions to each of their general voting policies.

I obtain votes by mutual funds from the ISS Voting Analytics database. Data on fund characteristics come from CRSP Mutual Fund database.[28] It is crucial to identify who holds the voting authority. Mutual funds' boards usually delegate their voting authority to the investment adviser. However, in the presence of a subadviser, the investment adviser may decide to delegate its voting authority to the subadviser. In such a case, the subadviser would apply its own proxy voting guidelines rather than the guidelines of the investment adviser. Therefore, I collect the identity of the party holding the voting authority from the statements of additional information for every fund in my sample.

Finally, I obtain accounting and financial data on firms from the CRSP-Compustat-Merged database. The institutional ownership of firms comes from Thomson Reuters Institutional Holdings. The governance characteristics of firms are from the ISS Governance database. I

[28] ISS Voting Analytics does not provide an identifier allowing to match the voting data to the CRSP Mutual Fund database. It only provides the Edgar filing number of the NPX source file. I use this filing number to obtain the series CIK from NSAR filings on Edgar. I use the series CIK to match ISS Voting Analytics funds to CRSP funds. As a fund series may contain several individual funds, a series CIK may apply to several funds. Therefore, I manually match funds within each series.

construct measures of firms' E&S performance using the MSCI ESG KLD Stats database. My final sample includes about 2,600 funds and over 500,000 fund votes.

8.2 Methodology

8.2.1 Construction of measures of mutual fund preferences

I construct an index of mutual funds' announced preferences using funds' proxy voting guidelines. I obtain the announced preferences index (API) of mutual fund m towards provision p in year y, $API_{m,p,y}$, by mapping "for", "against", and "case-by-case" policies to the values 1, -1, and 0, respectively. For simplicity's sake and following Iliev and Lowry (2014), I aggregate abstain policies and against policies.[29]

The API variable is therefore defined at the fund-provision-year level. However, as firms generally have multiple mutual fund investors, I aggregate the announced preferences of the different mutual fund shareholders at the firm-provision-year level. To take funds' ownership size into account, I weigh the announced preferences index with the number of shares fund family m owns in firm f. The value-weighted API has the following form:

$$VWAPI_{f,p,y} = \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y} \tag{8.1}$$

where M is the total number of mutual fund families in the sample that own shares of firm f in year y. $O_{m,f,y}$ is the percentage of ownership of mutual fund family m in firm f in year y.

8.2.2 Staggered voting policy changes as an instrument

Identifying the impact of mutual funds' preferences on portfolio firms' poses a problem of endogeneity. Mutual funds may select firms that display their preferred policies. A positive correlation between $VWAPI$ and firm policies may therefore be the result of portfolio selection

[29] As voting policies indicating that the mutual fund will follow its proxy advisor's recommendations or management recommendations are rare, I do not include them in the forthcoming analyses.

rather than of mutual funds' impact. The definition of the aggregate measure of mutual funds' preferences, $VWAPI$, reflects this issue. Two types of changes can impact $VWAPI$: changes in mutual funds' ownership and changes in voting policies. I isolate variations in $VWAPI$ that are induced by variations in voting policies from variations in $VWAPI$ that are induced by variations in funds' ownership as follows:

$$\begin{aligned}
\Delta VWAPI_{f,p,y} &= VWAPI_{f,p,y} - VWAPI_{f,p,y-1} \\
&= \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y} - \sum_{m=1}^{M} O_{m,f,y-1} API_{m,p,y-1} \\
&= \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y} - \sum_{m=1}^{M} O_{m,f,y-1} \left(API_{m,p,y} - \Delta API_{m,p,y} \right) \\
&= \left[\sum_{m=1}^{M} O_{m,f,y} - \sum_{m=1}^{M} O_{m,f,y-1} \right] API_{m,p,y} + \sum_{m=1}^{M} O_{m,f,y-1} \Delta API_{m,p,y} \\
&= \Delta O_{m,f,y} API_{m,p,y} + VW\Delta API_{m,p,y}
\end{aligned} \tag{8.2}$$

where $\Delta API_{m,p,y} = API_{m,p,y} - API_{m,p,y-1}$. $VW\Delta API_{m,p,y}$ is the variation in $VWAPI$ that is induced by variations in voting policies. Such a definition ensures that $VW\Delta API_{f,p,y}$ only depends on the changes in the announced preferences index. It does not depend on changes in portfolio weights. $\Delta O_{m,f,y} API_{m,p,y}$ is the variation in $VWAPI$ that is induced by variations in ownership.

I instrument the value-weighted announced preferences index, $VWAPI$, with $VW\Delta API_{m,p,y}$ to identify the impact of mutual funds' preferences on firms' policies. Several of the specifications hereafter have the following form:

$$VWAPI_{f,p,y} = \alpha_0 + \alpha_1 VW\Delta API_{f,p,y} + \epsilon_{f,p,y} \tag{8.3}$$

$$Outcome_{f,p,y} = \beta_0 + \beta_1 \widehat{VWAPI}_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + \upsilon_{f,p,y} \tag{8.4}$$

where equation 8.3 is the first-stage equation and equation 8.4 is the second-stage equation. f indexes firms, p indexes provisions, y indexes years, and i indexes industries. $Outcome_{f,p,y}$

is the dependent variable. $Controls$ is the vector of control variables. δ_i and θ_y are industry and year fixed effects, respectively. The industry fixed effects are computed with two-digit sic codes. $\epsilon_{m,p,y}$ and $\upsilon_{f,p,y}$ are the error terms. Furthermore, to account for the fact that it may take some time for firms to implement the new preferences of its mutual fund shareholders, $VW\Delta API_{f,p,y}$ is kept constant for two years after a policy change, except if another policy change took place in between.

Such a specification ensures that the relevance condition holds. By definition, the instrument, $VW\Delta API_{f,p,y}$, has a direct impact on the value-weighted measure of mutual funds' preferences, $VWAPI_{f,p,y}$. To meet the exclusion restriction and qualify as an instrument, changes in voting policies should not be related to the outcome variables other than through their impact on mutual funds' voting policies. The instrument would hence not meet the exclusion condition if portfolio companies could influence the design of proxy voting guidelines and thereby induce changes in voting policies. However, the fact that proxy voting guidelines are designed at the fund family level alleviates such a concern. It would indeed be unlikely that a specific firm within a specific fund's portfolio would be able to influence guidelines at the family level thereby influencing the voting policies applied at hundreds or thousands of other firms.

8.3 Descriptive statistics

Table 8.1 provides summary statistics for the sample. All continuous variables are winzorized at the 1% and 99% levels. Institutional ownership is capped at 1.

Panels A and B respectively present fund and firm control variables. The average fund size is $2 billion while the average fund family size is a little over $500 billion. The largest mutual fund families are BlackRock, Vanguard, and State Street. About 20% of the funds included in the dataset are passive funds. Regarding investee firms, it is interesting to highlight their average institutional ownership of about 80%. Panel C describes the sample of proxy voting guidelines. It shows that the sample includes over 17,000 family-year-item policies. About

80% of the policies address corporate governance issues while the remaining 20% address environmental and social issues. Furthermore, the ten most common governance and E&S proposals represent 33% and 46% of the announced policies, respectively. One interesting pattern is that the number of items addressed in guidelines has significantly increased over time with more than 500 new policies.

Table 8.1: Summary statistics

The table presents summary statistics. Panel A presents summary statistics for funds that voted on ESG issues. Panel B presents summary statistics for firms which experienced votes on ESG issues. All continuous variables of Panels A and B are winsorized at the 1% and 99% levels. Family size, fund size, total asset, and market capitalization are expressed in million $US. Fund age is expressed in years. Panel C presents summary statistics proxy voting policies. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Variables are defined in the appendix, Table B.2.

Panel A: Funds

	Mean	Median	Sd.	Min.	Max.	N
Family size	555306.38	293489.81	534498.14	4080.60	2057296.38	9632
Fund size	2135.10	550.20	4618.84	0.00	31538.20	10168
Fund age	14.10	12.49	10.93	0.12	61.61	10168
Expense ratio	0.01	0.01	0.01	0.00	0.03	10168
Turnover rate	1.11	0.44	2.18	0.00	9.47	10168
Investment as % of fund TNA	1.53	0.86	1.97	0.01	11.39	7117
Investment as % of fund firm equity (in %)	0.16	0.02	0.37	0.00	2.42	7395
Passive fund	0.20	0.00	0.40	0.00	1.00	12418
Past fund alpha	-0.01	-0.00	0.06	-0.22	0.18	8369

Panel B: Firms

	Mean	Median	Sd.	Min.	Max.	N
Total Assets	28775.89	7456.20	54455.36	18.85	250518.74	4798
Market capitalization	17638.59	5532.95	26087.07	23.23	91730.60	4799
ROA	0.03	0.04	0.12	-0.73	0.27	4797
Leverage	0.26	0.24	0.19	0.00	0.90	4785
One year return	0.09	0.07	0.43	-0.79	2.10	4505
Institutional ownership	0.78	0.82	0.21	0.07	1.00	4799

Panel C: Guidelines

	All	CG	E&S	Top10 CG	Top10 E&S
Total nb. of policies	17269.00	14489.00	2780.00	4816.00	1280.00
Nb. of new policies	571.00	427.00	144.00	161.00	56.00
Nb. of policy changes	567.00	205.00	362.00	126.00	157.00
Announced preferences index (mean)	0.47	0.57	-0.05	0.57	0.17
Nb. of exceptions (mean)	0.47	0.46	0.52	0.72	0.62

Furthermore, voting policies are not static. Between 2006 and 2018, over 500 changes in voting policies took place. Such modifications reflect changes in mutual fund preferences. As an illustration, Fidelity, which had introduced its proxy access policy in 2015, changed from opposing proxy access to assessing it on a "case-by-case" basis in 2018. Such a gradual adoption of a policy is common. A fund could start with opposing a provision, move to a "case-by-case" assessment, before finally supporting the provision. However, more abrupt changes can also take place. For example, Dodge & Cox' guidelines changed from "*Dodge & Cox does not support requiring a majority of votes for the election of directors*" in 2008 to "*Dodge & Cox will typically support non-binding shareholder proposals to require a majority vote standard for the election of directors*" in 2009.

Panel C also provides the mean API. It first appears that mutual funds tend to express more support for corporate governance issues than for environmental and social issues. Moreover, funds tend to express more support for the ten most common E&S issues than for less common ones. Finally, Panel C provides the average number of exceptions to general policies. There is an average of 0.47 exception per policy.

8.3.1 Evolution of announced preferences

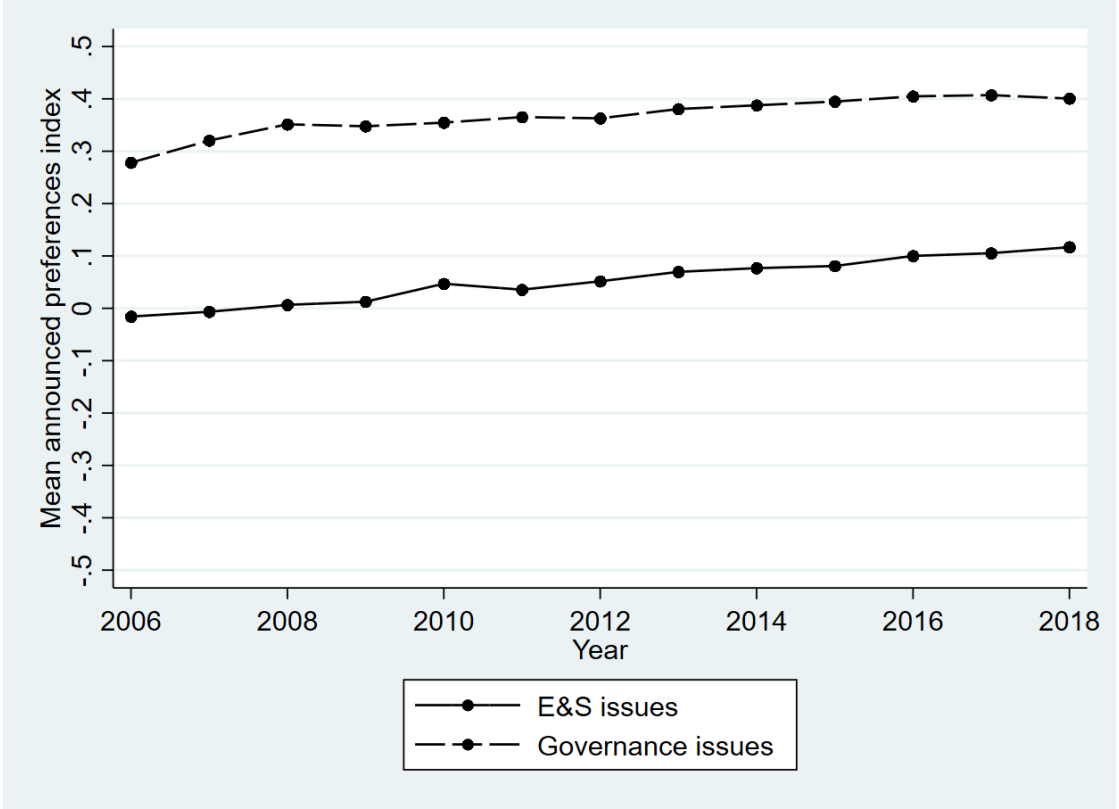
Figure 8.1 shows the evolution of the mean announced preferences index for the top 10 most common governance and E&S provisions. However, since the number of provisions addressed in guidelines may vary over time, I scale the mean announced preferences index with the ratio of the number of provisions addressed in a specific year to the total number of possible provisions. The solid line displays the evolution of the average index for the ten most common governance proposals. The dashed line presents the evolution of the index for the ten most common E&S proposals.

Figure 8.1 reveals that the average API for the top 10 most common governance proposals has slightly increased over time, hence reflecting more and more support for shareholder rights enhancement. Concerning E&S provisions, the average API increased substantially. In

other words, mutual fund families express more and more support for environmental and social issues. Another key message of Figure 8.1 is that, despite the tremendous increase of the announced preferences index for E&S issues, mutual funds keep expressing more support for governance matters.

Figure 8.1: Evolution of the announced preferences index (top 10 issues)

The figure presents the evolution of the mean announced preferences index for 29 of the largest mutual fund families for the 10 most common governance and the 10 most common E&S issues. The sample period is 2006-2018. The announced preferences index is computed by first: mapping "for", "case-by-case", and "against" policies to values 1, 0, and -1, respectively; then scaling by the number of policies included in a fund's guidelines over the total number of possible policies.



8.3.2 Cross-sectional analysis of announced preferences

Figure 8.2 presents the mean announced preferences index by mutual fund families as well as by proposal topics. The value of the index is provided for the beginning of the sample period,

the year 2006, as well as for the end of the sample period, the year 2018.

Figures 8.2a and 8.2b present the mean announced preferences index computed at the fund family level for governance and E&S issues, respectively. However, one should note that a fund family m may not have voting policies addressing all provisions $p \in P$. One could therefore confuse a mutual fund family whose guidelines cover a small set of provisions with a mutual fund family that opposes many provisions. To address the issue, I scale the mean announced preferences index with the ratio of the number of provisions the fund family guidelines address to the total number of possible provisions.

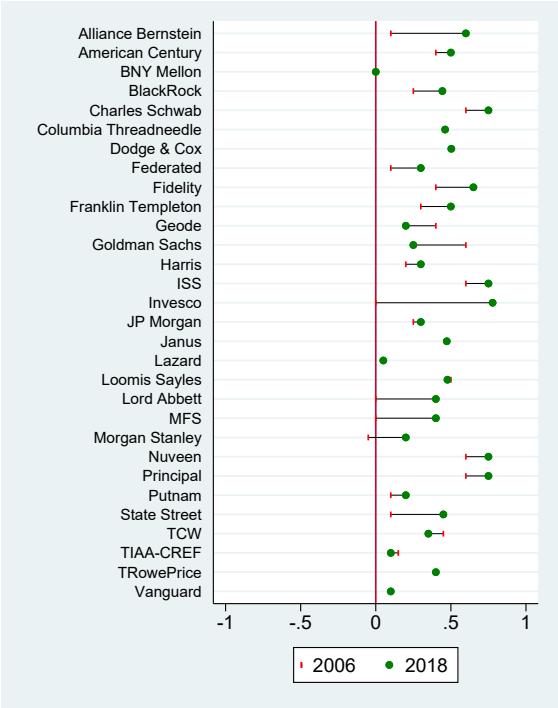
Figure 8.2a reveals that the fund level API for governance issues varies substantially from one family to another. It therefore provides evidence that mutual fund families have very different attitudes towards governance reforms. While most funds seem to favor governance proposals, the magnitude of the index varies widely. Such evidence reinforces the hypothesis that mutual funds diverge in terms of ideologies. It is also interesting to compare the level of the index in 2006 to the level in 2018. Consistent with previous evidence, the index increased for most fund families over the sample period, hence expressing more support for governance matters. However, the magnitude of the increase diverges largely from one fund family to another. Therefore, my announced preferences approach confirms the existence of different mutual fund ideologies towards governance (Matvos and Ostrovsky, 2010; Bubb and Catan, 2020; Bolton et al., 2020) and provides novel evidence that these ideologies change over time.

Figure 8.2b concentrates on environmental and social topics. Contrary to governance issues, many funds present an index at the same level, zero. This pattern is explained by the case-by-case approach that many mutual funds take on E&S matters. Nevertheless, some fund families started to be more supportive of environmental and social proposals. It is especially the case for Alliance Bernstein, Lazard, or TIAA-CREF. Some funds, such as Dodge & Cox, that were historically opposed to E&S proposals moved towards a more neutral position. The case of Dodge & Cox is particularly interesting as the fund family evolved on E&S issues while remaining stable on governance issues.

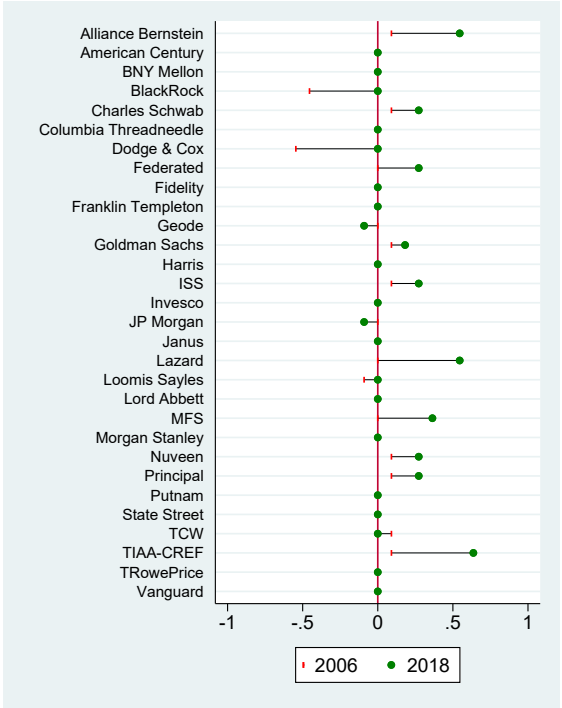
Figure 8.2: Announced preferences index

Figure a and b present the mean fund announced preferences index for 29 of the largest mutual fund families. The sample period is 2006-2018. The fund announced preferences index is computed by first mapping "for", "case-by-case", and "against" policies to values 1, 0, and -1, respectively; then scaling by the number of policies included in a fund's guidelines over the total number of possible policies. Figure a presents the announced preferences index for governance issues, computed at the fund family level. Figure b presents the announced preferences index for environmental and social issues, computed at the fund family level. Figure c presents the announced preferences index for the top10 governance issues, computed at the provision level. Figure d presents the announced preferences index for environmental and social issues, computed at the provision level.

(a) Governance issues (per fund family)



(b) E&S issues (per fund family)

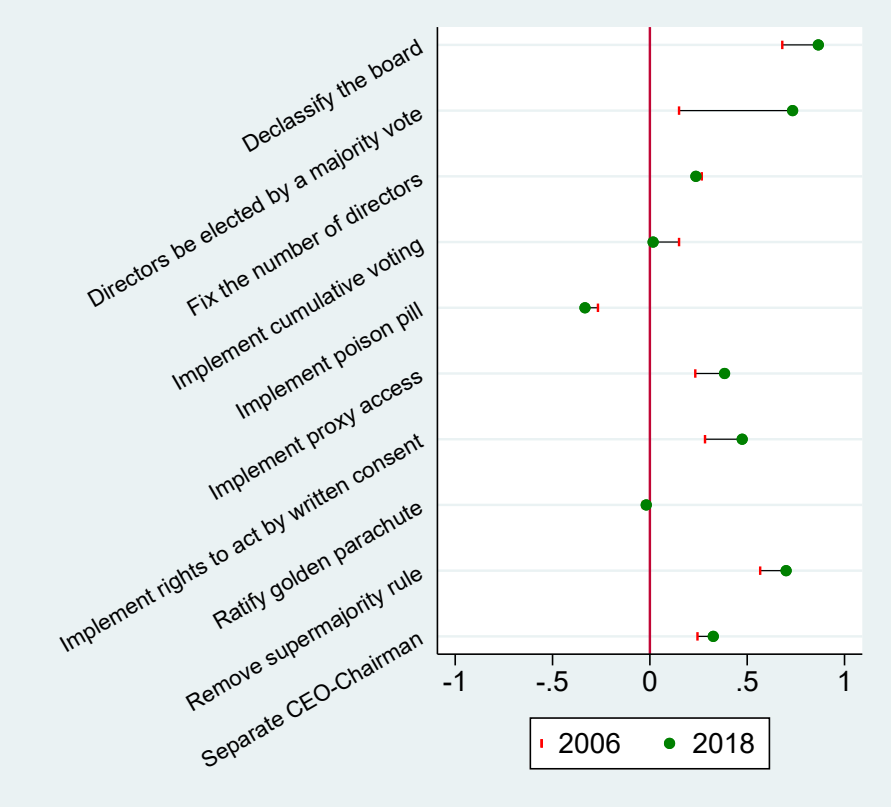


Figures 8.2c and 8.2d present the mean announced preferences index for the ten most common governance proposals and the ten most common E&S proposals, respectively. From these figures, it first appears that mutual funds have heterogeneous approaches to governance matters. While there seems to be a consensus on the importance of declassifying boards, there is much less support for the implementation of cumulative voting. Similarly, separating the roles of CEO and chairman is only moderately supported. It is also interesting to remark that some topics, such as requiring that directors be elected by a majority vote, became very popular over time while others, such as fixing the number of directors, remained rather stable.

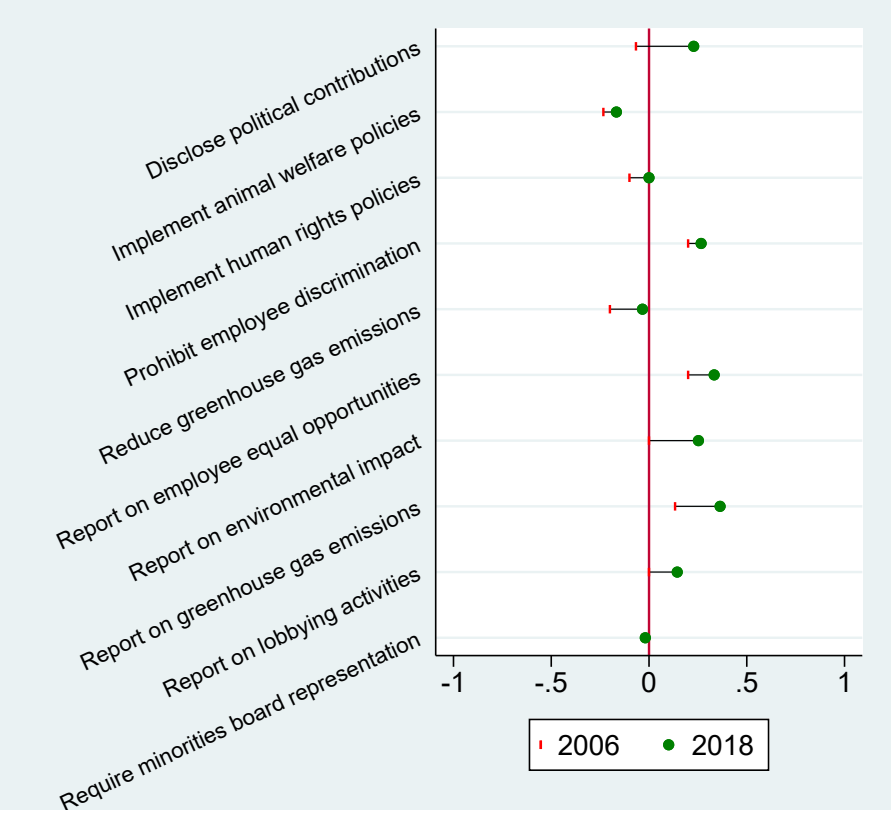
Similar patterns can be highlighted regarding environmental and social proposals. One could however note that items that require the implementation of some sort of reforms tend to be less supported than items that demand the publication of reports on some specific activities. Prohibiting employee discrimination is an exception and seems to receive much support from mutual funds. Finally, one can note the increasing support for the disclosure of political contributions.

Figure 8.2: Announced preferences index (continued)

(c) Governance issues (per proposal)



(d) E&S issues (per proposal)



9 Results

As a necessary condition for the subsequent analyses, I first assess whether mutual funds' voting policies are informative about mutual funds' preferences. I then assess whether portfolio firms adjust their ESG policies to match the preferences of their mutual fund shareholders and investigate through which channels these adjustments take place. Finally, I assess whether beneficial investors reward mutual funds for their stewardship activities.

9.1 Discrepancies between announced and revealed preferences

I test whether mutual fund families vote as they claim they vote by comparing votes to announced policies. Columns 1, 2, and 3 of Table 9.1 provide the percentages of compliance between votes and policies, ISS recommendations, and management recommendations, respectively.

Overall, mutual funds comply with their voting policies for 80% of their votes. In comparison, the levels of compliance with ISS recommendations and with management recommendations are 68% and 76%, respectively. From these results, it appears that voting guidelines are a major predictor of votes, ahead of ISS and management. With a level of compliance of about 81%, mutual funds seem to rely slightly more on their guidelines for standard proposals, i.e. proposals that belong to the top 10 of the most common governance/E&S ballot items.

Table 9.1: Percentage of compliance

Columns 1, 2, and 3 present the percentage compliance of funds with their own voting policies, with ISS recommendations, and with management recommendations, respectively. Column 4 presents the percentage of compliance of ISS recommendations with ISS voting policies. The statistics are provided for three categories of issues. "All", "Governance", and "E&S" are the subsamples of votes on all issues, governance issues, and environmental & social issues, respectively. The "Top10" subsample included the top10 most frequent proposals. The "Policy=For" subsample includes ballot items for which the funds' voting policy stated "for". The "Policy=Against" subsample includes ballot items for which the funds' voting policy stated "against". The sample includes all votes on which a fund has a "for" or an "against" voting policy. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Variables are defined in the appendix, Table B.2.

	Funds' compliance with			ISS' compliance with
	their own guidelines	ISS recs.	management recs.	their own guidelines
	(1)	(2)	(3)	(4)
All:				
All	79.72	67.63	76.35	76.56
Top10	80.79	67.71	75.03	76.01
Policy=For	72.36	77.58	66.61	90.93
Policy=Against	92.76	50.00	93.33	45.00
Governance:				
All	76.15	73.06	70.27	84.22
Top10	79.48	75.13	70.40	84.03
Policy=For	74.90	78.42	67.72	92.22
Policy=Against	84.28	38.09	86.64	37.62
E&S:				
All	87.08	56.43	88.69	51.87
Top10	83.87	50.26	85.72	45.54
Policy=For	45.41	68.72	54.98	67.46
Policy=Against	95.56	53.93	95.53	49.11

Table 9.1 also provides statistics for the subsamples of governance and E&S issues. The level of compliance with voting policies for governance issues, 76%, is lower than for E&S issues, 87%. One might therefore conclude that institutional investors' clients and policymakers should be relieved; mutual funds vote as they claim they vote on environmental and social issues. However, if we compare policies supporting E&S issues to policies opposing them, the conclusion is very different. In fact, when a voting policy supports an E&S proposal, the level of compliance is 45%. This level is much lower than of level of compliance for voting policies that oppose E&S issues, 96%. In other words, for environmental and social issues, mutual funds vote as they claim they vote mostly when their policies oppose the issue. When policies

support E&S proposals, they tend to deviate from their voting policies and oppose proposals. These results hence provide evidence that the concerns of institutional investors' clients are well-founded as they support the existence of greenwashing. While such a pattern is present for governance proposals, its magnitude is much smaller.

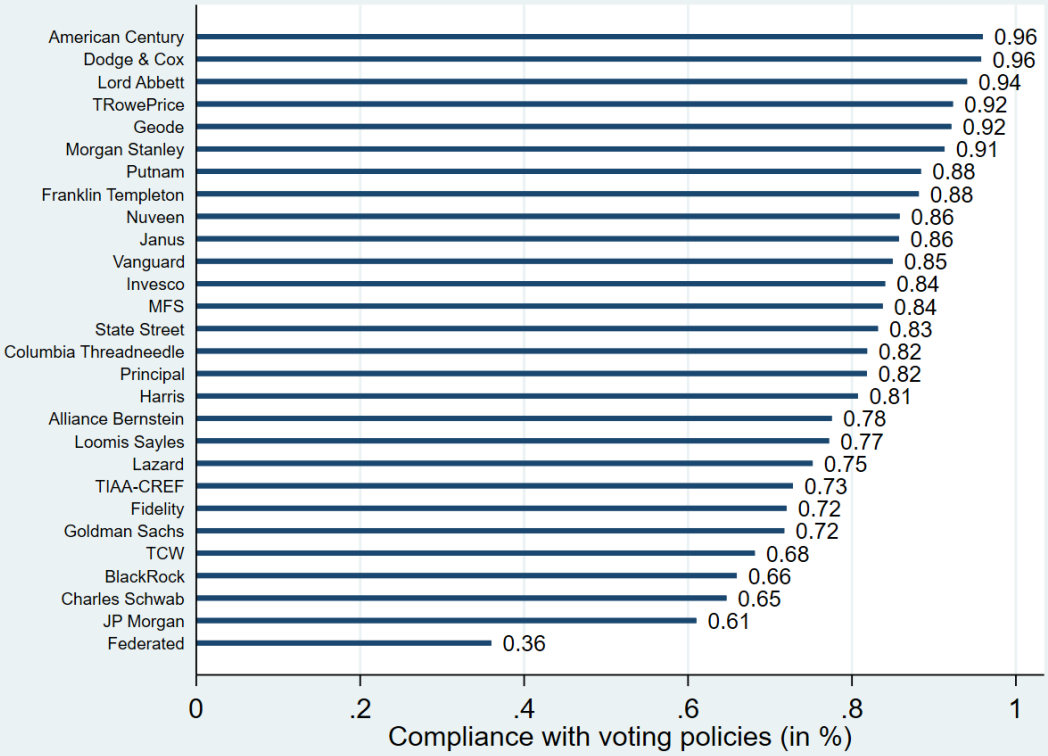
It is, however, difficult to assess what should be the optimal compliance level. As the business model of proxy advisory firms is to analyze ballot items and to provide voting recommendations to institutional investors, they can provide an interesting benchmark. Column 4 reports the percentage of compliance of ISS recommendations with ISS voting guidelines. I find that ISS complies with its own voting policies in about 76% of the cases, just below the average compliance level of mutual funds. If one considers that ISS has adopted an optimal level of compliance, my evidence would indicate that mutual funds rely a little too much on their one-size-fits-all voting policies. However, the difference is rather small.

9.1.1 Compliance per fund family

Figure 9.1 shows the average compliance per fund family. From the figure, it is clear that mutual fund families have different approaches to voting. While some fund families rely on their voting guidelines in more than 95% of the cases, others comply with their announced policies in less than 50% of the cases. Studying the determinants of diverging from voting policies will help to understand why would a mutual fund deviate from its announced preferences. I do so in Section 9.1.3.

Figure 9.1: Compliance with proxy voting policies (per fund family)

The figure presents the average compliance guidelines per fund family. Compliance with guidelines is an indicator variable taking the value one if a vote complies with voting policies as described in fund families' voting guidelines. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period.



9.1.2 Panel analysis of compliance with proxy voting policies

Table 9.2 presents panel regressions to help understand to which extent funds rely on their guidelines. The dependent variable, $Fund\ Voting\ Index$, is a binary index equal to -1 when a fund votes against a proposal and equal to 1 when a fund votes in favor of a proposal. The independent variable of interest is the announced preferences index. Columns 1 and 2 include all proposals. Columns 3 and 4 include governance proposals. Columns 5 and 6 include environmental and social proposals. Analyses include a range of fund and firm control variables. Moreover, even columns include industry and year fixed effects.

Table 9.2 reveals that the announced preferences index is positively associated with the voting outcome. In other words, when funds announce that they support (oppose) a reform, they tend to vote in favor (against) that reform. When comparing governance to environmental and social issues, it appears that the API is significant and positive for both subsamples.

The analyses also include binary variables for management as well as for ISS recommendations. The ISS/management recommendation variables take the value -1 when ISS/management recommends voting against a ballot item and 1 when recommending voting for that item. Consistent with the existing literature (Larcker et al., 2015; Malenko and Shen, 2016; Ferri and Oesch, 2016; Ertimur et al., 2017), both seem to play an important role in funds' voting decision.

Shareholder proposal is an indicator variable taking the value 1 when a ballot item is a shareholder-initiated proposal and zero when it is a management-initiated proposal. Table 9.2 reveals that shareholder proposals are less likely to receive mutual funds' support than management proposals.

Table 9.2: Announced preferences and votes

The table presents the OLS regressions of determinants of mutual fund votes. The main variable of interest is the announced preferences index, "AP index". The dependent variable is the "Fund Voting Index" obtained by mapping "for" and "against" votes to values 1 and -1, respectively. Columns 1 and 2 include all proposal topics. Columns 3 and 4 include proposals addressing governance issues. Columns 5 and 6 include proposals addressing environmental or social issues. Even columns include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the fund level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	All		Governance		E&S	
	(1)	(2)	(3)	(4)	(5)	(6)
Proposal:						
AP index	0.36***	0.36***	0.30***	0.29***	0.29***	0.29***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ISS recommendation	0.25***	0.24***	0.30***	0.28***	0.16***	0.15***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Mgmt. recommendation	0.37***	0.37***	0.34***	0.34***	0.34***	0.36***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Shareholder proposal	-0.21***	-0.21***	-0.20***	-0.19***		
	(0.00)	(0.00)	(0.00)	(0.00)		
Firm:						
Log(firm size)	-0.07***	-0.07***	-0.08***	-0.07***	-0.03***	-0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Firm ROA	-0.21***	-0.14***	-0.25***	-0.12***	-0.23***	-0.12***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Firm book leverage	-0.04***	-0.05***	-0.07***	-0.09***	-0.02***	-0.03***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Firm return	-0.01*	0.01**	-0.02***	0.00	0.02*	0.02**
	(0.09)	(0.02)	(0.00)	(0.55)	(0.07)	(0.03)
Institutional ownership	-0.13***	-0.12***	-0.13***	-0.11***	-0.07**	-0.10***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)	(0.00)
Fund:						
Log(fund size)	-0.00	-0.00	-0.00	-0.00	-0.01**	-0.01**
	(0.34)	(0.33)	(0.98)	(0.89)	(0.04)	(0.05)
Log(fund age)	0.04**	0.05***	0.02	0.04**	0.07**	0.06**
	(0.04)	(0.01)	(0.28)	(0.04)	(0.02)	(0.02)
Fund expense rate	5.81**	4.28*	8.95***	7.48***	3.09	3.85
	(0.01)	(0.07)	(0.00)	(0.00)	(0.37)	(0.28)
Fund turnover rate	-0.02*	-0.01	-0.02***	-0.02**	-0.01	-0.01
	(0.05)	(0.25)	(0.00)	(0.03)	(0.55)	(0.42)
Log(family size)	-0.13***	-0.12***	-0.14***	-0.13***	-0.17***	-0.17***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Past fund alpha	-0.08	-0.08	-0.16**	-0.16**	0.01	0.11
	(0.24)	(0.23)	(0.05)	(0.04)	(0.94)	(0.42)
Investment as % of fund TNA	-0.01***	-0.01***	-0.03***	-0.02***	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.57)	(0.30)
Investment as % of firm equity (in %)	0.01	0.00	-0.01	-0.01	0.00	-0.01
	(0.56)	(0.97)	(0.65)	(0.30)	(0.87)	(0.82)
Passive fund	-0.07***	-0.07***	-0.05**	-0.05**	-0.06**	-0.07**
	(0.00)	(0.00)	(0.02)	(0.02)	(0.04)	(0.03)
Constant	2.29***	2.21***	2.63***	2.69***	1.62***	1.89***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	251732	251732	158986	158986	87167	87167
R^2	0.511	0.524	0.443	0.461	0.241	0.254
Year, and industry F.E.	No	Yes	No	Yes	No	Yes

All in all, it seems that announced voting policies play an important role in voting decisions and, hence, that they are more than a mere fulfillment of regulatory requirements. To further measure the impact of announced preferences on voting outcomes, I use changes in voting policies. As previously shown, mutual fund families may change their position towards a certain matter over time. They may for instance change their position regarding the importance of splitting the roles of CEO and chairman. I can therefore analyze whether changes in announced preferences are associated with changes in revealed preferences.

Table 9.3 presents the analysis. The dependent variable is the $Fund\ Voting\ Index$. *Initial AP index* is the AP index at the beginning of the sample period. $Positive$ ($Negative$) $change$ is an indicator variable taking the value 1 if the AP index is larger (smaller) than the Initial AP index and zero otherwise. For example, if in 2010 a mutual fund family changes its policy from opposing a certain item to supporting it, the $Positive\ change$ variable would be equal to zero before 2010 and to 1 as from 2010.

It appears that positive changes in the announced preferences are associated with positive changes in the voting outcome. Such evidence implies that mutual funds do change their voting behavior along with their announced voting policies. Concerning negative changes, the impact is less clear except for E&S issues. For these E&S proposals, a negative change in the announced preferences is associated with negative votes. Furthermore, in unreported regressions, I find that $Negative\ change$ is significant and negative for the top 10 most comment proposals, whether governance or E&S.

All in all, my results indicate that, although proxy voting guidelines are non-binding, proxy voting policies are a major predictor of the voting decision. However, the magnitude of reliance on voting policies is much lower for policies that support environmental and social issues.

Table 9.3: Impact of changes in announced preferences on votes

The table studies the impact of changes in announced preferences on votes through OLS regressions. The dependent variable is the "Fund Voting Index" obtained by mapping "for" and "against" votes to values 1 and -1, respectively. The main variables of interest are "Positive change" and "Negative change". Columns 1 and 2 include all proposal topics. Columns 3 and 4 include proposals addressing governance issues. Columns 5 and 6 include proposals addressing environmental or social issues. Even columns include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the fund level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	All		Governance		E&S	
	(1)	(2)	(3)	(4)	(5)	(6)
Proposal:						
Initial Voting Index	0.36***	0.36***	0.34***	0.34***	0.14***	0.12***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ISS recommendation	0.27***	0.26***	0.28***	0.27***	0.20***	0.18***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Mgmt. recommendation	0.34***	0.35***	0.32***	0.33***	0.37***	0.40***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Positive change	0.32***	0.32***	0.23***	0.23***	0.42***	0.38***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Negative change	-0.07	-0.05	-0.06	-0.04	-0.50***	-0.52***
	(0.11)	(0.22)	(0.13)	(0.35)	(0.00)	(0.00)
Shareholder proposal	-0.20***	-0.20***	-0.20***	-0.19***		
	(0.00)	(0.00)	(0.00)	(0.00)		
Firm:						
Log(firm size)	-0.07***	-0.07***	-0.08***	-0.08***	-0.03***	-0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Firm ROA	-0.27***	-0.16***	-0.28***	-0.12***	-0.39***	-0.13**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)
Firm book leverage	-0.05***	-0.06***	-0.08***	-0.10***	-0.03***	-0.02**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)
Firm return	-0.01	0.03***	-0.02***	0.01*	0.01	0.04***
	(0.17)	(0.00)	(0.00)	(0.07)	(0.28)	(0.00)
Institutional ownership	-0.13***	-0.12***	-0.14***	-0.12***	-0.08**	-0.14***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)
Fund:						
Log(fund size)	-0.01	-0.01	-0.00	-0.00	-0.01	-0.01
	(0.17)	(0.19)	(0.85)	(0.80)	(0.27)	(0.19)
Log(fund age)	0.03*	0.04**	0.02	0.04**	0.05*	0.04
	(0.07)	(0.01)	(0.34)	(0.05)	(0.06)	(0.13)
Fund expense rate	8.36***	7.17***	8.60***	6.90***	6.87*	8.87**
	(0.00)	(0.00)	(0.00)	(0.01)	(0.07)	(0.02)
Fund turnover rate	-0.02*	-0.01	-0.02***	-0.02**	0.00	-0.01
	(0.06)	(0.25)	(0.00)	(0.04)	(0.95)	(0.47)
Log(family size)	-0.12***	-0.11***	-0.14***	-0.13***	-0.20***	-0.22***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Past fund alpha	-0.07	-0.07	-0.17**	-0.18**	0.15	0.32*
	(0.32)	(0.31)	(0.04)	(0.02)	(0.24)	(0.06)
Investment as % of fund TNA	-0.01***	-0.01***	-0.03***	-0.02***	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.93)	(0.36)
Investment as % of firm equity (in %)	-0.00	-0.01	-0.01	-0.01	-0.05*	-0.05**
	(1.00)	(0.54)	(0.64)	(0.23)	(0.07)	(0.05)
Passive fund	-0.03	-0.03	-0.05**	-0.05**	0.02	0.02
	(0.15)	(0.15)	(0.02)	(0.02)	(0.58)	(0.59)
Constant	2.20***	2.32***	2.69***	2.84***	2.07***	2.61***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	222358	222358	155839	155839	60000	60000
R^2	0.504	0.518	0.443	0.464	0.298	0.315
Year, and industry F.E.	No	Yes	No	Yes	No	Yes

9.1.3 Determinants of discrepancies between announced and revealed preferences

From the previous analyses, it appeared that mutual fund families diverge widely in their level of compliance with their announced policies. It is therefore important to examine the determinants of complying with announced preferences.

Table 9.4 presents linear probability models of the determinants of relying on announced preferences. The dependent variable, $Complies\ with\ policy$, is an indicator variable taking the value one if a fund's vote complies with its announced voting policy and zero otherwise. The first two columns present all proposals. Columns 3 and 4 focus on governance issues. Columns 5 and 6 present estimates for E&S proposals. Even columns include year and industry fixed effects. Standard errors are clustered at the fund level.

I exploit the number of exceptions to general policies to assess whether deviations are the result of a detailed analysis conflicting with one-size-fits-all voting policies. Table 9.4 reveals that the higher the number of exceptions to a general proxy voting policy, the less a fund respects its general policy. This result has several implications. First, it confirms the importance of guideline documents as determinants of mutual funds' voting behavior. Second, it also implies that some funds conduct detailed analysis at the item-firm level. Such evidence conflicts with the often-voiced concern that mutual funds, especially passive funds, do not take their voting role seriously.

However, I do not find that the number of exceptions plays a significant role when the vote concerns an environmental or social issue. Such a pattern may signify that funds perform a more detailed analysis for governance issues than for environmental and social issues. Furthermore, it is interesting to note that funds tend to respect their voting policies more for shareholder proposals than for management proposals.

Table 9.4: Determinants of complying with voting policies

The table presents the linear probability models for determinants of complying with voting policies. The dependent variable, *Complies with policy*, is an indicator variable taking the value one if a fund voted in compliance with its announced preference and zero otherwise. Columns 1 and 2 include all proposal topics. Columns 3 and 4 include proposals addressing governance issues. Columns 5 and 6 include proposals addressing environmental or social issues. Even columns include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the fund level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	All		Governance		E&S	
	(1)	(2)	(3)	(4)	(5)	(6)
Proposal:						
Against ISS	-0.16***	-0.16***	-0.20***	-0.19***	-0.10***	-0.12***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Against mgmt.	-0.55***	-0.56***	-0.54***	-0.55***	-0.53***	-0.55***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Nb. exceptions	-0.03***	-0.02***	-0.03***	-0.02***	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.83)	(0.90)
Shareholder proposal	0.13***	0.13***	0.12***	0.12***		
	(0.00)	(0.00)	(0.00)	(0.00)		
Firm:						
Log(firm size)	-0.03***	-0.03***	-0.05***	-0.04***	-0.01**	-0.01**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.03)	(0.05)
Firm ROA	-0.17***	-0.10***	-0.13***	-0.07***	-0.16***	-0.07***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Firm book leverage	-0.03***	-0.03***	-0.02***	-0.03***	-0.02***	-0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Firm return	-0.00*	0.01***	-0.01***	0.00	-0.01***	-0.00
	(0.08)	(0.00)	(0.00)	(0.11)	(0.01)	(0.47)
Institutional ownership	-0.04***	-0.03***	-0.09***	-0.07***	0.05***	0.06***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Fund:						
Log(fund size)	-0.00	-0.00	-0.00	-0.00	-0.01**	-0.01**
	(0.40)	(0.52)	(0.55)	(0.71)	(0.02)	(0.01)
Log(fund age)	0.01	0.01	0.00	0.01	0.02*	0.02
	(0.41)	(0.25)	(0.90)	(0.20)	(0.07)	(0.10)
Fund expense rate	2.54**	2.10*	3.78***	2.56*	1.65	1.51
	(0.02)	(0.05)	(0.01)	(0.07)	(0.23)	(0.25)
Fund turnover rate	-0.01	-0.00	-0.01***	-0.01	0.00	0.00
	(0.14)	(0.40)	(0.00)	(0.11)	(0.39)	(0.46)
Log(family size)	-0.03***	-0.03***	-0.07***	-0.06***	0.03***	0.03***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Past fund alpha	-0.08***	-0.05*	-0.11***	-0.08**	0.04	0.09***
	(0.00)	(0.08)	(0.00)	(0.02)	(0.28)	(0.01)
Investment as % of fund TNA	-0.01***	-0.01***	-0.01***	-0.01***	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.53)	(0.58)
Investment as % of firm equity (in %)	0.00	0.00	0.00	-0.00	-0.00	0.00
	(0.34)	(0.82)	(0.76)	(0.52)	(0.98)	(0.91)
Passive fund	-0.02***	-0.03***	-0.05***	-0.05***	-0.01	-0.01
	(0.01)	(0.00)	(0.00)	(0.00)	(0.64)	(0.67)
Constant	1.79***	1.68***	2.43***	2.38***	0.51***	0.49***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	209494	209494	135897	135897	69122	69122
R^2	0.391	0.405	0.404	0.428	0.427	0.439
Year, and industry F.E.	No	Yes	No	Yes	No	Yes

Against ISS is an indicator variable taking the value one when the recommendation of ISS differs from the voting strategy announced in a fund's voting guidelines. Similarly, "Against mgmt." is an indicator variable taking the value one when the recommendation of management conflicts with a fund's guidelines. One can observe that both variables are significant and negative. These results indicate that when ISS or management provides recommendations that are not in line with fund voting policies, funds are more likely to deviate from their guidelines. These results are consistent with the existing literature that shows that proxy advisors as well as management play an important role in institutional investors' voting behavior (Larcker et al., 2015; Malenko and Shen, 2016; Ferri and Oesch, 2016; Ertimur et al., 2017).

I also analyze which firm and fund characteristics explain guidelines compliance. I find that funds deviate more from their voting policies for larger firms, for firms with better accounting and financial performances, and for firms with higher institutional ownership. These results provide grounds to the hypothesis that funds may be less strict and accept to bend their principles with better performing firms or with firms that receive more institutional monitoring.

When it comes to funds' characteristics, it appears that the larger the fund family, the less likely it will vote according to its general voting guidelines. Such evidence may express the fact that large fund families take their stewardship role more seriously and therefore perform more detailed analyses. Furthermore, it appears that the larger the investment, expressed in percentage of the fund's total net assets, the more likely the fund will deviate from its announced preferences. In other words, when stakes are higher, funds are less likely to apply a one-size-fits-all approach. This evidence is consistent with Fich et al. (2015), Kempf et al. (2017), and Liu et al. (2020) as it adds more support to the hypothesis that funds deviate from their voting policies to maximize shareholder value. It is however worth noting that it is not the case for E&S proposals. It may indicate that funds do not value E&S reforms as much as governance ones.

Finally, *Passive fund* is an indicator variable taking the value one if a fund follows a passive investment strategy, such as index trackers, and zero otherwise. I find that passive funds are

less likely to deviate from their announced policies than active mutual funds. Such evidence is consistent with Heath et al. (2021) who argue that passive funds are passive monitors. It also provides additional evidence that deviations from proxy voting guidelines are the result of an active monitoring strategy. However, for environmental and social issues this pattern is absent. One might interpret this absence as evidence that neither active mutual funds nor passive ones devote many resources to their votes on E&S matters.

All in all, my results are consistent with the hypothesis that mutual funds deviate from their announced voting guidelines on governance issues because they conduct detailed analyses of the value of proposals at the firm-item level. For environmental and social issues, my results support the existence of greenwashing.

9.2 Impact of mutual funds' preferences on portfolio firms: OLS approach

I have shown that voting policies largely reflect the preferences of mutual funds when it comes to voting. However, voting is a rather low-cost activism mechanism that funds must perform as part of their fiduciary duty. One could argue that mutual funds do not pay detailed attention to the ESG structure of firms beyond ballots. To assess the extent to which mutual funds influence the ESG policies of their investee companies, I investigate whether the firms in which they invest exhibit the provisions that their mutual fund shareholders' support.

I first focus on governance issues. I obtain data on the presence of 7 important and observable governance provisions from the ISS Governance database. These 7 provisions include staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. The importance of these issues has been pointed out by Gompers et al. (2003) and Bebchuk et al. (2009). I estimate the following linear probability model to assess whether portfolio firms exhibit the preferred structure of their

institutional shareholder base:

$$Provision_{f,p,y} = \beta_0 + \beta_1 VWAPI_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + u_{f,p,y} \tag{9.1}$$

where $Provision_{f,p,y}$ is an indicator variable taking the value 1 if firm f exhibits provision p in year y and zero otherwise. $p \in [1,7]$ and are the 7 aforementioned governance provisions. $VWAPI_{f,p,y}$ is the main variable of interest and is the weighted announced preferences index of the mutual fund shareholder base for provision p in year y. I include firm characteristics as controls as well as year, θ_y, and industry, δ_i, fixed effects. I cluster the standard errors at the firm-provision level. Results are presented in Columns 1 and 2 of Table 9.5.

The analysis reveals that the value-weighted announced preferences index, $VWAPI$, is significant at the 1% level and positively associated with the presence of a provision. In other words, when a firm's mutual fund shareholder base supports a certain governance provision, the firm is more likely to exhibit the supported provision. It is consistent with the hypothesis that the governance preferences expressed in voting policies reflect mutual funds' preferences beyond votes. In terms of economic magnitude, the coefficient of 0.25 implies that a firm, whose 5% blockholder changes its policy from opposing a provision to supporting it, would have a 2.5% higher probability of having the newly-supported provision.

Next, I turn to environmental and social issues. Unlike governance issues, I do not exactly observe whether a firm exhibits a specific provision. Consequently, I analyze the impact of environmental and social preferences on firms' E&S performance. I construct $E\&S\ index_{f,p,y}$, a measure of firm f performance regarding provision p in year y. I obtain data from MSCI ESG Stats on the strengths and concerns of firms regarding nine categories of provisions; alcohol, community, diversity, employee relations, environment, human rights, military, and tobacco. For each category, I subtract the number of concerns from the number of strengths and obtain a net measure of firms' performance. However, as the maximum number of strengths and concerns for a given category may vary over time, I scale the net measures by dividing every number of strengths/concerns by the maximum number of strengths/concerns for a

given category in a given year. I then construct the value-weighted $API_{f,p,y}$ of mutual funds shareholders at firm f in year y regarding provision p. For provisions that the MSCI ESG Stats dataset does not cover, I assign a general KLD score that I construct by following the methodology of Servaes and Tamayo (2013) and Lins et al. (2017). Table 9.5, Columns 3 and 4 provide the OLS estimates of the following model:

$$E\&S\ \ index_{f,p,y} = \beta_0 + \beta_1 VWAPI_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + u_{f,p,y} \tag{9.2}$$

From Table 9.5, it appears that the $VWAPI$ for E&S issues is not statistically significant when accounting for industry and year fixed effects. In other words, the OLS approach does not support the hypothesis that portfolio firms adopt the environmental and social preferences of their mutual fund shareholders. Such evidence is consistent with the low level of compliance that I observe for votes on E&S-supportive proposals.

Table 9.5: Mutual funds' announced preferences and firms' ESG structure

This table reports analyses of whether portfolio firms exhibit the preferred ESG structure of their mutual fund shareholders. Columns 1 and 2 present linear probability models where the dependent variable $Governance\ Provisions_{f,p,y}$ is an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 3 and 4 present ordinary least square regressions where the dependent variable is $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,p,y}$, the main variable of interest, is the value-weighted announced preferences index for firm f regarding provision p in year y. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. Odd columns include year and industry fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	Governance Provisions		E&S index (KLD)	
	LPM	LPM	OLS	OLS
	(1)	(2)	(3)	(4)
VWAPI	0.24***	0.25***	-0.67***	0.06
	(0.00)	(0.00)	(0.00)	(0.70)
Log(firm size)	0.01***	0.01***	0.10***	0.12***
	(0.00)	(0.00)	(0.00)	(0.00)
ROA	0.01	0.00	0.22***	0.05
	(0.75)	(0.93)	(0.00)	(0.43)
Firm book leverage	-0.02	-0.02	-0.02	-0.00
	(0.13)	(0.23)	(0.54)	(0.95)
Firm return	0.01***	0.00	0.02**	-0.01
	(0.00)	(0.44)	(0.03)	(0.23)
Institutional ownership	0.00*	0.00**	-0.00***	-0.00***
	(0.08)	(0.05)	(0.00)	(0.00)
Constant	0.21***	0.23*	-0.83***	-1.31***
	(0.00)	(0.07)	(0.00)	(0.00)
Observations	97644	97644	206513	206513
Adjusted R^2	0.003	0.009	0.100	0.174
Fixed effects	No	Industry and year	No	Industry and year

9.3 Impact of mutual funds' preferences on portfolio firms: IV approach

Two reasons may explain the presence of funds' favored policies among their portfolio companies. First, funds may select firms that have adopted the ESG structure they favor. Second, it is also possible that firms adopt the favored ESG structure of their institutional shareholders.

In this section, I exploit the staggered changes in proxy voting policies of mutual fund families to analyze whether portfolio companies adopt the preferences of their mutual fund shareholder base. In fact, mutual fund families may change their position on specific items over time. Since proxy voting guidelines are designed at the fund family level, they are plausibly exogenous to individual portfolio firm characteristics. Therefore, I instrument the mutual funds' announced preferences index with changes in voting policies. I estimate the following two-stage-least-square (2SLS) regression:

$$VWAPI_{f,p,y} = \alpha_0 + \alpha_1 VW\Delta API_{f,p,y} + \epsilon_{f,p,y} \tag{9.3}$$

$$Provision_{f,p,y} = \beta_0 + \beta_1 \widehat{VWAPI}_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + \upsilon_{f,p,y} \tag{9.4}$$

Columns 1 through 3 of Table 9.6 present results for governance issues. Columns 4 through 6 of Table 9.6 present results for environmental and social issues. First-stage results are provided in Columns 1 and 3. From these columns, it appears that the instrument fulfills the relevance condition for both subsets of issues. The partial R^2 of 4% and 2% emphasize the ability of the instrument to explain the variation in aggregate mutual funds' preferences, $VWAPI$. Furthermore, the first-stage Kleibergen-Paap F statistics of 185 and 156 provide additional support against weak instrument concerns (Stock and Yogo, 2005).

Columns 2 and 3 reveal that $VWAPI_{f,p,y}$ is positive and statistically significant for governance matters. It hence appears that changes in the preferences of mutual funds induce analogous governance changes in their portfolio firms. Such evidence demonstrates that portfolio

companies adopt the preferred policies of their mutual fund shareholders. Furthermore, in analyses reported in Table B.3, I show that this result is robust, at the 10% significance level, to including provision as well as provision*year fixed effects.

It also appears that the size of instrumental variable local average treatment effects is much larger than with the linear model presented in Table 9.5. Jiang (2017) shows that such inflated coefficients are common for instrumental variable analyses in finance. In the present case, one possible explanation is that the estimates obtained with the instrumental variable approach capture the treatment effects for the subset of voting policies that changed. The fact that a mutual fund family decides to change its voting policy on a specific provision may indicate that the mutual fund family values this provision more than other provisions or more than what other fund families do. If the mutual fund family attaches more value to a specific provision, it may exert more effort to obtain the implementation of the provision.

I then turn to environmental and social issues. I use the same instrumental variable approach where the instrument is $VW\Delta API_{f,p,y}$. The dependent variable is $E\&S\ index_{f,p,y}$. Columns 5 and 6 of Table 9.6 reveal that there is no significant relation between variations in mutual funds' E&S preferences and variations in firms' E&S performance. My results are consistent with Dyck et al. (2019) who find no evidence of U.S. institutional investors significantly affecting the E&S performance of U.S. firms. The low level of compliance that I find for E&S-supportive voting policies may explain this absence of impact. Mutual funds would therefore have no influence on firms' E&S performance as they do not play the active role they claim they do.

Table 9.6: Adoption of mutual funds' preferences by portfolio companies

This table reports instrumental variable analyses of whether portfolio firms adopt the preferred ESG structure of their mutual fund shareholders. Columns 1 through 3 focus on governance issues. The dependent variable for governance issues is $Governance\ Provisions_{f,p,y}$, an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. $VWAPI_{f,p,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f regarding governance provision p in year y. The instrument is $VW\Delta API_{f,y}$ is the change in the value-weighted announced preferences index that is induced by changes in voting policies. Column 1 presents the first stage. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 4 through 6 focus on environmental and social issues. Column 4 present the first-stage regressions. The dependent variable is the $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f in year y regarding environmental and social issues. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. Columns 3 and 6 include year and industry fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	Governance Provisions			E&S index (KLD)		
	first stage	2SLS	2SLS	first stage	2SLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWΔAPI	1.47***			0.44***		
	(0.00)			(0.00)		
VWAPI		1.75***	2.48***		79.65	1.34
		(0.00)	(0.00)		(0.52)	(0.13)
Log(firm size)	0.00	0.01***	0.01***	0.00***	0.05	0.13***
	(0.50)	(0.00)	(0.00)	(0.00)	(0.59)	(0.00)
ROA	0.00	0.04	0.00	0.00	0.70	0.06
	(0.55)	(0.22)	(0.90)	(0.46)	(0.33)	(0.32)
Firm book leverage	-0.00	0.00	-0.01	-0.00	0.59	-0.01
	(0.69)	(1.00)	(0.58)	(0.92)	(0.54)	(0.76)
Firm return	0.00	-0.01	0.00	-0.00	0.06	-0.01
	(0.85)	(0.19)	(0.97)	(0.15)	(0.57)	(0.36)
Institutional ownership	-0.01**	0.05**	0.12***	-0.03***	3.43	0.01
	(0.03)	(0.03)	(0.00)	(0.00)	(0.51)	(0.87)
Constant	-0.03	0.20***	0.38**	-0.04***	-0.45	-1.19***
	(0.13)	(0.00)	(0.03)	(0.00)	(0.60)	(0.00)
Observations	65978	65978	65978	142990	142990	142990
Fixed effects		No	Industry and year		No	Industry and year
Partial R^2	0.04			0.017		
Kleibergen-Paap F statistic	185.46			155.632		

9.4 Channels of adoption of ESG preferences

In the subsequent sections, I analyze the channels through which mutual funds may obtain the implementation of their preferred policies.

9.4.1 Voting channel

The first channel through which mutual funds may encourage firms to adopt their preferences is the voting channel. Simply supporting proposals on ballots will increase the probability that these proposals reach the passing threshold. It will hence increase their implementation probability (Bach and Metzger, 2017). As I have shown that proxy voting guidelines represent a major predictor of mutual funds' votes, guidelines may mechanically increase (decrease) the probability that a proposal obtains shareholder support. Columns 1 and 2 of Table 9.7 present analyses of the impact of voting policies on the probability of reaching the passing threshold.

$Passing_{f,p,y}$, the dependent variable, is an indicator variable taking the value one if a proposal addressing a provision p, submitted at firm f in year y, reached the passing threshold as defined in the company's bylaws and zero otherwise. Column 1 reports the estimates of a linear probability model where I regress $Passing_{f,p,y}$ on the value-weighted announced preferences index, $VWAPI_{f,p,y}$. The results presented in the table reveal that the higher the index, the more likely a proposal is to reach the passing threshold. In other words, the more favorable the mutual fund shareholder base is towards a provision, the more likely a vote on this provision is to win a majority.[30]

I exploit mutual funds' staggered changes in voting policies to better understand the impact of announced preferences on the probability of reaching the passing threshold. Column 2 presents estimates from a two-stage-least-square regression where the dependent variable is the $Passing_{f,p,y}$ indicator and the explanatory variable of interest is $VWAPI_{f,p,y}$. Similar to the previous instrumental variable regressions, the instrument is $VW\Delta API_{f,p,y}$.

[30] I use the term "majority" to refer to firms' bylaws-defined passing threshold.

The estimation reveals that the relation between these two variables is positive and significant at the 1% level. It implies that changes in voting policies are associated with analogous changes in the probability of reaching the passing threshold.

Considering that proposals that reach the passing threshold are more likely to be implemented, my results provide evidence of a direct relation between voting strategies of mutual funds and the implementation of ESG policies. It implies that institutional investors, including passive investors, may have a substantial impact on their portfolio firms simply through their vote.

Table 9.7: Adoption channels of ESG preferences

This table reports analyses of the channels through mutual funds convey their ESG preferences to portfolio firms. $VWAPI_{f,p,y}$, the main variables of interest, is the value-weighted announced preferences index for firm f regarding provision p in year y. Odd columns report estimations of ordinary least squares estimates. Even columns report two stage least squares estimations where the explanatory variable of interest, $VWAPI_{f,p,y}$, is the value-weighted announced preferences index for firm f regarding provision p in year y. The instrument, $VW\Delta API_{f,p,y}$, is the change in the value-weighted announced preferences index that is induced by changes in voting policies. In Columns 1 and 2 the dependent variable, $Passing_{f,p,y}$, is an indicator variable taking the value one if a proposal addressing a provision p, submitted at firm f in year y, reached the passing threshold as defined in the company's bylaws and zero otherwise. The analysis is conducted at the proposal level. In Columns 3 and 4, the dependent variable, $Shareholder\ proposal_{f,p,y}$, is an indicator variable taking the value one if a firm f received a proposal on a provision p in year y and zero otherwise. The analysis is conducted at the firm-provision-year level. In Columns 5 and 6, the dependent variable is $\Delta Provisions_{f,p,y} = Provisions_{f,p,y} - Provisions_{f,p,y-1}$, where $Provisions_{f,p,y}$ is an indicator variable taking the value one if firm f exhibits provision p in year y and zero otherwise. The sample is limited to cases where a change in $Provisions_{f,p,y}$ was not preceded by a received a shareholder proposal on provision p in year y, $y-1$, or $y-2$. The analysis is conducted for 7 observable governance provisions (staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes) at the firm-provision-year level. All regressions include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the firm level. P-values are reported in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	Channel 1 Passing		Channel 2 Shareholder proposal		Channel 3 Change in provision	
	LPM	2SLS	LPM	2SLS	OLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWAPI	2.64***	8.12***	0.01***	0.03**	0.14***	0.06**
	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)	(0.01)
Log(firm size)	-0.09***	-0.03	0.00***	0.00***	-0.00***	-0.00***
	(0.00)	(0.28)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	-0.24**	-0.30**	-0.00**	0.00	0.00	0.01
	(0.02)	(0.02)	(0.01)	(0.14)	(0.75)	(0.36)
Firm book leverage	-0.05***	-0.04	0.00	0.00*	-0.00	0.00
	(0.00)	(0.15)	(0.23)	(0.08)	(0.56)	(0.73)
Firm return	-0.03*	-0.08***	0.00	-0.00	0.01**	0.00
	(0.08)	(0.01)	(0.47)	(0.51)	(0.03)	(0.15)
Institutional ownership	0.13**	0.05	-0.00	-0.00	0.01***	0.01
	(0.03)	(0.57)	(0.36)	(0.28)	(0.01)	(0.10)
Constant	1.13***	0.69***	-0.01***	-0.01***	-0.01**	-0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.32)
Observations	4447	3669	854712	609719	66367	56469
Fixed effects	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year

9.4.2 Proposals by non-mutual fund shareholders

I analyze the impact of the value-weighted announced preferences index on the probability of receiving a shareholder proposal from non-mutual fund shareholders to assess the extent to which mutual funds' voting policies stimulate activism by other shareholders. Column 3 of Table 9.7 provides the estimates of a linear probability model where the dependent variable, $Shareholder\ \ proposal_{f,p,y}$, is an indicator variable taking the value one if a firm f received a proposal on a provision p in year y and zero otherwise. The key variable of interest is the value-weighted announced preferences indices for firm f regarding provision p in year y.

It appears that the more supportive the mutual fund shareholder base is of a provision, the more likely a non-mutual fund shareholder will file a proposal requiring the implementation of the aforementioned provision. The results are significant at the 1% level.

Column 4 replicates the analysis using the two-stage-least-square estimation where the instrument is $VW\Delta API_{f,p,y}$. From Column 4, it appears that changes in the $VWAPI$ are positively associated with the probability of receiving shareholder proposals with a significance level of 5%. My results therefore confirm the hypothesis that non-mutual fund shareholders modify their proposal-submission strategy to meet changes in mutual funds' proxy voting guidelines.

Such evidence implies that institutional investors can stimulate activism among other shareholders simply through their support of shareholder proposals. As a consequence, my results alleviate concerns regarding the governance role of passive institutional investors. In fact, passive investors may not play an active monitoring role but simply vote according to their predefined guidelines which encourages activism by other investors.

Appel et al. (2019) exploit stock index rebalancing to show that passive ownership encourages activist investors to seek board representations, in particular through proxy fights. My results add to Appel et al. (2019) by showing that proxy voting guidelines provide clear communication of mutual funds' preferences which helps shareholder activists to identify what mutual funds support. Proxy voting guidelines hence enable activist investors to infer mutual funds'

preferences much more easily than using votes. My evidence also highlights the role of mutual funds in supporting activists' requests extends beyond board representations.

9.4.3 Announced preferences and submission of shareholder proposals by mutual funds

Mutual funds could also play a more active corporate governance role. In fact, another channel through which mutual funds could foster the implementation of their preferred ESG policies is through the submission of their own shareholder proposals. I expect that mutual funds who favor a certain provision file shareholder proposals at their portfolio companies to obtain the implementation of this provision. I quickly study the proposals they submit to examine whether mutual funds exploit this channel to obtain the implementation of their preferred ESG policies.

My analysis of proposal sponsors reveals that, except for TIAA-CREF funds, mutual funds in my sample do not sponsor proposals.[31] It hence appears that the submission of proposals by mutual funds is not a credible channel through which mutual funds foster the adoption of their preferred policies.

9.4.4 Behind-the-scenes negotiations

Next, I assess whether mutual funds use private negotiations to obtain the implementation of their preferred policies. As I do not observe private negotiations, I analyze cases where firms changed their provisions without the presence of a shareholder proposal in the previous two years. Changes in provisions without shareholder proposals may indicate that they are the results of private negotiations between management and shareholders. It is however important to highlight that this research strategy does not allow me to disentangle the private negotiations hypothesis from a situation where firm managers would implement the provisions supported by the proxy voting guidelines of their institutional shareholders without any negotiation.

[31] Carleton et al. (1998) provide evidence of the role of TIAA-CREF in behind-the-scenes negotiations.

Columns 5 and 6 of Table 9.7 present ordinary least square and two-stage-least-square-regressions, respectively. The dependent variable is $\Delta Provisions_{f,p,y} = Provisions_{f,p,y} - Provisions_{f,p,y-1}$, where $Provisions_{f,p,y}$ is an indicator variable taking the value one if firm f exhibits provision p in year y and zero otherwise. The sample is limited to cases where a change in $Provisions_{f,p,y}$ was not preceded by a shareholder proposal on provision p in year y, $y-1$, or $y-2$. The analysis is conducted for 7 observable governance provisions (staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes). As for previous analyses, the key variable of interest is $VWAPI_{f,p,y}$, and the instrument is $VW\Delta API_{f,p,y}$.

It appears that changes in provisions without preceding shareholder proposals are significantly and positively associated with the value-weighted announced preferences index. These results are consistent with the hypothesis that mutual funds may negotiate the implementation of their preferred governance policies privately. However, as aforementioned, firms may also adopt the preferred policies of their mutual fund shareholders on their own initiatives without any behind-the-scenes negotiation. Guidelines would then allow mutual fund families to communicate their ESG preferences to investee firms.

9.5 Fund flows

I have shown that mutual funds present large heterogeneity in their ESG preferences. I have also shown that mutual funds are active voters that vote to support the implementation of their preferred policies at portfolio firms. I will now study whether beneficial investors reward mutual funds for their stewardship activities.

I analyze the cumulative abnormal fund flows (CAFs) around changes in proxy voting policies. I expect that, if investors reward mutual funds for their stewardship activities, mutual funds should experience significant inflows when they adopt shareholder-friendly guidelines. I follow Cooper et al. (2005) who study fund flows around funds' name-change period and implement an event study methodology. I compute abnormal fund flows for each voting

policy change with respect to a matched fund that did not change its guidelines. I match funds to their nearest neighbor using propensity score matching.

Table 9.8 presents the average cumulative abnormal flows around guideline changes. Panel A encompasses all types of changes including the apparitions of new voting policies. Panel B only includes changes in policies. I focus on three sets of changes. First, "All changes" includes any type of change whether it benefits the shareholder or not. "Positive changes" includes events that are shareholder-friendly. In other words, it includes events where mutual funds adopt more shareholder-friendly guidelines. "Negative changes" includes events where funds adopt less shareholder-friendly guidelines. The table presents the average CAFs for six windows, from twelve months before the event to 12 months after the event.

All in all, I do not observe significantly positive abnormal flows before as well as after the events. If anything, I find negative abnormal returns for the 3-month post-event window. Funds that change their proxy voting guidelines do not experience larger inflows than control funds. In consequence, these results are inconsistent with the hypothesis that beneficial investors reward mutual funds for their voting activities. My results conflict with Hartzmark and Sussman (2019) who find larger inflows to funds that place highly in sustainability ratings. However, Hartzmark and Sussman (2019) emphasize that the observed significant abnormal flows are only present for extreme rating changes. One could therefore argue that only an extreme change in voting guidelines would influence fund flows.

There exist alternative explanations to the question of why mutual funds adopt heterogeneous voting policies and why they change their policies over time. First, mutual funds may adopt guidelines that preserve their overall reputation. For example, mutual funds may change their voting policies towards more support for environmental and social issues to please different stakeholders than beneficial investors. However, as I observe that not all mutual fund families adopt ESG-friendly guidelines, my evidence does not support this hypothesis. Another possibility is that mutual fund families may have different expectations of the future. In fact, Bolton et al. (2020), recalling the work of Arrow (1984), argue that profit-maximizing agents may present heterogeneous preferences if they have different expectations of the future.

Table 9.8: Cumulative abnormal flows around changes in proxy voting guidelines

This table presents the average cumulative abnormal flows around changes in proxy voting guidelines. To compute CAFs, I follow Cooper et al. (2005) and implement nearest-neighbor propensity score matching. Specifically, I compute propensity scores for each event date using probit regressions where the dependent variable is an indicator variable taking the value one if a fund changed its guidelines and zero otherwise. The following variables are used for matching: the 1-month lagged log of total net assets, 6-month return to the fund before the guideline change, the average fund flow and standard deviation of returns over the 6 months before the guideline change, the 12b-1 marketing fees before the guideline change, and the log of fund age in months (Cooper et al., 2005). Fund flows are defined as $(TNA_t - (1+r_t)TNA_{t-1})/TNA_{t-1}$. Panel A encompasses all types of changes, including the adoption of new policies. Panel B focuses on changes, excluding new policies. Three sets of events are considered. "All changes" includes all guideline changes. "Positive changes" includes events where the guideline change is shareholder-friendly. "Negative changes" includes events where the guideline change is not shareholder-friendly. Six time windows are provided, from 12 months before the guideline change to 12 months after the guideline change. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. P-values are reported in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	N	-12 to 0	-6 to 0	-3 to 0	0 to 3	0 to 6	0 to 12
		(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Cumulative abnormal flows for all changes (incl. new guidelines)							
All changes	1015.00	0.05	0.01	0.00	-0.01	0.01	0.00
		(0.33)	(0.47)	(0.70)	(0.45)	(0.60)	(1.00)
Positive changes	792.00	0.00	-0.00	0.01	-0.00	0.00	-0.05
		(0.98)	(1.00)	(0.37)	(0.75)	(0.94)	(0.27)
Negative changes	175.00	0.10	0.00	-0.01	-0.00	0.04	0.13
		(0.53)	(0.91)	(0.41)	(0.79)	(0.38)	(0.13)
Panel B: Cumulative abnormal flows for changes (excl. new guidelines)							
All changes	723.00	0.06	0.01	0.01	-0.02*	0.02	-0.00
		(0.33)	(0.40)	(0.37)	(0.05)	(0.35)	(0.97)
Positive changes	480.00	0.06	0.02	0.01	-0.02**	-0.02	-0.12**
		(0.23)	(0.38)	(0.25)	(0.03)	(0.37)	(0.04)
Negative changes	210.00	-0.06	-0.03	-0.01	-0.02	0.00	0.02
		(0.63)	(0.40)	(0.35)	(0.18)	(0.93)	(0.81)

These diverging expectations would then imply different optimal ESG structures. Finally, Starks et al. (2017) show that heterogeneous ESG preferences may reflect different investor horizons.

9.6 Robustness test - small firms

The instrumental variable approach relies on the exogeneity assumption of the instrument. The fact that mutual funds generally design proxy voting guidelines at the fund family level alleviates concerns that an idiosyncratic firm within a specific mutual fund portfolio may influence family-wide guidelines. However, one could argue that very large firms may possess such an influential power. To verify that these very large firms do not drive results on the impact of announced preferences on portfolio firms' ESG structure, I replicate Table 9.6 but limiting the sample to small firms, i.e. firms whose total assets are below the sample median.

Table 9.9 reports the analysis. It appears that the results are robust to restricting the sample to small firms that are unlikely to influence mutual fund families.

Table 9.9: Robustness test: Adoption of mutual funds' preferences by small portfolio companies

This table replicates the instrumental variable analysis presented in Table 9.6 but limiting the sample to small firms. Small firms are firms whose total assets are below the sample median. Columns 1 through 3 focus on governance issues. The dependent variable for governance issues is $Governance\ Provisions_{f,p,y}$, an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. $VWAPI_{f,p,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f regarding governance provision p in year y. The instrument is $VW\Delta API_{f,y}$ is the change in the value-weighted announced preferences index that is induced by changes in voting policies. Column 1 presents the first stage. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 4 through 6 focus on environmental and social issues. Column 4 presents the first-stage regressions. The dependent variable is the $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f in year y regarding environmental and social issues. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. Columns 3 and 6 include year and industry fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	Governance Provisions			E&S index (KLD)		
	first stage	2SLS	2SLS	first stage	2SLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWΔAPI	1.42***			0.58***		
	(0.00)			(0.00)		
VWAPI		1.30***	2.07***		6.96**	0.26
		(0.00)	(0.00)		(0.02)	(0.66)
Log(firm size)	0.00	0.02***	0.02***	0.00	0.06***	0.06***
	(0.71)	(0.00)	(0.01)	(0.40)	(0.00)	(0.00)
ROA	0.00	0.02	0.01	0.00	0.11	-0.03
	(0.59)	(0.52)	(0.87)	(0.50)	(0.14)	(0.59)
Firm book leverage	-0.00	0.00	-0.00	-0.00	0.04	-0.01
	(0.64)	(0.96)	(0.96)	(0.76)	(0.46)	(0.78)
Firm return	0.00	-0.00	-0.00	0.00	-0.02	-0.02
	(0.58)	(0.91)	(0.98)	(0.88)	(0.12)	(0.16)
Institutional ownership	-0.01*	0.01	0.09**	-0.04***	0.36***	0.05
	(0.06)	(0.73)	(0.02)	(0.00)	(0.00)	(0.25)
Constant	-0.03***	0.13**	0.08	-0.00	-0.54***	-0.38***
	(0.01)	(0.02)	(0.54)	(0.74)	(0.00)	(0.00)
Observations	31195	31195	31195	72082	72082	72082
Fixed effects		No	Industry and year		No	Industry and year

10 Discussion

An often-voiced concern about institutional ownership is that institutional investors do not have the incentives or tools to properly monitor portfolio firms (Bebchuk et al., 2017; Schmidt and Fahlenbrach, 2017; Heath et al., 2021). One of the elements that have fed this critique is the fact that many mutual fund families display a limited amount of resources dedicated to stewardship. As an illustration, Krouse et al. (2016) and Bebchuk et al. (2017) point out that, in 2016, BlackRock, Vanguard, and State Street employed less than 50 staff altogether in their voting and stewardship teams while covering thousands of firms. On the other hand, there is ample evidence that mutual funds do not all vote in the same manner, blindly following management or proxy advisors' recommendations (Morgan et al., 2011; Iliev and Lowry, 2014). How can mutual funds be active monitors while dedicating very few resources to their stewardship activities?

From direct contacts with a proxy advisory firm, I learned that the business model of proxy advisors has significantly changed over the past decade from providing general voting recommendations to providing voting recommendations tailored to the institutional investors' preferences. Gary Retelny, the CEO of ISS, emphasized the emergence of this business model in the ISS 2018 senate hearing statement:

"ISS' only job is to analyze proxy statements and provide informed research and vote

recommendations based on the policies and guidelines that our institutional investor clients have selected, and in many cases developed, themselves." (Retelny, 2018)

Under this scheme, the role of proxy advisors consists in analyzing how institutional investors should vote to meet their own proxy voting policies. Moreover, I examined the voting procedures of mutual fund families in my sample. Mutual funds describe these procedures in their SAIs. Many families explain clearly that they use their proxy voting guidelines to outsource their voting strategy to proxy advisory firms. As an illustration, State Street Global Advisors (SSGA) affirms in its 2018 proxy voting procedures that:

"In order to facilitate SSGA's proxy voting process, SSGA retains Institutional Shareholder Services Inc. ("ISS") [...] for applying the Guidelines [...]"

Such a business model explains how mutual funds can be active voters while employing very small teams dedicated to stewardship. My findings support the existence of this model and show that it allows mutual funds to obtain the implementation of their preferred policies at portfolio firms. It hence demonstrates that proxy voting guidelines allow institutional investors to do governance at scale.

11 Conclusion

I find that mutual fund families announce heterogeneous and time-varying ESG preferences in their proxy voting guidelines. These announced preferences are a major predictor of mutual funds' voting behavior. I investigate why mutual funds deviate from their announced preferences. I find evidence consistent with funds diverging from one-size-fits-all voting policies as they perform analyses at the ballot item-firm level. However, my results also suggest that greenwashing may explain deviations from E&S-supportive voting policies. Exploiting staggered changes in voting, I show that portfolio firms adopt the governance preferences of their mutual fund shareholder base, but not the environmental and social ones. Mutual funds convey their governance preferences through their impact on voting results rather than using shareholder proposals. Furthermore, non-mutual fund shareholders strategically submit proposals addressing provisions that mutual funds have announced to favor. Beneficial investors do not appear to reward mutual funds for their stewardship activities.

My results reveal that mutual fund families have developed diverging ideologies regarding ESG matters. They also demonstrate that mutual funds are active monitors. By measuring the distance between announced and revealed preferences, they shed light on a growing concern among mutual funds' investors and policy-makers, namely that mutual funds' public statements and policy positions reflect marketing rather than stewardship intentions. This concern appears to be well-founded for policies that support environmental and social reforms.

In consequence, portfolio firms do not adopt the announced E&S preferences of their mutual fund shareholders.

My results have important implications for the growing debate on the impact of institutional ownership, especially passive ownership, on governance. While it is often argued that passive investors do not have the tools to monitor companies, I provide evidence that proxy voting guidelines are an important tool that allows mutual funds to do governance at scale. Furthermore, my results demonstrate that voting, a voice mechanism that passive investors use extensively, is sufficiently meaningful to foster the implementation of institutional investors' preferred governance policies. Finally, proxy voting guidelines ensure clear communication of mutual funds' preferences to activists. All in all, the evidence I present suggests that proxy voting guidelines enable mutual funds to perform their stewardship role effectively.

A Appendix to “What are the shareholder value implications of non-voted shareholder proposals?”

A.1 Detailed description of the data collection procedure

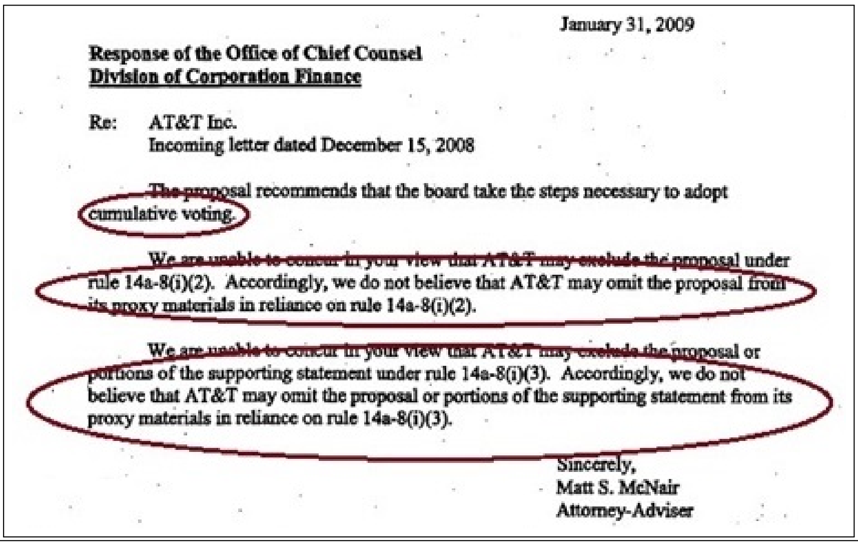
I collect data on challenged proposals from the SEC's no-action letters. When an agent is unsure about the legality of his action, he can request a "no-action letter" from a governmental agency such as the SEC. If the no-action request is granted, the governmental agency agrees not to pursue the petitioner if he engages in the described actions. SEC's no-action letters can be obtained from two sources. First, I obtain no-action letters on shareholder proposals for the 2007-2016 period from the website[32] of the Corporation Finance Division of the SEC. I obtain no-action letters for the 2002-2007 period from Edgar under "NO-ACT filings". It is important to note that "NO-ACT filings" also include no-action letters that do not address shareholder proposals, often published by other divisions of the SEC. I therefore exclude all no-action letters that are not concerned with matters related to shareholder proposals. In addition, in some rare cases, the SEC refuses to take a stand on a proposal for specific reasons such as the presence of an ongoing legal action that was taken against the firm. I also exclude those cases. As no-action letters do not only communicate the SEC's position on the no-action request but also include the correspondence between the petitioning firm and the SEC as well as between the proposal's sponsor and the SEC, I am able to collect information regarding the identities of the proponents, the topics of the proposals, the legal grounds advanced by the petitioners as well as the legal grounds on which the SEC allows the exclusions, if applicable. I also collect information regarding the involvement of a legal counsel whether it is on the firm side or the proponent side. To collect this information, I designed a parsing algorithm[33] that goes through all the no-action letters.

[32] https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8.shtml

[33] To assess the quality of the algorithm, I randomly selected 100 no-action letters. I then manually verified that the data collected by the parsing algorithm was coherent with regard to the actual data. The different pieces of information were correctly collected for the 100 cases.

Figure A.1: Example of a no-action letter

The figure presents a snapshot of a no-action letter published by the SEC's Division of Corporation Finance on its website (Source: U.S. Securities and Exchange Commission, Division of Corporation Finance. No-action letter published on January 31, 2009 and responding to AT&T Inc.'s request. Accessed November 30, 2016. https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2009/cheveddenchevedden013109-14a8.pdf). The circled quotes present some of the information that is collected to construct the database used in the present paper.



January 31, 2009

Response of the Office of Chief Counsel
Division of Corporation Finance

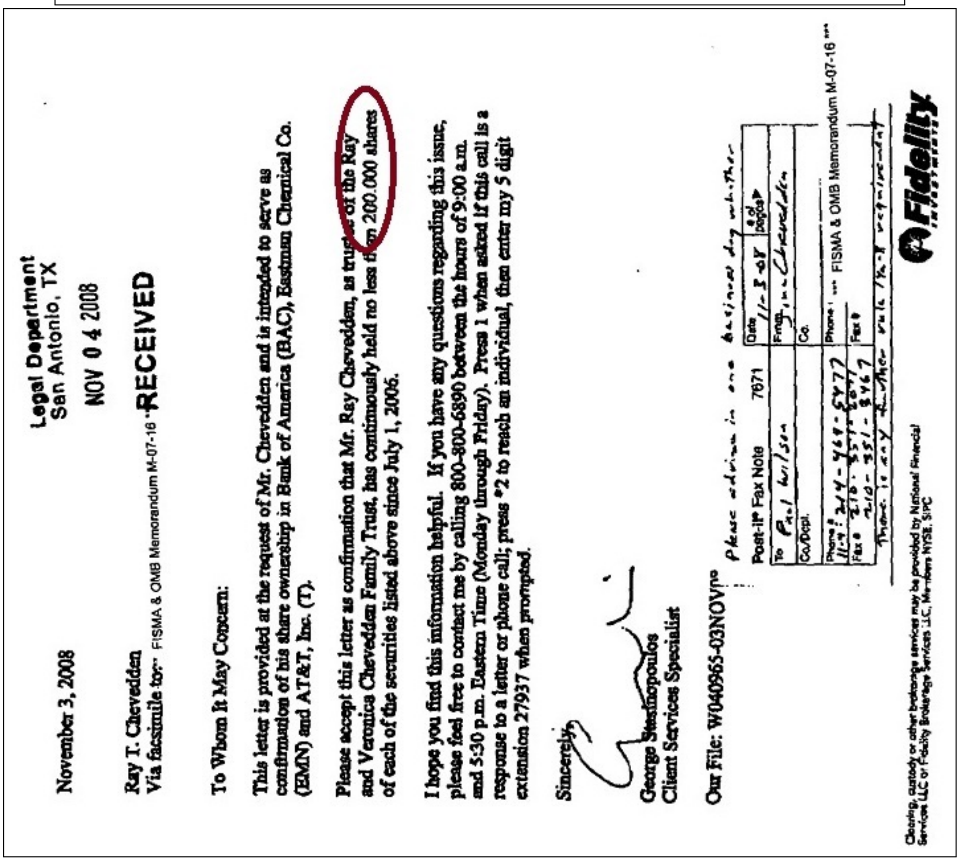
Re: AT&T Inc.
Incoming letter dated December 15, 2008

The proposal recommends that the board take the steps necessary to adopt cumulative voting.

We are unable to concur in your view that AT&T may exclude the proposal under rule 14a-8(i)(2). Accordingly, we do not believe that AT&T may omit the proposal from its proxy materials in reliance on rule 14a-8(i)(2).

We are unable to concur in your view that AT&T may exclude the proposal or portions of the supporting statement under rule 14a-8(i)(3). Accordingly, we do not believe that AT&T may omit the proposal or portions of the supporting statement from its proxy materials in reliance on rule 14a-8(i)(3).

Sincerely,
Matt S. McNair
Attorney-Adviser



Legal Department
San Antonio, TX
NOV 04 2008
RECEIVED

November 3, 2008

Ray T. Chevedden
Via facsimile to: *** FISMA & OMB Memorandum M-07-16 ***

To Whom It May Concern:

This letter is provided at the request of Mr. Chevedden and is intended to serve as confirmation of his share ownership in Bank of America (BAC), Eastman Chemical Co. (EMN) and AT&T, Inc. (T).

Please accept this letter as confirmation that Mr. Ray Chevedden, as trustee of the Ray and Veronica Chevedden Family Trust, has continuously held no less than 200,000 shares of each of the securities listed above since July 1, 2006.

I hope you find this information helpful. If you have any questions regarding this issue, please feel free to contact me by calling 800-800-6890 between the hours of 9:00 a.m. and 5:30 p.m. Eastern Time (Monday through Friday). Press 1 when asked if this call is a response to a letter or phone call; press *2 to reach an individual, then enter my 5 digit extension 27937 when prompted.

Sincerely,

George Stasinopoulos
Client Services Specialist

Our File: W040965-03NOV08

Appendix A. Appendix to "What are the shareholder value implications of non-voted shareholder proposals?"

Figure A.1 provides an example of a no-action letter where some of the information that I gather with the aforementioned parsing algorithm is circled in red. In some rare cases, the SEC grants the no-action request unless the proposal's sponsor provides some additional document. It may also grant the no-action letter but indicate that the firm did not request the no-action letter on time. I treat these proposals as exclusions. However, whenever I compute cumulative abnormal returns I exclude these proposals as the outcome of the process is unclear. Furthermore, in some rare cases, the firm petitioning the SEC withdraws its no-action request before the SEC communicated its position on the matter and commits to add the proposal to the ballots. I treat these proposals as not excluded. However, as the no-action request procedure did not go through, I exclude those cases when computing cumulative abnormal returns.

I obtain firms' accounting data from the Compustat database. I obtain data on institutional ownership from Thomson Reuters Institutional Holdings. I obtain data on voted and withdrawn proposals from the ISS Shareholder Proposals database. I manually match non-excluded challenged proposals to their after-challenge outcome whether it is a withdrawal or a vote. I obtain data on board structures (number of (independent) directors, CEO, and chairman) from the ISS Directors (Legacy) database. I manually collect the number of shares of the proponent of challenged proposals from the no-action letters. I also manually analyze the correspondence published along with the no-action letter to determine whether the withdrawal of a challenged proposal is due to some kind of settlement or not. I explain the classification procedure in the next section. Finally, I manually classify proponents and proposals as described in the next section.

A.2 Description of the classification of proposals

A.2.1 Classification of proposals' sponsors

I classify the sponsors of the proposals manually. The first category is the individual category. It includes retail investors. Proposals that are co-sponsored by retail investors and institutional

investors are not classified as retail investor proposals. The second category includes public pension funds such as CalPERS. The third category is labor unions. It covers labor unions' pension funds as well as labor unions' general funds. The "NGOs & Religious" category includes NGOs as well as religious groups. One should note that some proposals are filed by several proponents belonging to several categories, e.g. an NGO and an Environmental, Social and Governance (ESG) fund may co-file a sustainability proposal. In such a case, I classify the proposal in the labor union category if a labor union is one of the co-filers and in the "NGOs & Religious" category if one of the proponents is an NGO or a religious group. Finally, the "Other Funds" category encompasses proposals submitted by private equity funds, hedge funds, index-trackers, and other mutual funds.

A.2.2 Classification of proposals' topics

I classify under the corporate governance category proposals that deal with proxy access, executive compensation, directors (compensation, qualifications, independence, etc.), staggered boards, poison pills, CEO-Chairman separation, etc. I classify under the corporate social responsibility category proposals that deal with sustainability questions (publishing a sustainability report, reducing pollution, protecting forests, etc.), proposals that deal with human rights, proposals that deal with labor rights (implementing ILO standards, equal opportunity criteria, etc.), proposals that deal with animal rights (protected species, slaughtering, animal experimentation, etc.). I also classify proposals that do not belong to either the corporate governance category or the corporate social responsibility category under "Other". These may cover a wide range of specific topics including proposals addressing ordinary business operations and that would normally not reach the voting stage.

A.2.3 Classification of withdrawn proposals

Whenever a firm's management and the proponent of a proposal reach a settlement before the SEC has taken a decision regarding the proposal challenge, the SEC publishes a no-action letter stating that it will not communicate its decision because the matter is moot. The SEC

includes the correspondence between the proposal's sponsor and the firm. I analyze this correspondence manually to determine the reasons behind the withdrawal. I classify a withdrawal as deal-driven if there is evidence that negotiations have been conducted (or are being conducted) such that some kind of implementable reforms should take place. The reform does not have to be a full implementation of the proposal itself. It may be a partial implementation of the proposal. As an illustration, the Norges Bank negotiated the implementation of proxy access for shareholder-nominated director candidates for shareholders owning at least 3% of The Western Union Company stock for a period of at least three years. The initial Norges proposal included a 1%/1 year minimum holding requirement (SEC, 2013). A withdrawal would also be classified as deal-driven if it was associated with the implementation of an alternative policy such as the obtaining of a board seat.

I classify proposals as non-deal-driven if the correspondence does not mention any kind of agreement or ongoing negotiations between the firm and the sponsor. These "No Deal" withdrawals most often occur after the proponent learns in the no-action request that he failed to meet the SEC's procedural rules. Acknowledging his failure, the proponent withdraws his proposal. Among others, these technical deficiencies include untimely receipts of the proposal or the proof of ownership, failures to provide proof of ownership, the acknowledgment that the class of the proponent's shares does not have voting rights, the use of the wrong legal name for the company, or the proponent's inability to attend the AGM.

A.3 Definitions of variables and proposal categories

Table A.1: Definition of categories

This table aims at describing the categories in which proponents and proposals were classified. Panel A displays the categories of proponents. Panel B displays the categories of proposals.

(a) Categories of proponents

Category name	Definition
Individuals	This sample includes all the proposals submitted by individual investors.
Labor Unions	This sample includes all the proposals submitted by labor unions, whether it is through their general fund or through their pension fund.
Public Pension Funds	This sample includes all the proposals submitted by public pension funds.
Other Funds	This sample includes all the proposals submitted by other types of investment funds such as hedge funds, asset management funds, and index funds.
NGOs & Religious	This sample includes all the proposals submitted by religious groups and non-governmental organizations.
Gadfly (definition 1, main specification)	This sample includes all the proposals submitted by corporate gadflies where corporate gadflies are defined as retail investors whose investment is smaller than $33,000, the median investment for all sponsors.
Gadfly definition 2	This sample includes all the proposals submitted by corporate gadflies where corporate gadflies are defined as individual shareholders with an investment smaller than $12,500, the median investment for individual sponsors.
Gadfly definition 3	This sample includes all the proposals submitted by corporate gadflies where corporate gadflies are defined as the 15 individual investors that have filed the highest amount of proposals over the sample period.

Appendix A. Appendix to "What are the shareholder value implications of non-voted shareholder proposals?"

Table A.1: Definition of categories (continued)

(b) Categories of proposals

Category name	Definition
Corporate Social Responsibility (CSR)	This sample includes all the proposals that address corporate social responsibility issues, including proposals that address animal rights, human rights, labor rights, sustainability, the environment, political and lobbying contributions, etc.
Corporate Governance (CG)	This sample includes all the proposals that address corporate governance issues including proposals that address cumulative voting, directors, executive compensation, independence of the chairman, poison pills, staggered boards, proxy access, written consent, special meetings, simple majority vote, etc.
Other	This sample includes all the proposals that address other issues than corporate governance or corporate social responsibility. Some examples include relocation proposals, sale or liquidation proposals, etc.

Table A.2: Variable Definitions

The table contains the definitions and data sources of the key variables used in the paper.

Variable	Definition	Source
Firm Variables		
Market Capitalization	Market capitalization (in million dollars), csho x prcc_f.	Compustat
ln(Market Cap.)	Logarithm of the market capitalization, ln(csho x prcc_f).	Compustat
Proposal	Proposal is an indicator variable taking the value one if a firm received a proposal in a specific year.	ISS Shareholder Proposals, "NO ACT" Filings
Total Assets	Total Assets are the firm's total assets (in million dollars), at.	Compustat
Dividend Yield	Dividend Yield is the dividend yield, $(dv_t/csho_t)/prcc\_f_{t-1}$.	Compustat
ROA	ROA is the return on assets, ni/at.	Compustat
Profit Margin	Profit Margin is the profit margin, ni/sale.	Compustat
(Book) Leverage	Leverage is book leverage, (dltt+dlc)/at.	Compustat
One Year Return	One Year Return is the yearly return in year t, $(prcc\_f_t/prcc\_f_{t-1}) - 1$.	Compustat
Institutional Ownership	Institutional Ownership is the institutional ownership, number of shares outstanding x share price.	Thomson Reuters Institutional Holdings
CEO-Chair	CEO-Chair is an indicator variable taking the value one if the roles of chairman and CEO are not separated.	ISS Directors (Legacy)
Independent Directors	Independent Directors is the percentage of independent directors within the board of directors.	ISS Directors (Legacy)
$Proposal_{t-1}$	$Proposal_{t-1}$ is an indicator variable taking the value one in year t if a firm received a proposal in year $t-1$.	ISS Shareholder Proposals, "NO ACT" Filings
Challenger (3 years)	Challenger (3 years) is an indicator variable taking the value one in year t if a firm challenged a proposal over the previous three years.	"NO ACT" Filings
No-Action Letters Variables		
Number of Pages (Nb. Pages)	Number of Pages is the number of pages of a no-action letter.	"NO ACT" Filings
Lawyer	Lawyer is an indicator variable that takes the value one if a lawyer was involved in the no-action request process whether it is on the firm or sponsor side.	"NO ACT" Filings
ln(Sponsor's Investments)	ln(Sponsor's Investments) is the logarithm of the dollar ownership of the sponsor of a proposal.	"NO ACT" Filings
Positive CAR[-1,1]	Positive CAR[-1,1] is an indicator variable that takes the value one if the average cumulative abnormal returns following the exclusion of a challenged proposal was positive and zero otherwise.	"NO ACT" Filings, Compustat
Proposal Variables		
Not Voted	Not Voted is an indicator variable taking the value one if a proposal did not reach the voting stage.	ISS Shareholder Proposals, "NO ACT" Filings
Governance Proposal (CG Prop.)	Governance Proposal is an indicator variable taking the value one if a proposal addresses corporate governance matters.	ISS Shareholder Proposals, "NO ACT" Filings
Institutional Sponsor	Institutional Sponsor is an indicator variable taking the value one if the sponsor of a proposal is an institutional investor.	ISS Shareholder Proposals, "NO ACT" Filings

A.4 Additional analyses

Table A.3: Market reaction to non-exclusion decisions

The table presents cumulative abnormal returns (in percent) associated with the publication of the SEC's refusals to allow the exclusion for different types of proposal topics and proponents. Columns 1 and 3 present the CAR for two alternative event windows, [-1,1] and [-1,3]. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. Definitions of the proposal topics can be found in the appendix, Table A.1.

	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.
	(1)	(2)	(3)	(4)
Panel A: Table 4.4 for non-exclusion decisions				
Public Pension Funds	0.56	61.00	0.73	54.00
	(0.17)		(0.33)	
Individuals	-0.07	361.00	0.13	308.00
	(0.68)		(0.53)	
Labor Unions	-0.30	149.00	-0.10	136.00
	(0.21)		(0.71)	
NGOs & Religious	0.10	99.00	0.26	88.00
	(0.79)		(0.55)	
Other Funds	0.15	107.00	0.69	96.00
	(0.60)		(0.13)	
Panel B: Table 4.5 for non-exclusion decisions				
CSR	0.06	231.00	0.41	200.00
	(0.78)		(0.18)	
CG	-0.05	477.00	0.15	421.00
	(0.71)		(0.41)	
Other	0.14	58.00	0.29	51.00
	(0.74)		(0.53)	

A.5 Testing and adjusting for self-selection in event studies

The following derivations draw upon the work of Acharya (1988), Nayak and Prabhala (2001), and Eckbo et al. (1990). I apply the Heckman (1979) selection correction to the event study framework.

Let us consider a random sample of I events. The cumulative abnormal return for event i $\in \{1, ..., I\}$ is given by

$$CAR_i = \beta_0 + u_i \tag{A.1}$$

with u_i, the error term, and $E[u_i] = 0$. Following the standard event study methodology (MacKinlay, 1997), in presence of the full population of events, the OLS estimate of β_0 is given by

$$E[CAR_i] = \beta_0 = \overline{CAR} = \frac{1}{I}\sum_{i=1}^{I} CAR_i \qquad \text{(full population regression function)}$$

If only a subsample of the full population of events is available, the regression function becomes

$$E[CAR_i|sample\ selection\ rule] = \beta_0 + E[u_i|sample\ selection\ rule]$$
(selected sample regression function)

Let us suppose that the sample selection rule defining the occurrence of an event is determined by a choice function such that

$$P(\text{the event occurs}) = \begin{cases} 1, & \text{if } Y_i = X_i\beta + \nu_i \geq 0. \\ 0, & \text{if } Y_i = X_i\beta + \nu_i < 0. \end{cases} \tag{A.2}$$

where X_i is a 1xK vector of exogenous regressors, β is a Kx1 vector of parameters, and ν_i is the error term. If the observations CAR_i associated with the missing events are not missing randomly, the conditional expectation of the error term u_i, $E[u_i|Y_i \geq 0]$, is not null. The

selected sample regression function is therefore

$$E[CAR_i|Y_i \geq 0] = \beta_0 + E[u_i|v_i \geq -X_i\beta] \tag{A.3}$$

It appears that attempting to assess the value of a full population of events by estimating the average cumulative abnormal returns of the events that are observable would provide biased estimates as it would omit the second term of equation A.3. The sample selection bias is hence resumed to an omitted variable bias. Heckman (1979) further shows that one can therefore correct this sample selection bias by adding the inverse Mill's ratio as a regressor. In fact, assuming that the joint density function of u_i and v_i is bivariate normal, one can show that

$$E[u_i|v_i \geq -X_i\beta] = \frac{\sigma_{uv}}{\sigma_v}\frac{\phi\left(-\frac{X_i\beta}{\sigma_v}\right)}{\Phi\left(\frac{X_i\beta}{\sigma_v}\right)} = \frac{\sigma_{uv}}{\sigma_v}\lambda_i \tag{A.4}$$

where σ_{uv} is the covariance between u and v, σ_u^2 and σ_v^2 are the variances of u_i and v_i, respectively, and λ_i is the inverse Mill's ratio. ϕ is the standard normal density function and Φ is the standard normal cumulative distribution function. The regression function for the selected sample therefore becomes

$$E[CAR_i|Y_i \geq 0] = \beta_0 + \frac{\sigma_{uv}}{\sigma_v}\lambda_i \tag{A.5}$$

The first term on the left-hand side of equation A.5 is the full population estimate and can be obtained by implementing the two-step Heckman correction where the choice function is determined using a probit model. Furthermore, one can also test for selection bias by testing the significance of the Mill's ratio coefficient.

A.6 Predictability of the no-action requests' outcomes

Table A.4: Announcement returns to no-action requests

The table presents cumulative abnormal returns (in percent) associated with the announcement of no-action requests by the SEC. Columns 1 and 3 present the CAR for two alternative event windows, [-1,1] and [-1,3]. The event dates are SEC challenge announcement dates. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. The "All" category includes all no-action request announcements. The "Excluded", "Not Excluded", and "Withdrawn" subsamples respectively include proposals that were excluded, not excluded, and withdrawn when the SEC made its decision public through the publication of a no-action letter.

	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.
	(1)	(2)	(3)	(4)
All	0.02	3474.00	0.08	3172.00
	(0.81)		(0.29)	
Excluded	0.05	1878.00	0.05	1733.00
	(0.54)		(0.61)	
Not Excluded	-0.07	747.00	-0.12	655.00
	(0.52)		(0.42)	
Withdrawn	-0.14	491.00	0.02	457.00
	(0.37)		(0.90)	

Appendix A. Appendix to "What are the shareholder value implications of non-voted shareholder proposals?"

Table A.5: Determinants of the SEC's challenge outcomes

The table presents estimates of multinomial logistic regressions. The dependent variable is a category variable for the potential outcomes of the SEC no-action requests. The reference category includes exclusion decisions. The two other potential outcomes are refusals to exclude and withdrawals. Columns 1 and 3 present the estimates for refusals. Columns 2 and 4 present the estimates for withdrawals. P-values are given in parentheses. Standard errors are robust to heteroskedasticity and clustered at the firm level. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. For Columns 1 and 2, the sample covers S&P1500 firms over 2003-2014. For Columns 3 and 4, the sample covers S&P1500 firms over 2005-2014. Variables are defined in the appendix, Table B.2.

	Multinomial Logit 1		Multinomial Logit 2	
	Not Excluded	Withdrawn	Not Excluded	Withdrawn
	(1)	(2)	(3)	(4)
Nb. Pages	0.00**	0.00	0.00**	0.00
	(0.01)	(0.32)	(0.02)	(0.43)
Lawyer	-0.03	0.60***	-0.04	0.56***
	(0.79)	(0.00)	(0.76)	(0.00)
Book Leverage	-0.41	-0.34	-0.44	-0.53
	(0.28)	(0.53)	(0.30)	(0.35)
ROA	0.66	-0.37	0.89	-1.17
	(0.52)	(0.76)	(0.48)	(0.41)
One Year Return	0.16	0.02	0.46***	0.35*
	(0.19)	(0.88)	(0.00)	(0.08)
ln(Market Cap.)	0.02	0.18***	-0.14**	0.13*
	(0.62)	(0.00)	(0.01)	(0.06)
Dividend Yield	1.67	-0.19	-3.71	-3.90
	(0.62)	(0.96)	(0.36)	(0.40)
Institutional Ownership	1.05***	1.24***	0.03	0.51
	(0.00)	(0.00)	(0.95)	(0.37)
$Proposal_{t-1}$	0.32**	-0.59***	0.07	-0.71***
	(0.05)	(0.00)	(0.68)	(0.00)
Challenger (3 years)			0.34**	0.01
			(0.02)	(0.95)
Institutional Sponsor			0.37**	0.51**
			(0.04)	(0.02)
Governance Proposal			0.11	-1.20***
			(0.48)	(0.00)
Institutional Sponsor * CG Prop.			0.01	1.09***
			(0.98)	(0.00)
CEO-Chair			0.23	-0.08
			(0.16)	(0.65)
Independent Directors			0.84	0.98
			(0.27)	(0.19)
Constant	-2.37***	-4.04***	-0.81	-3.28***
	(0.00)	(0.00)	(0.37)	(0.00)
Observations	3040		2051	
Pseudo R^2	0.020		0.050	

A.7 Robustness tests

Table A.6: Robustness test - excluding potentially contaminated events

The table presents a robustness test where I replicate the analyses performed in Tables 4.1, 4.3, 4.4, and 4.5 but excluding events whose event windows coincide with the publication of an 8-K, 10-K, or 10-Q form. Panel A includes exclusion decisions. Panel B includes withdrawals. Columns 1 presents the CAR for a three-day event window. The "Difference" column displays the difference between the CAR[-1,1] of types of subsamples that present a statistically significant market reaction and the CAR[-1,1] of subsamples that do not (cf. Tables 4.1, 4.3, 4.4, and 4.5). The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. P-values are given in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers all U.S. firms over the 2002-2016 period. Definitions of the subsamples are provided in the appendix, Table A.1.

(a) Panel A: Excluded proposals

	CAR[-1,1]	Obs.	Diff.
	(1)	(2)	(3)
Table 4.1:			
Excluded	0.19**	1592	
	(0.02)		
Treatment Group	0.68***	188	0.50**
	(0.00)		(0.04)
Control Group	0.18	196	
	(0.24)		
Table 4.4:			
Corporate Gadflies			
Gadflies	0.45***	449	0.48***
	(0.00)		(0.00)
Non Gadflies	-0.03	601	
	(0.80)		
Proponents' categories			
Pub. Pens. Funds	-0.09	91	
	(0.75)		
Individuals	0.24**	1015	0.18
	(0.01)		(0.14)
Labor Unions	0.19	164	0.14
	(0.41)		(0.31)
NGOs & Religious	-0.02	137	
	(0.94)		
Other Funds	0.16	145	
	(0.49)		
Table 4.5:			
Proposals' topics			
CSR	-0.02	338	-0.25
	(0.88)		(0.15)
CG	0.27***	953	0.04
	(0.01)		(0.58)
Other	0.23	257	
	(0.23)		

Table A.6: Robustness test - excluding potentially contaminated events (continued)

(b) Panel B: Withdrawn proposals

	CAR[-1,1]	Obs.	Diff.
	(1)	(2)	(3)
Table 4.3:			
All (Withdrawn)	-0.41***	416	
	(0.00)		
Deal	-0.59***	218	-0.39*
	(0.01)		(0.10)
No Deal	-0.21	198	
	(0.26)		
Table 4.4:			
Proponents' categories			
Pub. Pens. Funds	-0.00	46	
	(1.00)		
Individuals	0.18	97	
	(0.50)		
Labor Unions	-1.31***	75	-1.23***
	(0.00)		(0.01)
NGOs & Religious	-0.42*	129	-0.36
	(0.08)		(0.15)
Other Funds	-0.42	66	
	(0.29)		
Table 4.5:			
Proposals' topics			
CSR	-0.26	189	
	(0.28)		
CG	-0.39*	181	
	(0.06)		
Other	-0.97**	43	-0.65*
	(0.03)		(0.09)

A.7.1 Alternative thresholds for the expected voting outcome

Table A.7: Robustness test - alternative thresholds of expected voting outcome (Table 4.2)

The table presents a robustness test of the analysis that can be found in Table 4.2. I replicate Panel B of Table 4.2 using alternative thresholds for the classifications of proposals according to their expected voting outcome. In Panel A, proposals are classified as "High expected voting outcome" if their expected outcome is above the sixtieth percentile and as "Low expected voting outcome" otherwise. In Panel B, proposals are classified as "High expected voting outcome" if their expected outcome is above the seventieth percentile and as "Low expected voting outcome" otherwise. The sample covers all U.S. firms over the 2002-2016 period. The "Difference" row tests whether the market reaction for proposals with a high expected voting outcome is larger than for proposals with a low expected voting outcome. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles and are expressed in percent. Columns 2 and 4 contain proponents and proposals fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm level. One, two, and three asterisks denote the statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

Panel A: Alternative threshold 1				
	(1)	(2)	(3)	(4)
CAR(High expected voting outcome)	0.50***	0.47***	0.43***	0.31***
	(0.00)	(0.00)	(0.00)	(0.01)
CAR(Low expected voting outcome)	0.04	0.07	-0.03	0.07
	(0.63)	(0.49)	(0.75)	(0.50)
Difference	0.46***	0.40***	0.46***	0.24**
	(0.00)	(0.00)	(0.00)	(0.05)
Observations	1685	1642	1433	1409

Panel B: Alternative threshold 2				
	(1)	(2)	(3)	(4)
CAR(High expected voting outcome)	0.63***	0.61***	0.53***	0.43***
	(0.00)	(0.00)	(0.00)	(0.00)
CAR(Low expected voting outcome)	0.05	0.06	-0.01	0.04
	(0.57)	(0.52)	(0.88)	(0.69)
Difference	0.58***	0.55***	0.54***	0.39***
	(0.00)	(0.00)	(0.00)	(0.01)
Observations	1685	1642	1433	1409

A.7.2 Alternative definitions of corporate gadflies

Table A.8: Robustness test - alternative definitions of corporate gadflies

The table presents an analysis of proposals submitted by corporate gadflies. Panel A provides summary statistics including the median sponsor's ownership expressed in USD. Panel B provides the cumulative abnormal returns (in percent) associated with the publication of the SEC's exclusion decisions regarding proposals submitted by corporate gadflies. The event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Three alternative definitions of corporate gadflies are provided. Definition 1, the main specification, identifies corporate gadflies as individual shareholders with an investment smaller than $33,000, the median investment for all sponsors. Definition 2 considers gadflies as individual shareholders with an investment smaller than $12,500, the median investment for individual sponsors. Under Definition 3, gadflies are the 15 individual investors that have filed the highest amount of proposals over the sample period. Panel B, Columns 1 and 3 provide the CAR[-1,1] for proposals filed by gadflies and non-gadflies, respectively. Panel B, Column 5 tests whether the market reaction, as proxied by CAR[-1,1], is larger for corporate gadflies than for non-corporate gadflies. The sample covers S&P1500 firms over the 2002-2016 period. Definitions of subsample categories can be found in the appendix, Table A.1.

Panel A: Summary statistics on gadfly shareholders

	Nb. of Proposals	Nb. of CG Proposals	Median ownership
Top 15 gadflies	1982	1750	12539

Panel B: Gadflies vs. non-gadflies

	Gadfly		Non-Gadfly		Difference
	CAR[-1,1] (1)	Obs. (2)	CAR[-1,1] (3)	Obs. (4)	(5)=(1)-(3)
Gadfly definition 1	0.48***	546.00	0.09	730.00	0.40**
	(0.00)		(0.46)		(0.01)
Gadfly definition 2	0.64***	400.00	0.08	876.00	0.55***
	(0.00)		(0.43)		(0.00)
Gadfly definition 3	0.40***	558.00	0.17*	1375.00	0.23*
	(0.00)		(0.07)		(0.06)

A.7.3 Robustness test for exclusions

Table A.9: Robustness test for exclusions

The table presents a robustness test for the stock market reaction to exclusions. The test replicates Panel A of Table 4.1 but omitting the proposals that address proxy access or majority voting. The "Excluded" group includes all excluded proposals. The "Treatment Group" includes all proposals for which management asked the exclusion based on the substantial implementation argument but for which the SEC allowed the exclusion on any other ground than substantial implementation. The "Control Group" includes cases for which the SEC allowed the exclusion based on the substantial implementation ground. The event dates are the dates of publication of the no-action letters. Columns 1 and 3 present the CAR for two alternative event windows, a three-day and a five-day windows. The "Difference" column tests whether the market reaction, as proxied by CAR[-1,1], is larger for the treatment group than for the control group. The CAR[-1,1] are calculated as follows: the event dates are the dates of publication of the no-action letters. The estimation windows start 252 trading days before the event dates and end 30 trading days before the event dates. Predicted returns are estimated with the market model where the market return is the return of the value-weighted portfolio of NYSE/AMEX/NASDAQ stocks and the risk-free rate is the rate on the one-month Treasury Bill. Cumulative abnormal returns are winsorized at the 1st and 99th percentiles. Standard errors, for CARs as well as for the "Difference" column, are robust to heteroskedasticity and clustered at the firm level. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. The sample covers the 2002-2016 period. Definitions of subsample categories can be found in the appendix, Table A.1.

	CAR[-1,1]	Obs.	CAR[-1,3]	Obs.	Difference
	(1)	(2)	(3)	(4)	(5)
Excluded	0.20**	1767.00	0.29***	1621.00	
	(0.01)		(0.01)		
Treatment Group	0.78***	226.00	1.06***	206.00	0.78***
	(0.00)		(0.00)		(0.00)
Control Group	0.00	153.00	0.31	134.00	
	(0.98)		(0.21)		

B Appendix to "What is the impact of mutual funds' ESG preferences on portfolio firms?"

Appendix B. Appendix to "What is the impact of mutual funds' ESG preferences on portfolio firms?"

B.1 Description of the dataset

Table B.1: List of mutual fund families and proposal topics

Table B.1a presents the list of mutual fund families included in the collected dataset. Table B.1b presents the list of policy topics included in the collected dataset. Column 1 provides the topic of the policy. Column 2 indicates whether the policy is a governance (Gov.) or an environmental and social (E&S) policy. Column 3 indicates whether the policy concerns shareholder proposals (SP), management proposals (MP), or both (MP ; SP). Column 4 reports the number of year-policies for management and shareholder proposals. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period.

(a) List of mutual fund families

AllianceBernstein
American Century Companies
BlackRock
BNY Mellon
Charles Schwab
Columbia Threadneedle Investments
Dodge & Cox
Federated Investors
Fidelity Investments
Franklin Templeton
Geode
Goldman Sachs Asset Management
Harris Associates
Invesco
Janus Henderson Investors
JP Morgan Asset Management
Lazard Asset Management
Loomis, Sayles & Company
Lord, Abbett & Co.
Massachusetts Financial Services Company
Morgan Stanley Investment Management
Nuveen
Principal Global Investors
Putnam Investments
State Street Global Advisors
TIAA-CREF
T. Rowe Price Group
TCW Group
Vanguard Group

Table B.1: List of mutual funds families and proposal topics (continued)

(b) List of policy issues

Topic of the policy	Category of the policy	Type of policy	Nb. Obs.
Create/Increase Dual Class Shares (or New Class of Shares with Superior Rights)	Gov.	MP ; SP	253 ; 319
Remove/Decrease Dual Class Shares (or Class of Shares with Superior Rights)	Gov.	MP ; SP	165 ; 143
Authorize the creation of Blank Check Preferred Shares	Gov.	MP ; SP	268 ; 210
Implement Term Limits for Directors	Gov.	MP ; SP	158 ; 139
Implement a Mandatory Retirement Age for Directors	Gov.	MP ; SP	139 ; 123
Implement Minimum Stock Ownership for Directors	Gov.	MP ; SP	178 ; 84
Require the Audit Committee to consist only of independent directors	Gov.	MP ; SP	125 ; 196
Require the Compensation Committee to consist only of independent directors	Gov.	MP ; SP	124 ; 195
Require the Nominating Committee to consist only of independent directors	Gov.	MP ; SP	86 ; 157
Fix the Number of Directors at a Specific Size	Gov.	MP ; SP	141 ; 141
Implement Possibility for Shareholders to Remove Directors Directly	Gov.	MP ; SP	129 ; 116
Limit Director's Liability for breaches of care	Gov.	MP	191
Require more than 1 candidate per board seat	Gov.	SP	87
Establish/Amend Board Nominees Qualifications	Gov.	SP	67
Establish other Board Committees	Gov.	SP	60
General antitakeover policy	Gov.	MP ; SP	199 ; 225
Implement Proxy Access	Gov.	MP ; SP	171 ; 218
Implement Poison Pill	Gov.	MP ; SP	344 ; 247
Remove Poison Pill	Gov.	MP ; SP	183 ; 223
Implement/Increase rights to call Special Meetings	Gov.	MP ; SP	236 ; 242
Remove/Decrease rights to call Special Meetings	Gov.	MP ; SP	209 ; 190
Implement/increase rights to act by Written Consent	Gov.	MP ; SP	191 ; 188
Remove/decrease rights to act by Written Consent	Gov.	MP ; SP	191 ; 174
Declassify/Destagger the board	Gov.	MP ; SP	313 ; 332
Implement classified/staggered board	Gov.	MP ; SP	327 ; 295
Implement Cumulative Voting	Gov.	MP ; SP	285 ; 326
Remove Cumulative Voting	Gov.	MP ; SP	228 ; 254
Implement an Independent Chairman (Separate Chairman/CEO)	Gov.	MP ; SP	230 ; 279
Implement/Increase Supermajority	Gov.	MP ; SP	340 ; 287
Remove/Decrease Supermajority	Gov.	MP ; SP	262 ; 232
Require that directors be elected by a majority of the votes cast	Gov.	MP ; SP	221 ; 253
Implement Confidential Voting	Gov.	MP ; SP	259 ; 293
Remove Confidential Voting	Gov.	MP ; SP	77 ; 85
Require a Majority of Independent Directors	Gov.	MP ; SP	207 ; 140
Prevent Greenmail Payments	Gov.	MP ; SP	209 ; 213
Implement Independent Vote Tabulation	Gov.	MP ; SP	64 ; 141
Implement/Ratify Golden Parachute (Severance Packages)	Gov.	MP ; SP	227 ; 215
Remove Golden Parachute (Severance Packages)	Gov.	MP ; SP	154 ; 140
Establish a CEO Succession Planning	Gov.	SP	53
Reimburse Proxy Solicitation/Proposal Expenses	Gov.	SP	123
Require additional board representation of women/minority	E&S	MP ; SP	57 ; 97
General Position regarding Environment and Social Proposals	E&S	SP	289
Implement Animal Welfare Policies (incl. Ban animal test and slaughtering)	E&S	SP	119
Reduce advertising of Tobacco/Alcohol Products (incl. Towards minors)	E&S	SP	124
Disclose Climate Change/Greenhouse Gas Emissions Reports	E&S	SP	114
Reduce Greenhouse Gas Emissions	E&S	SP	91
Report on firm's Energy Efficiency/Renewable Energies	E&S	SP	119
Report on Employee Equal Opportunities	E&S	SP	122
Prohibit employee discrimination on Gender Identity, Sexual Orientation, and Domestic Partners Benefits	E&S	SP	144
Report on Facility and Workplace Safety	E&S	SP	50
Report on Environmental/Sustainability/Water Impact	E&S	SP	123
Restrict the company from making Charitable Contributions	E&S	SP	115
Implement Data Security, Privacy, and Internet Issues Policies	E&S	SP	50
Implement ESG-Related Compensation	E&S	SP	78
Report on Company or Supplier Labor and Human Rights Policies	E&S	SP	118
Implement Company or Supplier Labor and Human Rights Policies	E&S	SP	130
Report on Operations in High Risk Markets (incl. Terrorism)	E&S	SP	67
Report on the Risks associated with Outsourcing/Offshoring	E&S	SP	59
Report on Weapons and Military Sales (incl. nuclear)	E&S	SP	114
Cease the production of Weapons	E&S	SP	71
Report on Lobbying Activities	E&S	SP	119
Disclose Political Contributions	E&S	SP	164
Prevent company from making Political Contributions	E&S	SP	106
Require a company to affirm Political NonPartisanship	E&S	SP	84
Report on bank lending policies	E&S	SP	56

Appendix B. Appendix to "What is the impact of mutual funds' ESG preferences on portfolio firms?"

B.2 Definitions of variables

Table B.2: Definitions of Variables

The table contains the definitions and data sources of the key control variables used in the paper. All continuous variables are winsorized at the 1% and 99% levels. Many variables were computed following (Iliev and Lowry, 2014).

Variable	Definition	Source
Firm Variables		
Market Capitalization	Market capitalization (in million dollars), csho x prcc_f.	CRSP-Compustat-Merged
ln(Market Cap.)	Logarithm of the market capitalization, ln(csho x prcc_f).	CRSP-Compustat-Merged
Total Assets	Total Assets are the firm's total assets (in million dollars), at.	CRSP-Compustat-Merged
ROA	ROA is the return on assets, ni/at.	CRSP-Compustat-Merged
(Book) Leverage	Leverage is book leverage, (dltt+dlc)/at.	CRSP-Compustat-Merged
One Year Return	One Year Return is the yearly return in year t, ($prcc\_f_t$/$prcc\_f_{t-1}$) - 1.	CRSP-Compustat-Merged
Institutional Ownership	Institutional Ownership is the percentage of institutional ownership.	Thomson Reuters Institutional Holdings
Fund Variables		
Fund size	Funds' total net assets (tna_latest). Aggregated at the fund level if there are multiple classes.	CRSP Mutual Funds
Fund age	Funds' age expressed in years.	CRSP Mutual Funds
Expense ratio	Fund's total operating expenses over fund's total net assets (exp_ratio). For funds with multiple classes, the expense ratio is a value-weighted average of the expense ratio of the different classes, where weights are the TNA of each class.	CRSP Mutual Funds
Turnover rate	The minimum of aggregate sales or aggregate purchases of securities, divided by the average 12-months total net assets of the fund (turn_ratio). For funds with multiple classes, the turnover ratio is a value-weighted average of the turnover ratio of the different classes, where weights are the TNA of each class.	CRSP Mutual Funds
Investment as % of fund TNA	Percentage of a fund's total net assets invested in a specific firm. (percent_tna)	CRSP Mutual Funds
Investment as % of firm equity	Number of shares of a firm a fund holds divided by the total number of common shares outstanding (nbr_shares/csho) of the firm.	CRSP-Compustat-Merged, CRSP Mutual Funds
Passive fund	Indicator variable taking the value 1 if a fund has a passive investment strategy according to CRSP (index_fund_flag) and zero otherwise.	CRSP Mutual Funds
Past fund alpha	Past fund alpha in t is the sum of the fund alphas between $t-13$ and $t-1$. Fund alpha in month t is the difference between a fund's actual returns and its expected returns. Expected returns are estimated, for each fund, through a regression of fund returns between month $t-36$ and month $t-1$ on the Fama-French-Carhart factors.	CRSP Mutual Funds
Family size	Total net assets of a fund family.	CRSP Mutual Funds

B.3 Additional robustness test

Table B.3: Robustness test: Adoption of mutual funds' preferences by portfolio companies (provision fixed effects).

This table replicates the instrumental variable analysis presented in Table 9.6 but including provision and provision*year fixed effects. Columns 1 and 2 focus on governance issues. The dependent variable for governance issues is $Governance\ Provisions_{f,p,y}$, an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. $VWAPI_{f,p,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f regarding governance provision p in year y. The instrument is $VW\Delta API_{f,y}$ is the change in the value-weighted announced preferences index that is induced by changes in voting policies. Column 1 presents the first stage regression. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 3 and 4 focus on environmental and social issues. Column 1 presents the first-stage regression. The dependent variable is the $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f in year y regarding environmental and social issues. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. All models include industry, year, provision, and provision*year fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table B.2.

	Governance Provisions		E&S index (KLD)	
	first stage	2SLS	first stage	2SLS
	(1)	(2)	(3)	(4)
VW∆API	0.57***		0.43***	
	(0.00)		(0.00)	
VWAPI		0.77*		1.41
		(0.07)		(0.11)
Log(firm size)	0.00**	0.01***	0.00***	0.13***
	(0.04)	(0.00)	(0.00)	(0.00)
ROA	0.00	0.01	0.00	0.06
	(0.22)	(0.79)	(0.46)	(0.32)
Firm book leverage	-0.00	-0.01	-0.00	-0.01
	(0.40)	(0.39)	(0.92)	(0.76)
Firm return	0.00	0.00	-0.00	-0.01
	(0.46)	(0.59)	(0.15)	(0.37)
Institutional ownership	-0.01***	0.11***	-0.03***	0.01
	(0.00)	(0.00)	(0.00)	(0.83)
Constant	-0.19***	0.41***	-0.04***	-1.22***
	(0.00)	(0.00)	(0.00)	(0.00)
Observations	65978	65978	142990	142990
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Provision FE	Yes	Yes	Yes	Yes
Provision*Year FE	Yes	Yes	Yes	Yes

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Research Interests

Empirical corporate finance, corporate governance, sustainable finance, institutional investors

Working Papers

What is the impact of mutual funds' ESG preferences on portfolio firms? 2020
Job Market Paper

Abstract: Mutual funds must publish policies announcing how they generally vote on the different ballot items at the shareholder meetings of their portfolio firms. I manually collect 17,000 of these policies for a sample of 29 of the largest U.S. mutual fund families over 2006-2018. I find that voting policies are a major predictor of funds' voting behavior. Exploiting staggered changes in funds' voting policies, I show that investee companies adopt their mutual fund shareholders' preferred governance provisions. This adoption is the result of mutual fund shareholders' active voting. Announced voting policies also stimulate strategic proposal submissions by non-mutual fund shareholders.

Presentations: SFI Job Market Workshop (EPFL, 2020), SFI Research Days (Gerzensee, 2020), Chinese University of Hong Kong (2020), City University of Hong Kong (2021), University of Hong Kong (2021), Katholieke Universiteit Leuven (2021), Vrije Universiteit Amsterdam (2021), University of Utah (2021), University of Kansas (2021), ESCP (2021), Wilfrid Laurier University (2021), University of Iowa (2021), ESSEC (2021), University of Virginia – Darden (2021), WHU – Otto Beisheim School of Management (2021), Copenhagen Business School (2021), Aarhus University (2021), BI Norwegian Business School (2021), Norges Bank (2021), HEC Montreal (2021), Queen Mary University of London (2021), San Diego State University (2021), EFA 2021 (scheduled)
Media: Featured in the Duke Law School FinReg Blog

What are the shareholder value implications of non-voted shareholder proposals? 2018
Revise and resubmit at *Management Science*

Abstract: Managerial resistance precludes half of shareholder-initiated proposals from reaching the ballot stage. I construct a novel dataset of excluded and withdrawn proposals from the Securities and Exchange Commission's responses to managers' exclusion requests. An examination of announcement returns to the exclusion and withdrawal decisions reveals that non-voted proposals have a value-destroying nature. Special interest investors pursuing self-serving agendas and retail investors advocating for one-size-fits-all reforms explain the harmful character of non-voted proposals. I correct for the selection bias induced by managerial resistance and show that focusing only on voted proposals overstates the shareholder proposals-driven value creation.

Presentations: 35th International Conference of French Finance Association-AFFI (ESCP, 2018), 16th Belgian Financial Research Forum (Belgian National Bank, 2018), SFI Research Days (Gerzensee, 2018), Columbia Finance Ph.D. Seminar (Columbia Business School, 2020), 3rd Dauphine Finance PhD Workshop (Université Paris-Dauphine, 2020), 17th Corporate Finance Day (HEC Liège, 2020)

Teaching Experience

EPFL: T.A. for *Financial Econometrics* (M.Sc. in Financial Engineering) 2017, 2019-21
Université de Lausanne (HEC): Master's theses external expert 2019
EPFL: T.A. for *Empirical Methods in Finance* (M.Sc. in Financial Engineering) 2018
HEC Lausanne: T.A. for *Empirical Methods in Finance* (M.Sc. in Finance) 2018
University of St.Gallen: T.A. for *Vulnerability of Financial Systems* (M.Sc.) 2015
EPHEC Business School: Lecturer for *Introduction to Economics* (B.Sc.) 2015
EPHEC Business School: Bachelor's theses advisor 2015

Refereeing Activity

Journal of Banking and Finance

Grants, Awards and Fellowships

Grant from Norges Bank Investment Management under the Norwegian Finance Initiative (NFI) Research Programme for 3 years, jointly awarded with Ruediger Fahlenbrach, Zacharias Sautner, and Alexander Wagner (CHF 159,500)	2020
EPFL Award for Outstanding Teaching	2020
AFA Travel Grant	2020
Graduate Student Fellowship, Swiss Finance Institute	2015-2016
ING Thesis Awards for the best master's thesis in economics or finance (Belgium)	2013
Undergraduate scholarship of the Belgian Government (Communauté Française)	2009-2011

Discussions

Folch, M. & Mazzone, L. *Go big or buy a home: Student debt, career choices and household formation*, SFI Research Days	2020
Stein, L. & Zhao, H. *Distracted directors: Evidence from directors' outside employment*, AFFI	2018
Hu, B. *Why do bigger firms pay more for performance?*, BFRF	2018
Jouvenot, V. *Does water management improve corporate value?*, SFI Research Days	2018

Non-Academic Work Experience

JP Morgan Asset Management, Summer Analyst	Geneva, 2014
Brussels Enterprise Agency, Private Equity Sector Analyst	Brussels, 2013
E-Capital Equity Mgmt. (Private Equity), Consulting Mission	Brussels, 2012-2013
Simon Kucher & **Partners**, Associate Consultant (Intern)	Brussels, 2012

Miscellaneous

Language skills: French (native), English (fluent), Dutch (good), German (basic), Italian (basic)
Programming skills: Python, R, Stata, LaTeX, Matlab
Summer schools: Behavioral finance (Prof. Kent Daniel, Gerzensee Summer School)

References

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