

ES Risks and Shareholder Voice

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Abstract:

Over the 2004 – 2016 period about 25% of all shareholder proposals relate to environmental and social (ES) issues, with majority being sponsored by asset management companies. Support for ES proposals has increased in recent years, but it remains the case that virtually none receive the minimum threshold support rate to pass. We find that failed ES proposals contain information about the firm's prospects. Specifically, the ES proposals that did not pass but received a support rate close to 50% threshold predict large negative returns and negative ES incidents in subsequent years. Examining the detailed records of mutual fund votes, we find that distorted incentives arising from myopia and agency problems by a subset of shareholders lead to these predictable firm outcomes. We compare the predictive power of investor support for failed ES versus failed non-ES proposals *within the same firm* and document that the predictability is unique to ES initiatives.

1. Introduction

Existing literature offers ambiguous conclusions on the value effects of firms' performance in environmental and social (ES) issues. One line of the literature finds that a high ES performance can provide valuable product market differentiation and insurance against aggregate negative shocks (Servaes and Tamayo (2013), Hong and Liskovich (2016), Albuquerque, Koskinen, and Zhang (2017), Lins, Servaes, and Tamayo (2017)). However, other studies suggest that agency issues lead to ES investments, harming shareholder value (e.g., Cheng, Hong and Shue (2013), Krüger (2015), Masulis and Reza (2015), Cheng, Hong, and Shue (2016), Cronqvist and Yu (2017)). Therefore, the question of whether ES initiatives increase or decrease shareholder value remain inconclusive.

Most of the empirical studies in this literature relies on third-party provided ES ratings. These commercial datasets have coverage problems and importantly, it is not uncommon that they provide contradictory ratings for the same firm (e.g., Gibson et al, 2019). Given the rising concerns with ES ratings, in this paper, we adopt an arguably more direct approach and focus on a specific channel through which shareholders can express their views on ES issues: shareholder proposals. During our 2004 – 2016 period, about 25% of all shareholder proposals relate to environmental and social (ES) issues, indicating that at least a group of shareholders feel that managers are not investing sufficiently in these areas. Examining the detailed records of ES-related shareholder proposals, we ask: Does collective voice expressed in ES proposals contain value-relevant information? If so, what is the nature of the information?

We obtain data on shareholder proposals from ISS. The data provides information on proposal content, from which we identify the proposals on ES issues, as well as information on the overall support rate and ISS's own recommendation. We also hand-collect detail on the person or organization sponsoring each proposal. While we don't observe the votes of all shareholders, we have the voting records of each mutual fund investor (thanks to the disclosure requirements introduced in 2003). Mutual funds are a major investor class which own 31% of the US equity market as of 2017.¹

ES proposals are unique in the sense that the support is increasing rapidly and over 50% are brought by asset management companies who have a fiduciary duty to focus on shareholder value, but they still almost never pass. Average mutual fund support increased fourfold over the 2004 – 2016 period, and ISS (the largest proxy advisory service company) is also increasingly recommending for these proposals. In 2016, the average mutual fund support was

¹ 2018 Investment Company Institute Factbook, https://www.ici.org/pdf/2018_factbook.pdf.

approximately 20%, and ISS supported 60% of these proposals.

Our first set of findings shows that the collective voice contain information about the firm's prospects. Specifically, we find that ES proposals that receive high support rates, but not enough to pass, significantly predict large negative returns in subsequent years. For instance, a one standard deviation increase in mutual fund support predicts an annualized 4-factor alpha of -1.4% in the following years. Interestingly, consistent with a subset of ES proposals having non-pecuniary motives, we find that the existence of an ES proposal does not have predictive power; it is the degree of support that predict future abnormal stock returns.

Further analyses provide detailed evidence on the channels underlying this relationship. We use RepRisk data to examine the relationship between the support rate on ES proposals and subsequent ES incidents, defined as the number of negative news experienced by the firm. Consistent with large negative returns that we document, we find that a one standard deviation increase in mutual fund support for ES proposals also predicts a 24% increase in the number of ES incidents in subsequent years.

A variety of tests confirm the robustness of our findings and associated conclusions. First, to mitigate concerns related to sample selection, we include firm fixed effects in all regressions, thus ensuring that results are not driven by the greater tendency of certain firms to receive ES proposals. Also as mentioned above, we find no evidence that the existence of an ES proposal predicts subsequent returns and incidents – rather, the predictive power comes from the level of support conditional on the presence of an ES proposal. Second, to further confirm the role of ES versus other issues, we compare the predictive power of investor support for failed ES versus failed non-ES initiatives, *within the same firm*. In contrast to the strong predictability results for the ES issues, we find no evidence that the support rate of failed non-ES issues similarly relates to subsequent returns. Finally, we conduct a bevy of placebo tests to strengthen the interpretation of the findings.

In the second portion of the paper, we aim to understand the mechanism giving rise to the predictability result. Our hypothesis is that distorted incentives by a subset of shareholders leads to predictable firm outcomes. It is possible that while a subset of shareholders identify value-relevant salient ES initiatives and support them, there are also shareholders with distorted incentives who object these initiatives. As a result, proposals may not pass and therefore management faces little pressure to implement the initiatives. If investor support was informative but the initiatives were nevertheless not implemented, then investor support is expected to predict subsequent negative company events.

Distorted incentives may arise due to a number of factors. First, more short-term focused funds will be less supportive of ES proposals if the cash flows related to these proposals are predicted to be negative in the short-term and if uncertainty impedes the market's ability to incorporate the positive long-run impacts into price. Second, funds that are friendlier to management may oppose ES proposals as a way to appease myopic managers. As shown by Cvijanović, Dasgupta, and Zachariadis (2016), Davis and Kim (2007), and Francis and Philbrick (1993), the existence of other business relationships with the firm and the desire to maintain access to management as a source of information can motivate mutual funds to vote with management. In particular, the uncertainty surrounding the value effects of the ES issues can exacerbate the agency problems – with higher uncertainty, the decision-making process is more opaque and thus more difficult to monitor, i.e., it is difficult to assess the influence of agency-related factors versus efforts to maximize shareholder value.

Our analysis confirms these predictions. First, we find that the predictability results are in fact driven by the proposals that have higher support from undistorted shareholders. To provide direct evidence on the voting behavior, we further evaluate these hypotheses using the records of mutual fund votes. We use fund turnover and flow-performance sensitivity to proxy for fund managers' horizons, (see, e.g., Iliev and Lowry (2015) and Giannetti and Kahraman (2017)), and we measure management friendliness from funds' past voting records, following Matvos and Ostrovsky (2008). We find supporting evidence for both myopia and friendliness, however, the analysis reveals that the latter appears to be economically more important. While a one standard deviation increase in shareholder myopia lowers the likelihood of voting for an ES proposal by 5.61%, the effect is a 22% lower likelihood for a one standard deviation increase in management friendliness. Consistent with our hypothesis, the effect of friendliness is pronounced among firms in which past management behavior suggests a greater focus on short-term goals. Moreover, the undistorted groups are more likely to support the proposals that are sponsored by asset management companies and proposals that ISS recommends for – arguably, these proposals are of higher quality and more value-relevant. For the remaining proposals (e.g., sponsored by individuals) there is a high degree of agreement between different groups of funds that the proposal should be rejected.

Furthermore, we compare the mutual fund votes in ES versus non-ES proposals *within the same firm* to assess the differential impact of myopia and friendliness influencing the votes in ES initiatives. Consistent with predictability results being only due to ES proposals, we find that the significant effects of myopia and friendliness arise for ES proposals. This is in line

with our conjecture that distorted incentives are expected to be severe in circumstances when there is a greater uncertainty regarding the value effects of an initiative.

While the main analysis focuses on utilizing the full sample, to sharpen the identification, we also provide a complimentary test whereby we repeat the analysis using a tight window around a quasi-natural experiment which arguably increased the perceived value of having strong environmental policies and safety procedures. Specifically, we follow Liang and Rennegorg (2017) and Dyck, Lins, Roth and Wagner (2018) and use the BP Deepwater Horizon oil spill in April 2010 and examine the change in voting behavior and predictability results in a 2-year period around the event date. We find that, on average, mutual funds became increasingly likely to vote for ES initiatives following this disaster. As one would expect, the effect is particularly strong for E initiatives and companies in the oil and gas sector. Using a triple-differences test, we examine the differential response by different groups of funds and we find that it is the distorted groups that have responded more to the shock on the margin. In line with these findings, we find that predictability is pronounced in the post period, consistent with votes becoming more informative and yet still not passing. In sum, this natural experiment provides added confidence in our conclusions.

Our paper is related to several streams of the literature. First and foremost, the paper contributes to the growing body of work which aims to understand the value effects of ES initiatives. Most papers in this literature focus on studying the relation between ES scores and stock returns. However, these scores are noisy and much of the evidence is mixed. Our focus on investors' support of salient ES initiatives provides several advantages: it reflects the opinions of entities with skin in the game in the form of ownership, it captures 'wisdom of the crowd', and finally it enables us to contrast the views of investors with different objectives. Our finding that investor support, in particular, the support by investors who are least sensitive to agency-related biases, predict subsequent abnormal returns represents strong evidence on the value-relevance of ES issues.²

Second, the paper contributes to the burgeoning literature examining shareholder activism by institutional investors on environmental and social issues. Thus far, most evidence on institutional activism on ES issues has focused on private engagements. Both Dimson, Karakas and Li (2015) and Hoepner et al (2018) look at the private engagements of a single large

² Our findings on the reasons why these initiatives do not receive stronger support relates to work by Brandon and Krüger (2018) and Starks, Venkat and Zhu (2017). While these papers find that investor horizon is related to ownership of ES stocks, we find that it plays a further role along the voice channel.

institutional investor, and they find that successful engagements contribute positively to firm value, but the probability of success is relatively low. Survey evidence of Krueger, Sautner and Starks (2018) highlights the extent to which institutions employ multiple channels in addition to private engagements, in particular, submitting shareholder proposals and voting against management. Different from private engagement studies (which typically uses data from one large shareholder), our setting enables us to examine the ways in which incentives of multiple entities – management, shareholders, ES proposal sponsors – interact to influence the final voting outcome on ES issues.

Finally, our paper contributes to the growing literature on mutual funds' votes. Prior literature in this area has mostly focused on agenda items related to director appointments, compensation, and governance. With respect to these issues, Davis and Kim (2007) and Cvijanović, Dasgupta, and Zachariadis (2016) show the role of business ties influencing funds' votes; Cai, Garner and Walkling (2009) and Iliev and Lowry (2015) examine the extent to which funds simply follow ISS's recommendations in proxy votes. Recently, Bolton, Li, Ravina, Rosenthal (2018) and Bubb and Catan (2018) place fund companies on a political scale from left (socially oriented investors) to right (greedy) according to the patterns in their votes. Their methodology is agnostic as to where ideology comes from and what it represents. In contrast, our approach links differences in voting behavior to economic incentives driven by differences in fund horizons and concerns about confronting management.

2. Data and Measures

Our primary data source is the ISS Voting Analytics database, from which we obtain shareholder proposals, as well as ISS's recommendations and mutual funds' votes on these proposals, over the 2004 – 2016 period. The beginning of our sample is dictated by data availability. Mutual funds have only been required to report their votes to the SEC since 2003, and 2004 represents the first year with high quality data. We end our sample in 2016 to enable us to follow the firms for several years after the vote. For each firm, ISS reports all proposals up for vote in each annual meeting and each special meeting, as well as the identity of the person, firm, or organization sponsoring the proposal. The proposals are categorized based on the issue. Our main analyses focus on the subset of proposals related to environmental and social (ES) issues. The most common ES proposals in our sample, as listed in the Voting Analytics database, include 'Social Proposal' (169), 'Improve Human Rights Standards or Policies' (149), 'Report on Sustainability' (149), 'GHG Emissions' (125), and 'Climate Change' (102). Appendix Table A1 provides a complete list of all ES proposals, along with

the number of each proposal type within our sample.

For each fund across the largest 250 mutual fund families, the Voting Analytics database provides detail on whether the fund voted for, voted against, or abstained on each proposal in each firm-meeting. Throughout our main analyses, mutual fund support is defined as voting for the proposal, and all other actions (voting against and abstaining) are categorized together as being opposed to the proposal.³ We merge these data with CRSP and Compustat, to obtain stock price and financial information for each firm, yielding a firm-year panel of 26,884 observations. Within this sample, there are 3,971 firm-years across 1,444 unique firms with shareholder proposals, and 1,196 firm-years across 400 unique firms with one or more ES proposals.

For each proposal, we obtain the name of the person or entity sponsoring the proposal. Based on name and extensive Google searches, we classify these sponsors into three groups: asset management companies, religious groups, and other, where other includes unions, NGOs, and individuals.

For each firm in our sample, we obtain data on media articles related to negative environmental and social issues from RepRisk. RepRisk screens over 80,000 public sources in 20 languages on a daily basis, with sources including print media, online media, social media, government bodies, regulators, think tanks, newsletters, and other online sources. Across these sources, they search for 28 mutually exclusive ESG issues that were defined in accordance with key international standards as set for example by the World Bank and OECD, plus three other categories more loosely named ‘other environmental’, ‘other social’, and ‘other governance’. We restrict our analysis to the 20 issues that relate to ES issues, with examples of categories including “local pollution”, social discrimination”, and “child labor”.⁴ Each identified ESG event is linked to all companies identified in the original source. Finally, for each firm month, RepRisk tabulates the number of articles on such issues.

For descriptive purposes, for each firm in our sample, we also obtain MSCI KLD data, which represents a ranking for each firm-year that summarizes the firm’s ES profile. For each category, KLD summarizes the strengths and concerns. Our firm-year score represents the average of strengths minus concerns, across five main categories: product, community,

³ About 20% of mutual fund votes are ‘Abstain’. We find no significant differences between voting against and abstaining.

⁴ A full list of the RepRisk topics, as well as more detail on RepRisk, can be found here: <https://www.reprisk.com/content/static/reprisk-methodology-overview.pdf>

employee relations, environment, and human rights.⁵

2.1. Basic Descriptive Statistics

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

A distinctive feature of ES proposals is that they hardly ever pass. Across our sample period, 16 ES proposals passed and 1750 failed. In comparison, 1,555 non-ES proposals passed and 4664 failed. Panel A of Figure 2 shows the level of support over time for these proposals. We plot both ISS support and average mutual fund support.

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

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

Panel B of Figure 3 shows that asset management companies sponsor a total of over 3,000 proposals over our sample period, with ES proposals representing 23% of this set.

⁵ As discussed in detail by Grewal, Serafeim and Yoon (2016), KLD data provides many advantages over other data sources, including for example a broader set of covered firms and more consistent coverage.

Religious group sponsors, on the other hand, initiate far fewer proposals (less than 500) and ES issues are a greater 61% of all sponsored proposals. The remaining sponsor group sponsors a considerable amount of proposals (2,500 in total), however only 13% of their proposals are focused on ES issues.

Figure 4 provides further insight on the types of issues on which ES proposals are focused. We group all ES proposals into three groups: ‘*action*’ includes all proposals that are focused on the firm making specific changes (e.g., implementing changes in investment policies); ‘*disclosure*’ includes all proposals that request the firm to provide more information related to their environmental and social policies; and, ‘*other*’ includes proposals related to all other issues that are relatively rare, such as Board oversight (e.g., to establish a committee) and proposals aimed at influencing suppliers (e.g., suppliers to adopt). Further details on this classification are included with the variable definitions in Appendix I. As shown in Panel A of Figure 3, disclosure proposals are the most common, with 876 proposals in this category. This is closely followed by action proposals, of which there are 633. The other category includes 164 proposals. Panel B shows the relative frequency of these different proposal types by sponsor. Approximately half of proposals by religious groups and entities in the other category relate to action items. Among asset management companies, proposals related to disclosure are somewhat more common.

Appendix Table A2 lists the five most frequent sponsors within each group, and Appendix Table A3 provides more detail on the most frequent types of proposals, within each sponsor group. For example, asset management companies are most likely to bring proposals asking for a ‘Report on Sustainability’, whereas religious groups are most likely to bring proposals asking to ‘Improve Human Rights Standards or Policies’.

Table 1 describes the characteristics of the firms receiving these ES proposals, where Panel A focuses on firm-level statistics and Panel B focuses on proposal-level statistics. Looking first at Panel A, we compare the 1,196 firm-years (400 unique firms) with ES proposals to two alternative samples: a broad sample of 36,926 firm-years (5,138 unique firms) with no ES proposals, and a subsample of 2,775 firm-years (1,044 unique firms) with at least one shareholder proposal but no ES proposals. We find that firm-years with ES-proposals tend to have a greater total number of proposals (13.4 on average), including more shareholder proposals (2.6 on average). The firms are also significantly larger (average market capitalization of \$46.4 billion), higher market-book (3.22), higher sales growth (0.06), higher ROA (0.15), and lower cash balances as a fraction of assets (0.11). They have significantly lower ES scores: -0.7, versus -0.1 across all firms with no ES proposals and 0.0 for the

subsample with at least one shareholder proposal. Variable descriptions are provided in Appendix I.

The top of Panel B describes the mutual fund owners of firm-years with ES proposals, compared to those with at least one shareholder proposal but no ES proposals. Among the ES proposal sample, mutual fund owners have significantly lower turnover (0.70 vs 0.72), where turnover is calculated as the rolling average of the fund's past 12-month turnover ratio (equal to minimum of aggregated sales or aggregated purchases of securities, divided by fund's average past 12-month total net assets). They also have lower flow-performance sensitivity (0.97 vs 1.14), calculated from rolling regressions of fund flows on the average four-factor alpha over the past 12 months. The mutual fund owners are slightly less likely to be index funds, slightly smaller, and have slightly lower returns over the past 12 months.

Finally, the last row of Panel B describes mutual fund owners' tendency to vote with management. Following Matvos and Ostrovsky (2008), we measure fund-management friendliness as the percent of past proposals on which the mutual fund voted with management, where proposals are restricted to management proposals on which ISS recommended against management. Overall, this measure of fund-management friendliness is slightly lower in the ES sample: 3.4% vs 3.7%.

3. Investor support for failed ES proposals and subsequent firm downside tail risk

Our first objective is to evaluate whether salient ES concerns expressed via votes in shareholder proposals are informative of subsequent firm downside tail risk. We limit our sample to proposals that fail (which eliminates less than 1% of all ES proposals), meaning it is unlikely that management implements these initiatives. As noted above, the fact that the concern is being raised in the form of a shareholder proposal generally indicates that management has not voluntarily agreed to the initiative. Further, proposals that receive less than the threshold level of support have a lower rate of implementation (compared to initiatives that pass).⁶ If managerial opposition stems from myopia and at least a portion of mutual funds are more long-term focused and have the ability to assess the salience of a proposal, then we would expect a positive relation between mutual fund support and future firm risk.

We use the full sample of firm years with CRSP, Compustat, and Voting Analytics data over the 2004 - 2016 period, a total of 26,884 observations. Following Hoepner, Oikonomou,

⁶ Cuñat, Giné and Guadalupe (2012) find a sharp discontinuity in the probability of implementing changes around the threshold point, generally 50%.

Sautner, Starks and Zhou (2018), we define firm downside risk based on the firm's four-factor alpha calculated in year t . Downside risk equals this alpha if the alpha falls below the 25th percentile across all sample observations, and it equals zero otherwise. We regress the downside risk measure on various proxies for the salience of ES-related concerns, measured from $t-2$ to $t-1$. All regressions include control variables that have been shown in prior literature to be related to firm risk as well as both year and firm fixed effects.

Column 1 of Table 2 begins by focusing on mutual fund support for the proposals. We regress downside risk on a dummy equal to one if there was a failed ES proposal from year $t-2$ to $t-1$, a dummy for whether there was a failed non-ES proposal in the same period, and each of these variables interacted with average mutual fund support. The omitted category against which these measures are compared represents firm-years with no failed shareholder proposals (either ES or non-ES), which includes both firm-years with no shareholder proposals and firm-years in which all shareholder proposals passed. The objective is to compare firm years with salient shareholder concerns that were rejected by firm management and therefore plausibly relate to subsequent firm risk, to firm years in which shareholders and management were in greater agreement on the appropriate course of action.

Findings indicate that greater mutual fund support for ES initiatives predicts greater tail risk in the subsequent year. One standard deviation increase in mutual fund support predicts 1.4% lower annualized abnormal returns (specifically tail risk) within the subsample of firm-year observations with at least one ES proposal. We find no evidence that the presence of an ES proposal itself is related to subsequent firm risk, as reflected by the insignificant coefficient on the Failed ES proposal dummy. First, this mitigates concerns related to sample selection. If some types of firms were more likely than others to receive such proposals and our controls did not completely capture such dynamics, we would have found a significant relation. Second, it is also consistent with the simple presence of an ES proposal being a poor proxy for the level of concern surrounding these issues. As discussed earlier, there is substantial heterogeneity in the type of proposal, in the objective of the proposal sponsor, and in the level of investor support.

Column 2 shows that inferences are similar when we measure support for the issue in terms of ISS support. Similarly, Column 3 shows that overall investor support, measured across all investors instead of just across mutual fund investors, is also positively related to subsequent firm downside tail risk, though statistical significance level is lower. This potentially reflects the fact that mutual funds are more sophisticated and/or devote more resources to evaluating the issues up for vote, compared to other investors included in the

overall support measure. While we are unable to test this directly, subsequent sections examine the effects of investor type by examining differences across types of mutual funds.

None of the specifications provide any evidence that support for failed non-ES proposals similarly predicts subsequent downside risk. This lack of significance is consistent with the market's greater understanding of issues underlying other shareholder proposals.⁷ In a world of perfect information and undistorted incentives, all proposals that contributed positively toward firm value would pass and all others would fail. This is obviously an extreme scenario and no shareholder proposals could plausibly be characterized as such. However, information quality is arguably lower on average for ES proposals, both because companies and investors have less experience evaluating these issues and because these issues are changing so rapidly. When combined with distortionary incentives such as investor myopia, this leads to a greater percentage of relevant ES proposals failing, and to a subsequent increase in firm risk.

The inclusion of firm and year fixed effects in all these regressions, combined with the fact that our measure of firm tail risk is measured as abnormal returns, should mitigate any concerns related to sample selection issues. Also, as noted above, the simple presence of an ES proposal is unrelated to subsequent firm downside risk. The results are obtained on the intensive margin, as captured by the interaction of ES proposal dummy and the support rate.

Column 4 contains a placebo test. The dependent variable is firm upside tail returns, which represents the analog of downside tail risk but captures the right tail of returns. Specifically, it is defined as the firm alpha if this alpha is above the 75th percentile, and zero otherwise. To the extent that ES initiatives are largely focused on lessening the probability of rare disasters, we would not expect a relation with this upside return measure. Results confirm this to be the case.⁸ As reported in Appendix Table A4, upside tail returns is similarly not related to either ISS support or Overall support on ES issues.

The significant relation between support for ES initiatives and subsequent firm tail risk suggests that these support levels capture the probability of a negative incident at the firm. Table 3 examines this directly. To capture the frequency of negative incidents, we use RepRisk data on the number of negative ES issues during the year; this represents the dependent

⁷ The most common failed non-ES proposals include proposals related to compensation and the calling of special meetings, issues about which market participants have considerably more evidence and arguably a better ability to evaluate.

⁸ We are unable to do a placebo test with real events, as measured by media coverage captured by RepRisk, because RepRisk only collects information on negative news.

variable. Similar to Table 2, we use the full sample of firm-years, and independent variables of interest include a dummy for the presence of an ES (or non-ES) proposal, interacted with the level of support. Consecutively, we examine mutual fund support, the level of ISS support, and the aggregate support across all investors. We also include the same set of controls and fixed effects.

Columns 1 – 3 indicate that failed ES proposals with higher investor support significantly positively predict future ES incidents. A one standard deviation increase in mutual fund support for ES proposals predicts a 24% increase in the number of negative ES incidents in subsequent two years.⁹ As with Table 2, the dummy for the existence of an ES proposal is not significant. Similar to Table 2, we also find no evidence that support for failed non-ES proposals have a similar positive predictive effect on ES incidents, however somewhat puzzlingly we find some evidence of a negative relation. However, coefficient magnitudes are relatively small, in particular relate to the ES counterparts.

Our findings of negative relations between mutual fund support for ES issues and negative subsequent firm outcomes provides an informative contrast to the engagement literature. Dimson et al (2015) and Hoepner et al (2018) find that more successful ES engagements are effective in lowering downside risk. In comparison, ES proposals with the highest support predict *higher* subsequent downside risk. The difference derives from the fact that although many ES shareholder proposals receive considerable support and although those with the highest support significantly predict subsequent firm risk, these proposals essentially never pass. As a result, management faces little pressure to implement the proposed initiatives. When viewed through this lens, our findings raise questions related to first, the ability of a disperse group of shareholders to achieve change, and second, the factors that lead many investors to not support these initiatives. Our results indicate that this lack of support relates to a greater incidence of ES related problems in the future.

In sum, results throughout this section are consistent with the idea that there are ES proposals aimed at reducing the incidents of rare disasters. These initiatives receive considerable investor support but not enough to pass the 50% threshold; therefore they are unlikely to be implemented. We find that such proposals predict negative firm outcomes. The next section examines the incentives of different sets of investors, to understand this apparent

⁹ To accurately capture economic magnitudes, we focus on the standard deviation of fund support within the subsample of observations with an ES proposal. A one standard deviation increase in fund support times the coefficient on fund support in column 2 of Table 3 (0.73) equals 0.1. Because the dependent variable represents $\ln(1+ES \text{ incidents})$, the associated percentage increase in the number of ES incidents equals $7.5^{0.1}=1.24$.

contradiction.

4. Funds' tendencies to vote for ES proposals

A broad body of literature, starting with Stein (1988, 1989) demonstrates that market forces can incentivize managers to be myopic. Similarly, mutual funds also face short-term pressures, for example as might arise from the structure of compensation contracts or career concerns. Following Benabou and Tirole (2010), we hypothesize that such short-term pressures contribute to the tendencies of both management and many investors to oppose these ES initiatives, even when they predict subsequent negative firm outcomes.

4.1. Blanket against votes in ES proposals: summary statistics

Table 5 examines the extent to which mutual funds indiscriminately vote against all ES issues, and it also provides initial evidence on heterogeneity across mutual funds. Funds that vote against 100% of ES proposals (and analogously 100% of non-ES proposals) are characterized as 'blanket voting' on ES (non-ES) issues.

We begin by examining blanket against votes at the fund family level, because many fund families vote as a unit on many issues. To this end, we identify all mutual fund families that voted on 30 or more ES proposals as well as those that voted on 30 or more non-ES shareholder proposals. As shown in Panel A of Table 5, blanket voting is significantly more common on ES proposals, compared to other shareholder proposals. Across the earlier 2004 – 2009 portion of our period, 15.42% of mutual fund families blanket voted against ES proposals, compared to only 1.95% for non-ES shareholder proposals. Interestingly, mutual fund families have become less likely to blanket vote against ES proposals in the more recent 2010-2016 period, with the rate declining to 7.94%.

We obtain similar statistics when we extend the sample by relaxing the minimum number of proposals per fund to three (instead of 30). The first observation is that the rate of blanket voting against both ES and non-ES proposals appears higher – this reflects the fact that voting against three proposals is a less stringent condition than voting against 30. The second and arguably more important observation is that overall conclusions regarding differences between ES versus non-ES proposals are similar.

In Panel B, we report the summary statistics on blanket (against) voting at the fund level, to allow for the fact that not all families vote as a block. We observe that similar inferences are obtained if we define blanket voting at the fund level instead of at the fund family level. The rate of blanket voting against ES proposals is higher at the fund level, which is

consistent with it being a less stringent criteria for a single fund to vote against all ES issues, compared to all funds across an entire fund family voting against. More importantly, conclusions are consistent with those from Panel A: the rate of blanket voting is substantially higher among ES issues than non-ES issues, and the rate of blanket voting in ES issues has declined over time.

Panel C of Table 5 provides descriptive evidence on the types of mutual funds that tend to blanket vote against on ES proposals, versus those that do not. As in panel B, we use the funds of families that do not vote as a bloc. Looking first at rows 1 and 2, funds that blanket vote against are much smaller, a significant difference of 2.30 billion vs 5.88 billion, and they have slightly lower returns over the past 12 months.

More directly related to the focus of the paper, the descriptive statistics provide initial suggestive evidence consistent with our conjecture that more short-term focused funds are more likely to vote against ES proposals. First, funds that blanket vote against, which we define using the 30-vote minimum, have significantly higher flow-performance sensitivity. This is our preferred measure of short-termism as it directly incorporates investor preferences, i.e., the extent to which the fund investors (and potential investors) increase or decrease their positions in response to performance. As originally proposed by Shleifer and Vishny (1997), funds with high flow-performance sensitivity are reluctant to invest in companies that may experience poor performance in the short-run, even if these companies have strong long-term prospects. This measure has been employed by Giannetti and Kahraman (2017) and Hombert and Thesmar (2014), among others.

Also consistent with the effects of investor short-termism, Panel C shows that the funds that blanket vote against have significantly higher turnover, 0.76 versus 0.68. Turnover is a commonly used metric of a short horizon, as funds that hold securities for short periods rationally seek to maximize firm performance over similar time frames.¹⁰ In a similar vein, funds that blanket vote against are also significantly less likely to be index funds, 23% versus 36%.

Finally, the blanket vote against funds are significantly friendlier toward management, which we measure as the percent of past proposals on which the fund voted for management, among the set of past management proposals where ISS recommended against management.

¹⁰ Prior literature on short-termism among 13F institutions, including for example Gaspar, Massa and Matos (2005), generally use the churn ratio. This is driven by the lack of turnover data at the institutional level. Because turnover ratios are available for mutual funds, we do not use the churn ratio, which is arguably less precise.

By definition, these ES shareholder proposals are all opposed by management, suggesting that investors who tend to be more supportive of management would be more likely to similarly oppose the initiatives. The motivations for investors to support management potentially derive from multiple sources. Davis and Kim (2007) and Cvijanović, Dasgupta, and Zachariadis (2016) conclude that mutual fund families are more likely to vote with management if they manage the firm's pension fund assets. Iliev and Lowry (2015) find that 8% of mutual funds vote with management on all issues up for vote across all firms, over a five-year sample period. We do not take a stance on why certain mutual funds are more likely to vote with management, but just recognize that certain funds are incentivized to behave in this manner. We find that the blanket-vote against funds vote for 4% of ES issues, compared to only 3% among other cases, with the t-stat of 10.4.

4.2. Fund heterogeneity in tendency to support ES proposals: regression analysis

This section examines the differences in investors' tendencies to support ES issues within a regression framework. Table 6 focuses on the influence of investors' horizon, and Table 7 focuses on funds' friendliness toward management and managerial short-termism. For each, the sample consists of mutual funds' votes on shareholder proposals related to ES issues, in annual and special meetings over the 2004 – 2016 period. Regressions are OLS, and the dependent variable equals one if the mutual fund votes for the proposal in the firm meeting, and zero if it votes against or abstains. We control for a variety of firm characteristics as well as ISS's recommendation. All regressions also include firm fixed effects, sponsor type fixed effects (asset management, religious group, or other), proposal category fixed effects (ISS 4-digit code), and year fixed effects. We include specifications both with and without fund fixed effects, to enable us to examine both cross-fund and within-fund effects.

Looking first at Table 6, independent variables of interest include our two measures of short-termism: flow-performance sensitivity in columns 1 and 2, and turnover in columns 3 and 4. Looking first at Column 1, results indicate that a one standard deviation increase in flow performance sensitivity is associated with a 5.61% lower likelihood of voting for ES proposals.¹¹ Mutual funds who tend to experience greater inflows when performance is higher (and outflows when performance is lower) are more concerned with the short-term performance of every firm in their portfolio. As such, they are less likely to support firm

¹¹ The standard deviation of flow-performance sensitivity is 0.0593, times the coefficient of -0.128 equals -0.00759, which divided by the sample mean of the dependent variable (0.1353) equals -5.61%

initiatives that will only contribute positively to value over the long-run, with the possibility of negative repercussions in the shorter term. Finally, while it is presumably not surprising that ES funds are significantly more likely to vote for ES proposals, the magnitude is striking, at 33%. The other most economically significant variable is the ISS recommendation, which is consistent with findings in prior literature. Even after controlling for all other observable factors, mutual funds are 27% more likely to vote for a proposal that ISS supported.

Column 2 shows a similar regression, but it includes fund fixed effects. As such, it is testing whether a given fund is less likely to vote for an ES proposal in years when its flow-performance sensitivity is higher. This much more stringent specification further highlights the effects of funds' incentives on their voting behavior. Within a given fund, a one standard deviation increase in flow-performance sensitivity is associated with a 2.72% lower likelihood of voting for an ES proposal. A comparison of economic magnitudes across columns 1 and 2 suggests that approximately half of the effect is driven by differences across funds (that are not accounted for by observable fund characteristics included as controls) and half by inter-temporal differences within each fund.

Columns 3 and 4 show similar specifications, using turnover as a measure of a fund's short-term incentives. A fund with higher turnover is less likely to own any stock far into the future. If the positive effects of ES initiatives are more likely to only be realized far into the future, then high turnover funds will be less likely to vote for them. This is exactly what we find, both across fund-years (column 3) and across years within a given fund (column 4).

Table 7 presents a similar set of regressions, but the focus is fund friendliness toward management. We start in column 1 by regressing fund votes on fund-management friendliness. As before, fund vote is defined as a dummy equal to one if the fund votes for the ES proposal and zero otherwise. Fund-management friendliness is defined as the percent of proposals on which the fund voted for, among the subset of past proposals where ISS recommended against. Consistent with certain mutual funds having incentives to be friendlier toward management and thus not supporting initiatives that management opposes, we find that greater fund-management friendliness is associated with a significantly lower probability of voting for ES proposals. A one standard deviation increase in friendliness is associated with a 22.0% lower likelihood of voting for the shareholder proposal.¹²

¹² This is calculated as the standard deviation of friendliness of 0.0976, times the coefficient of -0.310, divided by the sample mean of the dependent variable (0.1372).

Subsequent columns explore this finding further, by relating it to management's preferences. The fact that a shareholder proposal is up for vote provides a strong signal that management opposes the initiative. In many cases, the proposal's sponsor has previously discussed the issue with management, and they have been unable to reach an agreement (see, e.g., McCahery, Sautner, and Starks (2016)). Following Benabou and Tirole, we hypothesize that myopia among top management contributes to their opposition of at least some ES initiatives.

To proxy for the extent of managerial short-termism, we use a dummy equal to one if the firm's earnings per share (EPS) or net income (NI) in the past year is just above zero. Alternatively, we also use the percent of the past five years in which EPS and NI, respectively, were just above zero. Hayn (1995) and Burgstahler and Dichev (1997) find a discontinuity in firms' earnings, with firms being significantly more likely to have values just above zero than just below zero. Roychowdhury (2006) concludes that firms engage in real earnings management, i.e., altering operational-related factors such as R&D, inventories, and receivables, to avoid negative earnings. This earnings management indicates a focus on short-term goals, suggesting that these managers would be particularly opposed to undertaking ES proposals; many of these projects are characterized by upfront costs, with many benefits only recognized far into the future. Based on this logic, we predict that the lower likelihood of management-friendly funds to vote for ES proposals will be more pronounced among firms where management is under more short-term pressure, as proxied by these earnings management metrics.

Columns 2 – 5 of Table 7 provide strong support for these predictions. In columns 2 and 3, we introduce a dummy equal to one if EPS over the past year was between 0 and 0.10, and a dummy equal to one if NI over the past year was between 0 and \$20 million, respectively. In columns 3 and 4 earnings management is based on firm financial performance over the past five years, defined as the percent of years in which each of these measures, respectively, was within the defined narrow band just above zero. Results across all specifications are consistent with predictions. The coefficient on fund-management friendliness continues to be significantly negative, indicating that these funds are less likely to vote for ES proposals. Moreover, the magnitude of the effect is significantly larger in firm-years in which recent earnings were barely above zero, as evidenced by the significantly negative interaction terms.

The incremental effect on funds' propensities to vote for the proposal is -1.2 to -4.2%, relative to the -22.0% effect from Column 1.¹³

Table 8 examines the robustness of these conclusions to broadening the sample to include mutual fund votes on both ES and Non-ES shareholder proposals. Findings are similar. Looking first at column 1, while mutual funds overall are 10% less likely to vote for ES proposals, the effect is reversed for funds with a longer horizon, as measured by their flow-performance sensitivity. In Columns 2 - 5, the coefficient of interest is the triple interaction term, ES proposal \times Fund management friendliness \times Earning management. Looking first at column 2, where we measure earnings management as net income over the past one year being within a narrow band above zero, the coefficient on this triple interaction term is significantly negative, consistent with predictions. Conditional on management being short-term focused, the tendency of management-friendly funds to vote for management is significantly higher in ES issues than non-ES issues. Interestingly, we find no comparable effect for non-ES issues, as evidenced by the insignificant coefficient on the double interaction term, Fund management friendliness \times Earning management. The coefficient on this triple interaction term is negative across all four specifications (columns 2 – 5), and significant in two of the four.

Results throughout this section highlight the extent to which fund short-termism and fund-management friendliness contribute to funds' lack of support for ES issues, despite their significant relation with subsequent firm downside risk. In addition, short-termism among management also plays a role, with management-friendly funds being significantly more likely to vote against ES proposals when management is more short-term focused.

4.3. Quasi-natural experiment

4.4. Differences in voting behavior conditional on proposal sponsor characteristics

If the disparities in funds' likelihoods of voting for ES proposals are driven by short-termism, then the differences should be greatest within the subsample of ES proposals that are more likely to be value-increasing. If we could perfectly measure the value effects of each ES proposal, we would expect no mutual funds to vote for proposals that are value-decreasing. In contrast, we would observe a disparity among proposals that were value-increasing, with short-

¹³ Table A6 of the Internet Appendix shows the robustness of these results to controlling for fund fixed effects, suggesting that these effects also vary over time within a fund.

term focused funds being less supportive. We test this conjecture in Tables 10 and 11, using two proxies for the likelihood that a proposal is value-increasing. In each table, we first subset by whether the proposal is sponsored by an asset management company (columns 1 – 3). Compared to other proposal sponsors, asset management companies have a stronger fiduciary duty obligation.¹⁴ Second, we subset by whether it is supported by ISS (columns 4 – 6). We note that these categorizations are correlated, but not perfectly so. Internet Appendix Table A5 shows that ISS is significantly more likely to recommend for proposals sponsored by asset management companies, even after controlling for firm financial characteristics and even firm, year, and proposal category fixed effects.

Looking first at Table 10, columns 1 and 2 split the sample based on whether or not the proposal was sponsored by an asset management company. Results are consistent with the above predictions. The coefficient on our proxy for fund horizon, flow-performance sensitivity, is greater within the subset of proposals sponsored by asset management companies. Column 3 confirms that this difference is significant. We combine all proposals into a single sample, and we regress the dummy *Vote For* on fund-performance sensitivity and fund-performance sensitivity interacted with a dummy equal to one if the proposal was sponsored by an asset management company. Both flow-performance sensitivity and the interaction term are significantly negative. A one standard deviation increase in flow-performance sensitivity is associated with a 6.38% lower likelihood of voting for a proposal sponsored by an asset management company, compared to a lower 4.39% likelihood among other proposals.

Columns 4 – 6 provide even stronger evidence. We find that the greater propensity of funds with greater flow-performance sensitivity to vote against ES proposals is entirely concentrated within the subsample of proposals for which ISS recommends for. Among cases where ISS recommends for, a one standard deviation increase in flow-performance sensitivity is associated with an 8.69% lower likelihood of voting for the ES proposal relative to the mean, compared to no significant effect among the cases that ISS does not support. Column 6 confirms this conclusion and shows that the difference between these subsamples is statistically significant.

¹⁴ In our main specifications, all religious affiliated entities are included in the non-asset management company category. Results are qualitatively similar if we instead include religious funds with the asset management companies.

Panel A of Table 11 explores similar dynamics, with a focus on the relation between fund management friendliness and the likelihood that the ES proposal is value-increasing. Using a structure that follows Table 10, columns 1 and 2 partition the sample based on the identity of the proposal sponsor. Results are consistent with earlier findings. Focusing on column 3 where we combine all ES proposals together, the coefficient on the interaction term is significantly negative. Inferences from columns 4 – 6 are similar, but as in Table 10 the effects are substantially stronger when we partition by ISS’s recommendation. Across proposals on which ISS recommends *For*, a one standard deviation increase in management friendliness is associated with an 6.35% lower probability of voting *For*. In contrast, across proposals on which ISS recommends *Against*, management friendliness has a much smaller effect, only -1.92%. Column 3 confirms that this difference is statistically significant, with a t-statistic of over 14.

Panel B tests the further prediction that the effects of fund management friendliness should be strongest when management is more myopic, which following earlier analyses we define as recent years’ NI or EPS being in a narrow band above zero. Following the structure in panel A, columns 1 – 4 focus on the differential effects of proposals sponsored by an asset management company versus another entity, and columns 5 – 8 focus on the differential effects of proposals for which ISS recommends *For* versus *Against*. We measure managerial short-termism in the same four ways as in Table 9, i.e., NI and EPS within a narrow band above zero within the past one-year or five-year horizons. Across the eight columns, the variable of interest is the triple interaction term, Key Proposal \times Earning mgmt. \times Fund management friendliness. We find that this coefficient is negative as predicted in six of the eight specifications, and significant at conventional levels in four cases. In sum, across Table 9 and Panels A and B of Table 11, results support the conjectures that management friendly funds are significantly less likely to support ES proposals, in particular when management is more myopic; moreover, the wedge between these fund types is widest among proposals more likely motivated by shareholder value, as proxied by an asset management company sponsor or an ISS *For* recommendation.

In sum, across proposals that are less likely to be value-increasing we find more evidence of all shareholders voting against, with investor’ specific characteristics and incentives playing less of a role. In contrast, within the sample of proposals that are more likely to be value-increasing, both shareholders’ horizon and fund-management friendliness are significant determinants of their level of support.

5. Discussion

In aggregate, our results provide two key takeaways. First, the level of mutual fund support on failed ES proposals predicts subsequent firm risk. Second, the fact that these initiatives do not obtain higher support, despite their relation to subsequent negative company outcomes, is explained in part by opposition among mutual funds that focus on more short-term outcomes and/or who are more friendly toward management.

The underlying premise, and one that our results consistently support, is that more long-term focused funds who are less biased by incentives to be friendly toward management are more likely to vote based on underlying value considerations. Table 12 tests this proposition directly. We posit that the predictive power of mutual funds' votes on ES initiatives for subsequent company risk will be concentrated within the votes of more long-term, less management friendly funds.

Looking at Table 12, columns 1 and 3 show regressions similar to those in Table 2, where the dependent variable is subsequent company tail risk. Columns 2 and 4 show regressions similar to those in Table 3, where the dependent variable is subsequent company negative ES incidents, as reported in RepRisk. The first independent variables of interest is the failed ES Proposal dummy interacted with average vote support among mutual funds most focused on shareholder value, defined as long-horizon, non-management friendly funds. The conjecture that support among the more shareholder-value focused funds has the most predictive power suggests that this interaction term will be significantly negative in column 1 where the dependent variable is downside tail risk, and it will be significantly positive related to subsequent ES incidents in column 2.

Analogously, the second independent variable of interest is the failed ES Proposal dummy interacted with average vote support among mutual funds most influenced by agency factors, defined as short-horizon, management friendly funds. To the extent that these funds' votes are less motivated by value-related factors, we predict that this interaction term will be insignificantly related to subsequent company risk.

We define average support among these mutual funds in two alternative ways. In columns 1 and 2, we define support among long-term, non-friendly funds as total For votes by these funds as a fraction of all mutual fund votes. In columns 3 and 4, we define it as total For votes by these funds as a fraction of all votes by this set of funds. In other words, in columns 1 and 2, the denominator is all fund votes, whereas in columns 3 and 4 the denominator is votes by this particular subset of funds. Support among short-term, friendly funds is defined analogously. Short-term funds are defined as those with an above-median flow-performance

sensitivity, and all other funds are considered long-term, similar to Table 2. Friendly funds are defined as those that vote with management conditional when ISS votes against, and all other funds are considered non-friendly, similar to Table 3. Regressions also include a failed ES Proposal dummy, a failed Non-ES Proposal dummy, and control variables used in earlier tables.

Across all four columns, results strongly support predictions. We find that support of ES proposals by funds most focused on shareholder value, i.e., long-term funds that are not friendly toward management, significantly predicts subsequent company risk. It predicts more negative subsequent downside tail risk, and it predicts significantly more ES incidents in the future.

6. Conclusion

Environmental and social issues are a topic of increasing focus, within regulatory, academic and executive circles, in part because various factors make it difficult for firms and investors to choose the ‘right’ course of action. First, the objective of many of these initiatives is to mitigate the likelihood of rare events, and it is difficult to estimate changes in low probability events and even harder to estimate the associated monetary benefits. Second, when the value proposition of an initiative is uncertain, individuals can be more easily influenced by other factors. In a perfect information world, advocating a value-decreasing course of action is more likely to have adverse consequences. At a minimum, there would be some reputation costs. In contrast, when uncertainty is higher, it is less clear whether an individual’s decision is motivated by distortionary incentives, for example short-termism, or by disagreement regarding the underlying value effects of the proposal. ES-related investments tend to have long time horizons, with many unknown factors that make it difficult to ascertain effects on firm value.

It is arguably not surprising that there exists considerable heterogeneity in the quality of ES shareholder proposals. However, our results highlight the extent to which mutual funds, as a group, identify this heterogeneity. Proposals with higher investor support, but which management opposes and which do not pass, are associated with significantly higher subsequent firm risk. This finding relates to risk measured in terms of stock returns and to risk measured in terms of real events. While each individual investor may struggle to identify the value proposition of these proposals, there is significant information in the aggregate group behavior.

The finding that the failed proposals with highest investor support significantly predict future firm downside risk raises the question of why more than 50% of mutual funds are voting against these initiatives. Along this dimension, our results highlight the ways in which myopia among mutual funds, myopia among firm managers, and funds' concerns about confronting management represent an impediment to improvements on ES issues. Investors that are more focused on long-term value creation, for example less myopic and less influenced by management recommendations, are more likely to support these proposals.

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Appendix I: Variable Descriptions

Variable Label	Definition
Proposal variables	
ES proposal	A dummy variable that equals one if the proposal relates to environmental or social (ES) issues
ISS for	A dummy variable that equals one if ISS recommends for the proposal
Asset mgmt sponsor	A dummy variable that equals one if the proposal is sponsored by an asset management company
Religious group sponsor	A dummy variable that equals one if the proposal is sponsored by a religious group (including religious funds)
Other sponsor	A dummy variable that equals one if the proposal is sponsored by individuals, union, or NGOs
Mutual Fund variables	
Vote For	A dummy variable that equals one if the fund votes for the proposal, zero otherwise
FPS	Flow-performance sensitivity estimated from 36 month rolling regressions where fund flows are regressed on average 4-factor alpha in the past 12 months. It is divided by 100 in regressions.
Turnover	Rolling average of fund's past 12-month turnover ratio; turnover ratio is defined as the minimum (of aggregated sales or aggregated purchases of securities) divided by fund's average past 12-month total net assets
Fund-mgmt friendliness	Historical average of fraction (in %) of management-sponsored proposals that fund supports when ISS recommends against until time t
ES fund	A dummy variable that equals one if the fund has one of ES related words ("environment", "environmentally", "climate", "green", "social", "socially", "responsible") in its reported name
Index fund	A dummy variable that equals one if the fund is identified as an index fund by CRSP or the fund has the word "index" in its reported name
Log TNA	Natural logarithm of fund's total net assets as of month-end (in billions)
Fund alpha	Average monthly 4-factor alpha estimated from past 12 month rolling regressions
Firm variables	
Downside Tail Risk	Value of firm's 12-month average 4-factor alpha if alpha is below the 25 th percentile of the sample; equals zero otherwise. Estimated using daily data; daily alphas are then annualized
Upside Tail Return (analogous to downside tail risk)	Value of firm's 12-month average 4-factor alpha if alpha is above the 75 th percentile of the sample; equals zero otherwise. Estimated using daily data; daily alphas are then annualized

Incident incidents count	Natural logarithm of one plus the total number of news reports on negative environmental and social incidents of the firm in a given year. Data provided by RepRisk and is available from January 2007
Mutual fund support	Average fund support across all ES proposals in a given company over a k year period; k equals 2
ISS support	Average ISS support across all ES proposals in a given company over a k year period; k equals 2
Overall support	Average fund support across all ES proposals in a given company over a k year period; k equals 2
Log MV	Natural logarithm of market capitalization defined as price times shares outstanding as of fiscal year-end (in millions)
IVOL	Idiosyncratic volatility of firm's 12-month abnormal daily stock returns (4-factor alpha)
M/B	Market value of equity divided by book value of equity as of fiscal year-end. Book Equity is the book value of stockholders' equity, plus balance sheet deferred taxes and investment tax credit (if available), minus the book value of preferred stock. Depending on availability, we use the redemption, liquidation, or par value (in that order) to estimate the book value of preferred stock. Stockholders' equity is the value reported by Moody's or Compustat, if it is available. If not, we measure stockholders' equity as the book value of common equity plus the par value of preferred stock, or the book value of assets minus total liabilities (in that order). Market equity is price times shares outstanding.
ROA	Earnings before interest, tax, depreciation and amortization (EBITDA) as of fiscal year-end divided by previous year's total assets
Dividend yield	Common plus preferred dividends divided by the sum of market value of common stocks and book value of preferred stocks, as of fiscal year-end
Past firm return	12-month buy-and-hold stock (raw) return
Cash	Sum of cash and cash equivalents divided by total assets, as of fiscal year-end
Sales growth	Growth rate of sales over the fiscal year
Amihud illiquidity	12-month average of daily illiquidity ratio: $1000\sqrt{ Return }/(Dollar\ Trading\ Volume)$
Inst ownership	Total number of shares held by 13F institutions divided by stock's total shares outstanding, as of (calendar) quarter-end
Earning mgmt EPS (Net Income) 1yr	A dummy variable that equals to one if EPS in the most recent fiscal year before the meeting was between 0 and 0.1 (NI between 0 and \$20 million) .
Earning mgmt EPS (Net Income) 5yr	The fraction of years where the EPS was between 0 and 0.1 (NI between 0 and \$ 20 million) in the most recent past five years before the meeting.
ES score	Equal-weighted average of company's net strength (strengths minus concerns) across ES-related KLD categories. To be consistent with our definition of ES proposals, we use the

KLD categories of “product”, “community”, “employee relation”, “environment”, and “human rights”. Available annually and through 2014

Proposal Categorizations

We use the variable ItemDesc made available by ISS to categorize all ES proposals as *Disclosure*, *Action*, or *Other*.

Proposals are categorized as *Disclosure* if ItemDesc includes one of the following words: “Report”, “Disclose”, “Provide information”, “Publish”.

Proposals are categorized as *Action* if ItemDesc includes one of the following words: “Add”, “Adjust”, “Adopt”, “Apply”, “Commit”, “Develop”, “Endorse”, “Formulate”, “Implement”, “Include”, “Increase”, “Institute”, “Identify”, “Inform”, “Institute”, “Invest”, “Label”, “Link”, “Minimize”, “Phase in”, “Place”, “Purchase”, “Reduce”, “Reformulate”, “Cease”, “Discontinue”, “Divest”, “Exclude”, “Eliminate”, “End”, “Prohibit”, “Remove”, “Amend” Improve” .

The *Other* category includes proposal types that are rare, for example proposals related to board oversight (“Establish Committee” “Board Oversight”, Require Director Nominee) or proposals aiming to influence suppliers (“Suppliers to Adopt”, “Suppliers to Disclose”).

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

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

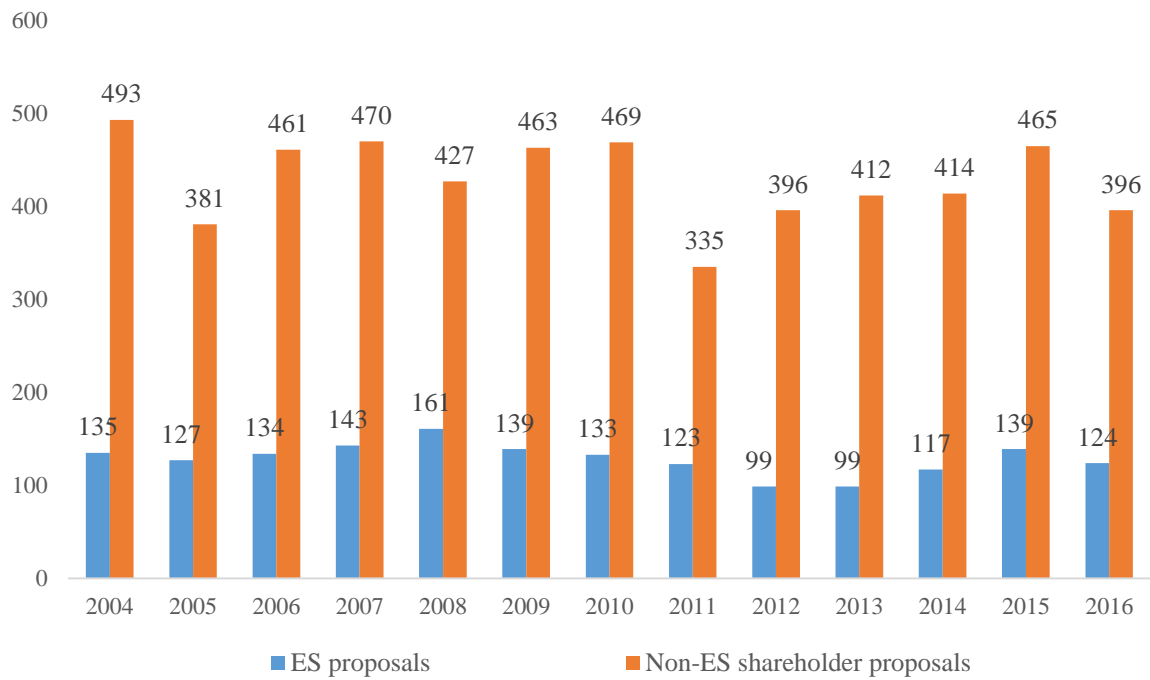
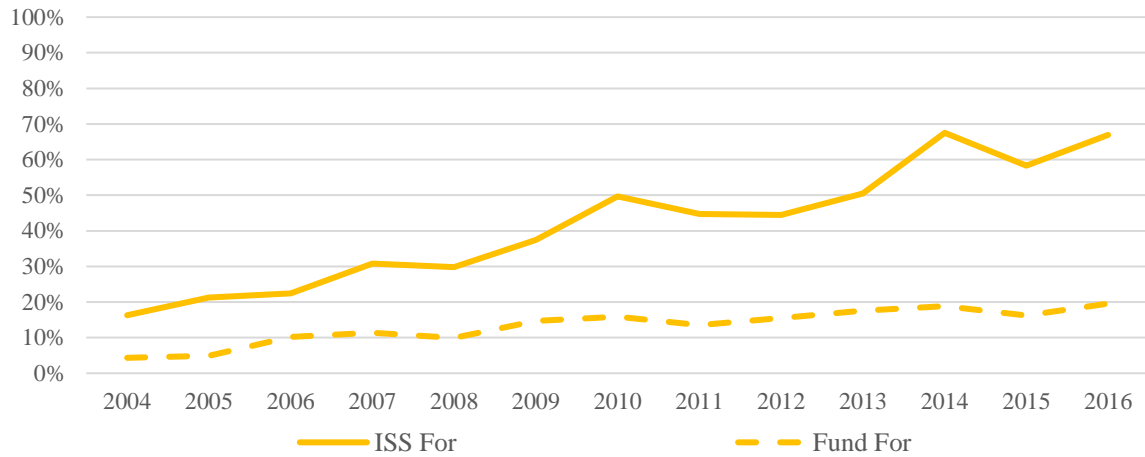


Figure 2. Distribution of fund votes and ISS recommendations on ES proposals over time

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

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



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

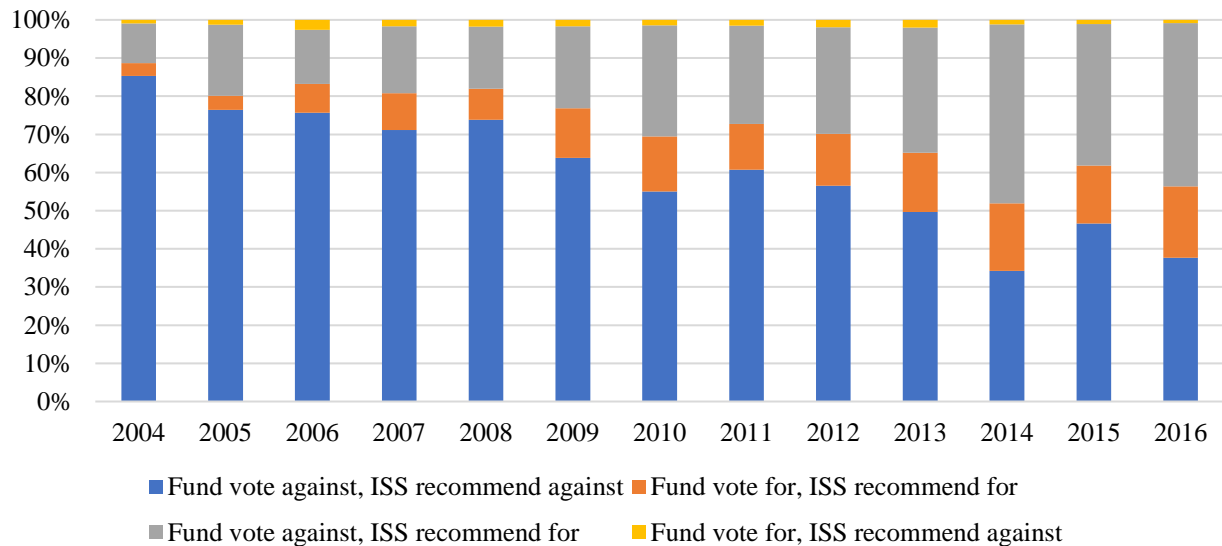
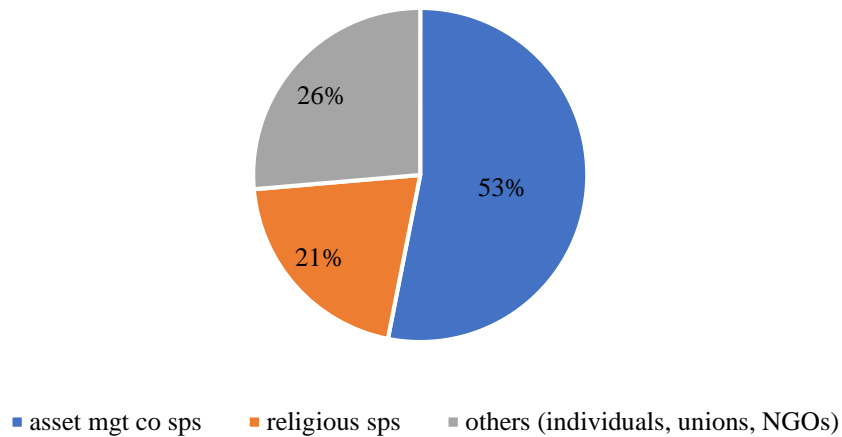


Figure 3. Proposals by sponsor types

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

Panel A: Distribution of ES Proposals, by sponsor type



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

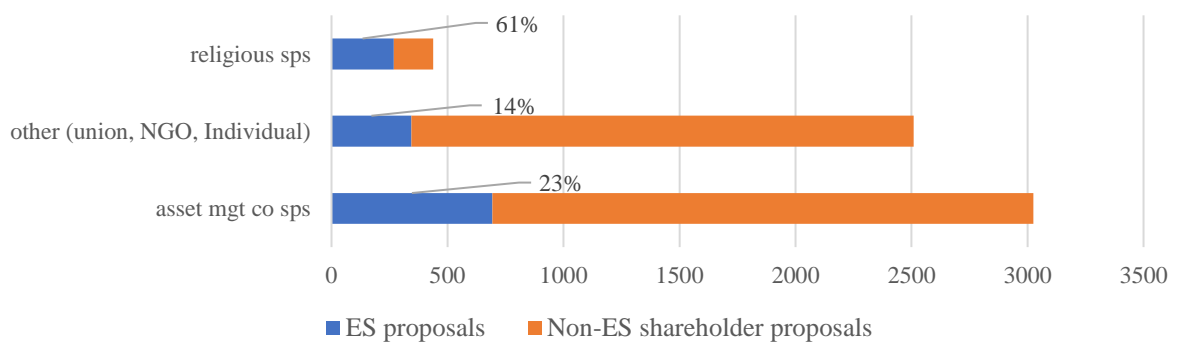
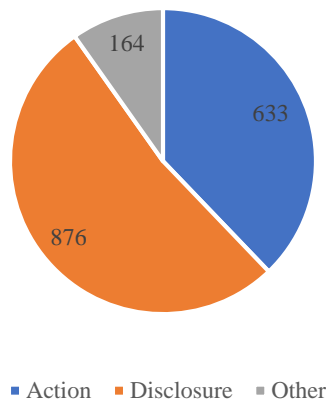


Figure 4. Summary statistics on proposal types

The sample includes all firms with one or more ES shareholder proposals, over the 2004 – 2016 period. We classify ES proposals into 3 categories: Action, Disclosure, and Others. For this classification, we use the variable *ItemDesc* made available by ISS. Disclosure ES proposals have one of the following words in *ItemDesc*: “Report”, “Disclose”, “Provide information”, “Publish”. Action ES proposals have one of the following words in *ItemDesc*: “Add”, “Adjust”, “Adopt”, “Apply”, “Commit”, “Develop”, “Endorse”, “Formulate”, “Implement”, “Include”, “Increase”, “Institute”, “Identify”, “Inform”, “Institute”, “Invest”, “Label”, “Link”, “Minimize”, “Phase in”, “Place”, “Purchase”, “Reduce”, “Reformulate”, “Cease”, “Discontinue”, “Divest”, “Exclude”, “Eliminate”, “End”, “Prohibit”, “Remove”, “Amend” Improve”. The third category include the type of proposals that are rare. These include proposals related to board oversight (“Establish Committee” “Board Oversight”, Require Director Nominee) or proposals aiming to influence suppliers (“Suppliers to Adopt”, “Suppliers to Disclose”). Panel A shows the distribution of 3 proposal types in the full sample, Panel B reports this information conditioned on sponsor type.

Panel A: Types of ES proposals



Panel B: Types of ES proposals, by sponsor

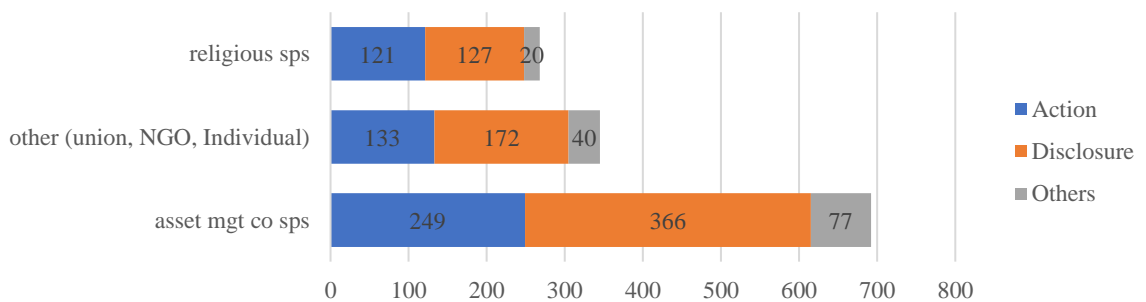


Table 1. Descriptive Statistics

The sample includes firm-years over the 2004 – 2016 period. Panel A presents statistics at the firm-year level. The first column includes 1,196 firm-years with one or more ES proposals. Column 2 includes 36,926 firm years in which there are no ES proposals, and column 3 shows the difference between column 1 and column 2, with asterisks ***, **, and * denoting significance level of the difference at the 1%, 5%, and 10% levels, respectively. Column 4 includes 2,775 firm years in which there are one or more shareholder proposals, none of which pertain to ES issues, and column 5 shows differences between columns 1 and 3, with asterisks similarly denoting significance levels. Variables related to the number of proposals represent the total number of each proposal type at the annual meeting. Past return and Amihud illiquidity are calculated in the 12 months preceding the meeting date. Institutional ownership is as the quarter end before the meeting date. All other variables are calculated in the fiscal year end before the meeting. The ES score is based on the more limited 2004 – 2014 sample period, due to data availability. All variables are defined in the Appendix I. Panel B shows average fund characteristics statistics at the proposal \times mutual fund investor level. Column 1 includes 376,058 fund \times proposal observations on ES proposals, and column 2 includes 1,160,536 fund \times proposal observations on non-ES shareholder proposals. Column 3 shows the difference between the columns.

Panel A: Firm level

	All ES firms #unique firms = 400 # firm-yrs =1,196 Average	All Non-ES Firms #unique firms = 5,138 # firm-yrs = 36,926 Average Avg. Diff		Non-ES firms with 1+ SH props #unique firms = 1,044 # firm-yrs =2,775 Average Avg. Diff	
#proposals	13.41	7.42	5.99***	11.18	2.23***
#Shr proposals	2.64	0.11	2.54***	1.56	1.09***
#ES proposals	1.39	0	1.39***	0	1.39***
MV (Millions)	46,214.18	4,355.92	41,894.66***	21,541.51	24,672.67***
M/B	3.22	2.90	0.32***	3.00	0.22
ROA	0.15	0.08	0.06***	0.11	0.03***
Dividend yield	0.02	0.01	0.01***	0.02	0.00
Cash	0.11	0.18	-0.07***	0.12	-0.01**
Sales growth	0.06	0.15	-0.09***	0.07	-0.02*
Past firm return	0.13	0.13	-0.00	0.13	0.01
Amihud illiquidity	0.02	0.09	-0.08***	0.03	-0.02***
Inst ownership	0.70	0.58	0.11***	0.70	-0.01
ES Score	-0.7	-0.1	-0.6***	0.0	-0.7***

Panel B. Proposal × Mutual Fund Investor level

	All ES Proposals (N=376,058) Average	All Non-ES Shareholder Proposals (N=1,160,536) Average	Avg. Diff
<i>Fund characteristics</i>			
Turnover	0.70	0.72	-0.02***
FPS	0.97	1.14	-0.16***
Index fund	0.34	0.35	-0.02***
TNA (Billions)	5.22	5.38	-0.16***
Fund alpha	0.60%	0.63%	-0.03%***
Fund-mgmt friendliness	3.4%	3.7%	-0.3%***

Table 2. Support for failed ES proposals and subsequent tail returns

This table shows the relation between failed shareholder proposals and subsequent downside tail risk. The dependent variable in columns 1 - 3, *Downside Tail Return*, equals the firm's 12-month 4-factor alpha in year t if alpha is below the 25th percentile of the sample; it equals zero otherwise. The dependent variable in column 4, *Upside Tail Return*, equals the firm's 12-month 4-factor alpha in year t if alpha is above the 75th percentile of the sample; it equals zero otherwise. *ES Proposal* is a dummy variable that equals 1 if the firm has at least one failed ES proposal from $t-1$ to $t-2$. *Non-ES Proposal* is a dummy variable that equals 1 if the firm has at least one failed non-ES proposal from $t-1$ to $t-2$. *Support for ES* equals the average support rate in firm's failed ES proposals from $t-1$ to $t-2$. Similarly, *Support for non-ES* equals the average support rate in firm's failed non-ES proposals from $t-1$ to $t-2$. Columns (1) and (4) use average mutual fund support, and Columns (2) and (3) use ISS support and overall shareholder support, respectively. The baseline category includes firm x year observations with no failed shareholder proposals (either ES or non-ES), which includes both firm-years with no shareholder proposals and firm-years in which all shareholder proposals passed. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. Control variables are lagged dependent variable and several firm characteristics, which are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Support measure as:</i>	Dep't Var = Downside Tail Return			Dep't Var = Upside Tail Return
	Fund Support (1)	ISS Support (2)	Overall Support (3)	Fund Support (4)
Failed ES Prop × Support for ES	-0.101** [-2.137]	-0.032** [-2.144]	-0.097 [-1.571]	0.062 [0.573]
Failed Non-ES Prop × Support for Non-ES	0.004 [0.306]	0.003 [0.314]	-0.007 [-0.458]	0.027 [0.996]
Failed ES Proposal	0.018 [1.536]	0.016 [1.437]	0.013 [1.127]	-0.007 [-0.309]
Failed Non-ES Proposal	-0.019* [-1.949]	-0.019* [-1.867]	-0.014* [-1.894]	-0.008 [-0.424]
Cash	0.049** [2.076]	0.049** [2.083]	0.048** [2.055]	0.201*** [3.910]
Growth	-0.004 [-0.529]	-0.004 [-0.529]	-0.004 [-0.540]	-0.009 [-0.510]
M/B	0.001 [1.105]	0.001 [1.109]	0.001 [1.097]	0.004*** [2.865]
ROA	-0.019 [-0.677]	-0.019 [-0.687]	-0.019 [-0.683]	-0.148** [-2.335]
Dividend yield	-0.352*** [-3.464]	-0.353*** [-3.470]	-0.353*** [-3.468]	-1.533*** [-8.398]
Log MV	0.122*** [29.750]	0.122*** [29.744]	0.122*** [29.763]	0.130*** [14.600]
Lagged dep variable	-0.495*** [-47.210]	-0.495*** [-47.215]	-0.495*** [-47.208]	-0.403*** [-45.113]
Amihud Illiquidity	0.315*** [9.996]	0.315*** [9.997]	0.315*** [10.000]	1.225*** [13.256]
Inst ownership	-0.030** [-2.571]	-0.030** [-2.571]	-0.030** [-2.571]	-0.190*** [-8.013]
IVOL	-0.782*** [-10.795]	-0.782*** [-10.804]	-0.783*** [-10.824]	0.984*** [5.968]
Observations	26,884	26,884	26,884	26,884
R-squared	0.361	0.361	0.361	0.275
Year FE	×	×	×	×
Firm FE	×	×	×	×

Table 3. Support for failed ES proposals and subsequent ES incidents

This table shows the relations between failed shareholder proposals and subsequent firm ES incidents. The dependent variable, *ES negative news count*, equals the natural logarithm of one plus the total number of negative news reports on environmental and social incidents of the firm in year t . *ES Proposal* is a dummy variable that equals 1 if the firm has at least one failed ES proposal from $t-1$ to $t-2$. *Non-ES Proposal* is a dummy variable that equals 1 if the firm has at least one failed non-ES proposal from $t-1$ to $t-2$. *Support for ES* equals the average support rate in firm's failed ES proposals from $t-1$ to $t-2$. Similarly, *Support for non-ES* equals the average support rate in firm's failed non-ES proposals from $t-1$ to $t-2$. From column (2) to (4), we use average mutual fund support, ISS support and overall shareholder support, respectively. Baseline category includes firm x month observations with no failed shareholder proposals (either ES or non-ES), which includes both firm-years with no shareholder proposals and firm-years in which all shareholder proposals passed. Regressions are OLS, with standard errors clustered at the fund level. Regressions include firm and year fixed effects. Control variables are lagged dependent variable and several firm characteristics, which are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Support measure as:</i>	<i>Dependent Variable: ES negative news count</i>		
	Fund Support (1)	ISS Support (2)	Overall Support (3)
Failed ES Proposal × Support for ES	0.732*** [2.972]	0.204*** [2.682]	0.698** [2.202]
Failed Non-ES Proposal × Support for Non-ES	-0.153*** [-2.596]	-0.063 [-1.254]	-0.169*** [-2.833]
Failed ES Proposal Dummy	-0.042 [-0.840]	-0.014 [-0.286]	-0.001 [-0.016]
Failed Non-ES Proposal Dummy	0.097** [2.316]	0.063 [1.341]	0.074** [2.229]
Cash	0.111 [1.563]	0.111 [1.563]	0.110 [1.550]
Growth	-0.019 [-0.945]	-0.019 [-0.918]	-0.018 [-0.871]
M/B	-0.001 [-0.856]	-0.001 [-0.877]	-0.001 [-0.862]
ROA	-0.053 [-0.711]	-0.050 [-0.668]	-0.054 [-0.726]
Dividend yield	0.816*** [2.759]	0.816*** [2.768]	0.791*** [2.674]
Log MV	0.019* [1.760]	0.019* [1.796]	0.019* [1.748]
Lagged dep variable	0.155*** [9.596]	0.155*** [9.583]	0.155*** [9.537]
Amihud illiquidity	0.012 [0.182]	0.016 [0.233]	0.012 [0.177]
Inst ownership	-0.016 [-0.436]	-0.016 [-0.455]	-0.015 [-0.415]
IVOL	0.326* [1.917]	0.330* [1.951]	0.348** [2.054]
Observations	14,678	14,678	14,678
R-squared	0.746	0.746	0.746
Year FE	x	x	x
Firm FE	x	x	x

Table 4: Asymmetry in predictability of tail returns and negative ES Incidents

This table shows the asymmetry in the relation between high investor support on failed shareholder proposals and subsequent downside tail return (columns 1 –2), negative ES news count (columns 3 – 4) and upside tail return (columns 5-6). The dependent variables are defined in Table 2-3. *High support* equals one if investor support for the proposal is in the top quartile, where investor support is measure as mutual fund support in columns 1, 3, and 5; and overall support in columns 2, 4,6. The sample consists of all firm-years, meaning the baseline category is firm x year observations with no failed shareholder proposals (either ES or non-ES), which includes both firm-years with no shareholder proposals and firm-years in which all shareholder proposals passed. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. Control variables are lagged dependent variable and several firm characteristics, which are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Fund support	Overall support	Fund support	Overall support	Fund support	Overall support
Failed ES * High support	-0.029** [-2.211]	-0.027** [-2.071]	0.119* [1.717]	0.127* [1.889]	-0.018 [-0.595]	-0.014 [-0.469]
Failed ES dummy	0.013 [1.278]	0.012 [1.185]	0.045 [1.118]	0.034 [0.801]	0.009 [0.457]	0.008 [0.408]
Failed Non-ES * support	0.019 [0.949]	-0.002 [-0.063]	-0.157*** [-2.636]	-0.162*** [-2.722]	0.027 [0.996]	0.002 [0.057]
Failed Non-ES dummy	-0.023** [-2.264]	-0.015* [-1.709]	0.099** [2.346]	0.069** [2.114]	-0.008 [-0.422]	0.008 [0.488]
Cash	0.048** [2.061]	0.048** [2.060]	0.113 [1.597]	0.110 [1.544]	0.201*** [3.910]	0.201*** [3.904]
Growth	-0.004 [-0.523]	-0.004 [-0.528]	-0.019 [-0.949]	-0.019 [-0.930]	-0.009 [-0.512]	-0.009 [-0.518]
M/B	0.001 [1.110]	0.001 [1.110]	-0.001 [-0.873]	-0.001 [-0.880]	0.004*** [2.867]	0.004*** [2.868]
ROA	-0.018 [-0.652]	-0.018 [-0.653]	-0.056 [-0.743]	-0.056 [-0.755]	-0.148** [-2.338]	-0.148** [-2.341]
Dividend yield	-0.354*** [-3.483]	-0.353*** [-3.477]	0.817*** [2.760]	0.788*** [2.662]	-1.531*** [-8.389]	-1.528*** [-8.379]
Log MV	0.122*** [29.712]	0.122*** [29.712]	0.019* [1.773]	0.019* [1.791]	0.130*** [14.604]	0.130*** [14.601]
Lagged dep variable	-0.494*** [-47.201]	-0.494*** [-47.205]	0.156*** [9.637]	0.156*** [9.615]	-0.403*** [-45.113]	-0.403*** [-45.112]
Amihud illiquidity	0.315*** [10.000]	0.315*** [9.990]	0.011 [0.169]	0.017 [0.254]	1.225*** [13.254]	1.224*** [13.253]
Inst ownership	-0.030** [-2.570]	-0.030** [-2.576]	-0.017 [-0.463]	-0.016 [-0.432]	-0.190*** [-8.018]	-0.190*** [-8.018]
IVOL	-0.783*** [-10.805]	-0.782*** [-10.800]	0.348** [2.051]	0.343** [2.020]	0.986*** [5.982]	0.987*** [5.989]
Observations	26,884	26,884	14,678	14,678	26,884	26,884
R-squared	0.361	0.361	0.746	0.746	0.275	0.275

Table 5. Mutual funds' blanket against votes

This table presents the summary statistics on mutual funds' "blanket against votes" – votes against all ES (or non-ES) proposals among the subset on which they voted during the respective period. The sample consists of mutual funds' votes on shareholder proposals in annual and special meetings, over the 2004 – 2016 period. Panel A reports the frequency of blanket against votes for fund families; Panel B reports frequency of blanket against votes for funds of families that do not vote as a bloc. In each panel, the left-hand side consists of families (or funds) that voted on 30 or more ES proposals (column 1-2) or non-ES proposals (column 3-4), with the top of the table focusing on the earlier 2004 – 2009 period and the subsequent rows on the later 2010 – 2016 period. The right-hand side of the table is analogous, with the exception that each sample is broadened to funds that voted on three or more proposals during the respective period. Panel C is based on the subsample of mutual funds that vote on 30 or more ES proposals, and it compares the characteristics of the mutual funds that vote against all the ES proposals (the "Blanket-Against" sample) to all other funds (the "Non-Blanket Against" Funds). Columns 3 and 4 show differences between these samples and associated t-statistics for the significance levels of these differences. Asterisks ***, **, and * denoting significance level of the difference at the 1%, 5%, and 10% levels, respectively. Variables are defined in Appendix I.

Panel A. Blanket votes at the family level

	Families that voted on 30+ proposals		Families that voted on 3+ proposals	
	ES	Non ES	ES	Non ES
Early subsample: 2004 – 2009	15.42%	1.95%	22.55%	3.55%
	<i>33 of 214 families</i>	<i>5 out of 256 families</i>	<i>62 out of 275 families</i>	<i>10 out of 282 families</i>
Late subsample: 2010 – 2016	7.94%	2.31%	13.75%	3.58%
	<i>17 of 214 families</i>	<i>6 out of 260 families</i>	<i>37 out of 269 families</i>	<i>10 out of 279 families</i>

Panel B. Blanket votes at the fund level (for funds of families that do not vote as a bloc)

	Funds that voted on 30+ proposals		Funds that voted on 3+ proposals	
	ES	Non ES	ES	Non ES
Early subsample: 2004 – 2009	24.38%	0.33%	33.21%	1.16%
	<i>326 of 1337 funds</i>	<i>7 out of 2129 funds</i>	<i>804 out of 2421 funds</i>	<i>35 out of 3028 funds</i>
Late subsample: 2010 – 2016	19.62%	1.55%	29.82%	2.77%
	<i>266 out of 1356 funds</i>	<i>34 out of 2189 funds</i>	<i>715 out of 2398 funds</i>	<i>81 out of 2927 funds</i>

Panel C: Descriptive Statistics on Blanket-Against Funds versus Non-Blanket-Against Funds (for funds of families which do not vote as a bloc)

	Blanket-Against Funds	Non-Blanket- Against Funds	Avg. Diff	T-stats
	Average	Average		
TNA(Billions)	2.30	5.88	-3.58***	-30.63
Fund alpha	0.0057	0.0061	-0.0004***	-4.56
Turnover	0.76	0.68	0.08***	15.99
FPS	1.07	0.97	0.10**	2.91
Index fund	0.23	0.36	-0.13***	-51.05
Fund-mgmt friendliness	0.04	0.03	0.01***	10.40

Table 6. Role of funds' horizon in ES Proposals

The sample consists of mutual funds' votes in shareholder proposals related to ES issues, in annual and special meetings over the 2004 – 2016 period. Regressions are OLS, with standard errors clustered at the fund level. In each column, the dependent variable, *Vote For*, equals one if the mutual fund vote for the proposal in the firm meeting, zero otherwise. *FPS* is the flow-performance sensitivity estimated from 36 month rolling regressions where fund flows are regressed on average 4-factor alpha in the past 12 months. *Turnover* is the rolling average of fund's past 12-month turnover ratio; turnover ratio is defined as the minimum (of aggregated sales or aggregated purchases of securities) divided by fund's average past 12-month total net assets. All other explanatory variables are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent variable: Vote For			
	(1)	(2)	(3)	(4)
FPS	-0.128*** [-2.912]	-0.062** [-2.097]		
Turnover			-0.008* [-1.693]	-0.023*** [-5.042]
ES fund	0.330*** [2.877]		0.321*** [2.815]	
ISS for	0.269*** [26.031]	0.269*** [25.706]	0.270*** [25.350]	0.270*** [25.104]
Fund alpha	0.808** [2.452]	-0.079 [-0.540]	0.594** [1.998]	-0.090 [-0.648]
Log TNA	-0.026*** [-14.810]	-0.014*** [-2.900]	-0.025*** [-12.900]	-0.012*** [-3.066]
Cash	-0.019 [-1.630]	-0.018* [-1.908]	-0.026** [-2.326]	-0.022** [-2.357]
Sales growth	-0.014*** [-2.700]	-0.016*** [-3.537]	-0.017*** [-3.283]	-0.018*** [-3.983]
M/B	0.001*** [2.626]	0.000** [2.405]	0.001*** [3.060]	0.000*** [2.601]
ROA	0.073*** [3.640]	0.066*** [4.019]	0.072*** [3.601]	0.063*** [3.881]
Dividend yield	0.021 [0.233]	0.016 [0.207]	0.022 [0.249]	0.042 [0.567]
Log MV	0.007** [2.161]	0.003 [1.091]	0.008** [2.391]	0.003 [1.282]
Past firm return	0.003 [0.962]	0.002 [0.866]	0.002 [0.814]	0.001 [0.428]
Amihud illiquidity	0.831** [2.179]	0.453 [1.508]	0.922** [2.545]	0.437 [1.544]
Inst ownership	-0.000 [-0.055]	-0.002 [-0.308]	0.001 [0.113]	0.000 [0.009]
Observations	298,515	298,307	309,867	309,671
R-squared	0.209	0.434	0.208	0.431
Firm FE	×	×	×	×
Fund FE		×		×
Sponsor Type FE	×	×	×	×
Proposal Category FE	×	×	×	×
Year FE	×	×	×	×
%(Dep.var=1)	13.53%	13.53%	13.36%	13.36%

Table 7. Role of funds' friendliness toward management in ES Proposals

The sample consists of mutual funds' votes in shareholder proposals related to ES issues, in annual and special meetings over the 2004 – 2016 period. Regressions are OLS, with standard errors clustered at the fund level. The dependent variable, *Vote For*, equals one if the mutual fund vote for the proposal in the firm meeting, zero otherwise. *Fund mgmt friendliness* is the historical average of fraction (in %) of management-sponsored proposals that fund supports when ISS recommends against until time *t*. In column 1 (column 2), earnings management is defined as a dummy equal to one if EPS over the past year was between 0 and 0.1 (NI over the past year was between 0 and \$20 million), zero otherwise. In columns 3 and 4, earnings management is defined over the past five years, as the percent of years in which each of these measures, respectively, was within the defined band just above zero. All other variables are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels.

<i>Earnings mgmt. measure:</i>	Dependent variable: Vote For				
	(1)	NI Past 1y (2)	EPS Past 1y (3)	NI Past 5y (4)	EPS Past 5y (5)
Fund mgmt friendliness	-0.310*** [-15.416]	-0.265*** [-14.761]	-0.268*** [-14.815]	-0.266*** [-14.727]	-0.267*** [-14.723]
Earnings mgmt × Fund Mgmt. friendliness		-0.669*** [-4.333]	-0.960*** [-2.587]	-0.618** [-2.240]	-0.529 [-1.073]
Earnings mgmt		-0.063*** [-4.207]	-0.072*** [-4.503]	-0.076*** [-2.915]	-0.015 [-0.305]
ES fund	0.302** [2.324]	0.361*** [2.964]	0.361*** [2.964]	0.361*** [2.964]	0.361*** [2.965]
ISS for	0.254*** [20.661]	0.253*** [19.460]	0.253*** [19.448]	0.253*** [19.441]	0.253*** [19.436]
Fund alpha	1.113** [2.512]	0.874** [2.289]	0.873** [2.286]	0.872** [2.283]	0.864** [2.261]
Log TNA	-0.028*** [-12.625]	-0.022*** [-11.678]	-0.022*** [-11.677]	-0.022*** [-11.667]	-0.022*** [-11.674]
Cash	-0.005 [-0.349]	0.042** [2.411]	0.042** [2.385]	0.041** [2.321]	0.040** [2.303]
Sales growth	-0.035*** [-5.144]	-0.023*** [-3.205]	-0.024*** [-3.316]	-0.024*** [-3.282]	-0.024*** [-3.299]
M/B	0.000 [0.226]	-0.000 [-1.421]	-0.000 [-1.183]	-0.000 [-1.250]	-0.000 [-1.103]
ROA	0.098*** [3.933]	0.179*** [5.620]	0.174*** [5.554]	0.170*** [5.372]	0.160*** [5.149]
Dividend yield	-0.173 [-1.416]	-0.050 [-0.388]	-0.057 [-0.443]	-0.073 [-0.569]	-0.064 [-0.500]
Log MV	0.004 [1.110]	0.010** [2.201]	0.009** [2.044]	0.009** [2.129]	0.010** [2.171]
Past firm return	-0.002 [-0.491]	0.002 [0.565]	-0.000 [-0.034]	0.002 [0.467]	0.001 [0.203]
Amihud illiquidity	0.796* [1.681]	1.405*** [2.814]	1.274** [2.572]	1.431*** [2.874]	1.237** [2.499]
Inst ownership	0.007 [0.841]	-0.010 [-0.998]	-0.013 [-1.277]	-0.011 [-1.065]	-0.013 [-1.265]
Observations	194,845	146,443	146,443	146,443	146,443
R-squared	0.219	0.222	0.221	0.221	0.221
Firm FE	×	×	×	×	×
Year FE	×	×	×	×	×
Sponsor Type FE	×	×	×	×	×
Proposal Category FE	×	×	×	×	×
%(Dep.var=1)	13.72%	12.55%	12.55%	12.55%	12.55%

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

The sample consists of firm shareholder proposals \times mutual funds' votes in these shareholder proposals, in annual and special meetings over the 2004 – 2016 period. Regressions are OLS, with standard errors clustered at the fund level. The dependent variable, *Vote For*, equals one if the mutual fund vote for the proposal in the firm meeting, zero otherwise. ES Proposal is a dummy equal to 1 if the shareholder proposal relates to an environmental or social issue. Horizon is measured as fund flow performance sensitivity (FPS) as defined in Table 6. *Fund mgmt friendliness* is defined in Table 7. In columns 2 – 5, earnings management is defined in four alternative ways, as denoted at the top of the table and defined in Table 7. All other variables are defined in Appendix I. Controls previously used in Tables 6 and 7 are included, but not tabulated to conserve space. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	Dependent Variable = Vote For				
	Horizon =	Earnings Management =			
	FPS (1)	NI Past 1y (2)	EPS Past 1y (3)	NI Past 5y (4)	EPS Past 5y (5)
ES Proposal	-0.100*** [-26.681]	-0.096*** [-21.033]	-0.096*** [-21.138]	-0.095*** [-20.788]	-0.095*** [-20.898]
Horizon \times ES proposal	-0.147** [-2.518]				
Horizon	0.016 [0.225]				
ES \times Fund mgmt friendliness \times Earning mgmt.		-0.322** [-2.308]	-0.046 [-0.122]	-0.854*** [-2.926]	-0.118 [-0.318]
Fund mgmt friendliness		-0.537*** [-17.108]	-0.536*** [-17.066]	-0.543*** [-17.137]	-0.537*** [-16.999]
Earning mgmt		-0.009 [-0.899]	-0.019 [-1.522]	0.076*** [2.636]	0.202*** [4.984]
ES \times Fund mgmt friendliness		0.203** [8.886]	0.201*** [8.769]	0.206*** [8.920]	0.204*** [8.832]
ES \times Earning mgmt		-0.160*** [-9.794]	-0.147*** [-8.392]	-0.315*** [-15.606]	-0.575*** [-11.658]
Fund Mgmt Friendliness \times Earning mgmt		0.014 [0.138]	-0.610*** [-3.709]	0.492** [2.393]	-0.169 [-0.541]
ISS for	0.385*** [42.249]	0.359*** [30.488]	0.359*** [30.485]	0.359*** [30.431]	0.359*** [30.445]
ES fund	0.009 [0.032]	0.198** [2.414]	0.198** [2.415]	0.198** [2.415]	0.198** [2.413]
Observations	1,116,635	532,227	532,227	532,227	532,227
R-squared	0.279	0.279	0.279	0.279	0.279
Controls Included	\times	\times	\times	\times	\times
Firm FE	\times	\times	\times	\times	\times
Year FE	\times	\times	\times	\times	\times
Sponsor Type FE	\times	\times	\times	\times	\times
%(Dep.var=1)	33.37%	31.88%	31.88%	31.88%	31.88%

Table 9: Role of funds' characteristics on votes in ES proposals, conditional on sponsor type and on ISS recommendation

The sample consists of mutual funds' votes in shareholder proposals related to ES issues, in annual and special meetings over the 2004 – 2016 period. Regressions are OLS, with standard errors clustered at the fund level. In each column, the dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal in the firm meeting, zero otherwise. Column 1 (Column 2) includes the subset of ES proposals sponsored by (not sponsored by) an asset management company. Column 4 (Column 5) includes the subset of ES proposals for which ISS recommends for (against). Columns 3 and 6 include the full sample. All regressions include controls previously used in Table 6 but are not tabulated. All variables are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Results for Funds' Horizon

<i>Sample =</i>	Dependent variable: Vote For					
	Asset mgmt. co sponsored ES proposals (1)	Non-asset mgmt. co sponsored ES proposals (2)	All ES proposals (3)	ES proposals with ISS For (4)	ES proposals with ISS against (5)	All ES proposals (6)
FPS	-0.175*** [-3.030]	-0.099*** [-2.651]	-0.100*** [-2.640]	-0.336*** [-3.237]	-0.009 [-0.389]	-0.022 [-0.848]
Asset mgmt co. sponsor × FPS			-0.071** [-2.250]			
ISS for × FPS						-0.288*** [-2.679]
Asset mgmt co. sponsor			0.008*** [4.474]			
ISS for	0.273*** [27.101]	0.269*** [24.167]	0.269*** [26.044]			0.272*** [25.877]
Observations	119,903	178,612	298,515	115,463	183,052	298,515
R-squared	0.197	0.209	0.209	0.096	0.078	0.210
Other controls	×	×	×	×	×	×
Firm FE	×	×	×	×	×	×
Year FE	×	×	×	×	×	×
Proposal Category FE	×	×	×	×	×	×
Sponsor Type FE				×	×	×
%(Dep.var=1)	18.00%	10.52%	13.53%	30.66%	2.71%	13.53%

Panel B: Influence of Fund Management Friendliness

<i>Sample =</i>	Dependent variable: Vote For					
	Asset mgmt. co sponsored ES proposals (1)	Non-asset mgmt. co sponsored ES proposals (2)	All ES proposals (3)	ES proposals with ISS For (4)	ES proposals with ISS against (5)	All ES proposals (6)
Fund Mgmt. friendliness	-0.388*** [-13.661]	-0.259*** [-13.420]	-0.259*** [-13.759]	-0.698*** [-15.504]	-0.011 [-1.274]	-0.029*** [-2.608]
Asset Mgmt. co sponsor × Fund Mgmt. friendliness			-0.105*** [-4.763]			
ISS for × Fund Mgmt. friendliness						-0.672*** [-14.504]
Asset Mgmt. co sponsor			0.010*** [4.408]			
ISS for	0.260*** [21.574]	0.256*** [19.148]	0.254*** [20.661]			0.277*** [21.313]
Observations	81,908	112,937	194,845	81,251	113,594	194,845
R-squared	0.213	0.215	0.219	0.135	0.094	0.226
Other controls	×	×	×	×	×	×
Firm FE	×	×	×	×	×	×
Year FE	×	×	×	×	×	×
Sponsor Type FE				×	×	×
Proposal Category FE	×	×	×	×	×	×
%(Dep.var=1)	18.00%	10.61%	13.72%	29.51%	2.42%	13.72%

Table 10: Impact of BP oil spill on mutual fund voting

This table presents the regression results examining the impact of BP oil spill on mutual fund votes. Event period is 12 month before April 2010 and 12 month after April 2010. Meetings in April 2010 are not included in the regressions. The dependent variable, *Vote For*, equals one if the mutual fund votes for the proposal in the firm meeting, zero otherwise. *Distort* is a dummy variable that equal 1 if both FPS and management friendliness is larger than sample median. *E proposal* equals 1 for environmental proposals. *Oil & Gas* dummy in Panel B include sectors with NAICS code 211 (Oil and gas extraction), 2121 (coal mining), 324 (petroleum and coal products manufacturing), 447 (gasoline station). If NAICS is not available, we use the SIC code 13 (Oil and Gas Extraction), 12 (coal Mining), 29 (Petroleum Refining and Related Industries). *Sensible proposal* is a dummy variable that equals 1 if the proposal is sponsored by an asset management company and ISS supports the proposal. All regressions include the control variables used in Table 6-7. Columns 2-4 additionally include firm x year (i.e., meeting) fixed effects. All variables are defined in Appendix I. Regressions are OLS, with standard errors clustered at the fund level. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. E proposals vs the rest

	(1)	(2)	(3)	(4)
	Among all Shr proposals E VS all	Among all Shr proposals E VS all	Among all ES proposals E VS S	Among all ES proposals E VS S
ISS for	0.415*** [27.579]	0.401*** [25.574]	0.292*** [17.350]	0.268*** [15.236]
E proposal	-0.105*** [-11.777]	-0.083*** [-8.940]	-0.003 [-0.548]	-0.012 [-1.617]
Distort	-0.108*** [-6.420]	-0.118*** [-6.453]	-0.034*** [-3.439]	-0.034*** [-3.354]
E proposal × Distort	-0.028 [-1.570]	-0.019 [-1.103]	-0.092*** [-6.140]	-0.103*** [-6.588]
E proposal × after	0.053*** [4.913]	0.046*** [4.059]	-0.006 [-0.756]	-0.018** [-2.072]
Distort × after	-0.015 [-0.724]	-0.018 [-0.806]	-0.013 [-1.177]	-0.011 [-0.922]
E proposal × after × Distort	0.048** [2.175]	0.043* [1.874]	0.036** [2.144]	0.032* [1.799]
After	-0.053*** [-3.081]		-0.007 [-0.584]	
Observations	115,071	115,071	34,427	34,427
R-squared	0.220	0.280	0.213	0.232
Controls	Y	Y	Y	Y
Sponsor type FE	Y	Y	Y	Y
Firm x year FE		Y		Y

Panel B. Oil & Gas vs the rest

VARIABLES	(1) Among all sensible Shr proposals	(2) Among all sensible Shr proposals	(3) Among all sensible ES proposals	(4) Among all sensible ES proposals
oil & gas	0.009 [0.891]		0.018* [1.959]	
Distort	-0.011 [-1.211]	-0.012 [-1.241]	-0.012 [-1.351]	-0.010 [-1.036]
Distort × oil & gas	-0.008 [-0.367]	-0.008 [-0.360]	-0.001 [-0.037]	-0.006 [-0.225]
oil & gas × after	-0.041*** [-2.906]		-0.027* [-1.797]	
Distort × after	0.008 [0.500]	-0.004 [-0.288]	-0.013 [-0.985]	-0.015 [-1.047]
Distort × oil & gas × after	0.050* [1.652]	0.066** [1.979]	0.064** [2.158]	0.070** [2.043]
After	0.006 [0.474]		0.004 [0.232]	
Observations	10,221	10,221	7,541	7,541
R-squared	0.137	0.142	0.139	0.139
Controls	Y	Y	Y	Y
Proposal type FE	Y	Y	Y	Y
Firm x year FE		Y		Y

Table 11: Is relation between fund support for ES issues and subsequent firm risk driven by shareholder-value focused mutual funds

This table shows the relation between mutual fund support on failed shareholder proposals and subsequent firm risk. The sample includes all firm years, with sufficient data to calculate all variables, similar to Tables 2 and 3. Sample sizes in columns 2 and 4 are smaller, due to the requirement of RepRisk data to determine ES Incident Count. Regressions are OLS, with standard errors clustered at the firm level. Regressions include firm and year fixed effects. In columns 1 and 3, firm risk is measured as *Downside Tail Risk*, equal to the firm's 12-month average 4-factor alpha in year t if alpha is below the 25th percentile of the sample; it equals zero otherwise. In columns 2 and 4, firm risk is measured as *ES Incident Count*, equal to the natural logarithm of one plus the total number of news reports on negative environmental and social incidents of the firm in year t . All other independent variables are defined in Table 2 and in Appendix I. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	<i>Dependent Variable =</i>			
	Downside Tail Risk	ES Incident Count	Downside Tail Risk	ES Incident Count
<i>Long horizon funds defined as</i>	FPS < p50	FPS < p50	FPS < p25	FPS < p25
<i>Short horizon funds defined as</i>	FPS > p50	FPS > p50	FPS > p75	FPS > p75
	(1)	(2)	(3)	(4)
Failed ES Proposal × Support for ES by long horizon, non-mgmt. friendly funds	-0.769*** [-3.545]	2.815** [2.268]	-0.480*** [-3.492]	1.366** [2.030]
Failed ES Proposal × Support for ES by short-horizon, mgmt. friendly funds	0.564 [1.550]	1.833 [0.851]	0.185 [0.877]	0.611 [0.533]
Failed ES Proposal	0.026** [2.167]	-0.025 [-0.453]	0.030** [2.451]	0.004 [0.072]
Failed Non-ES Proposal	-0.021** [-2.081]	0.081* [1.918]	-0.021** [-2.115]	0.084** [1.983]
Failed Non-ES Prop × Support for Non-ES	0.007 [0.493]	-0.129** [-2.188]	0.008 [0.510]	-0.130** [-2.219]
Cash	0.049** [2.068]	0.125* [1.766]	0.049** [2.061]	0.128* [1.799]
Growth	-0.004 [-0.536]	-0.016 [-0.792]	-0.004 [-0.537]	-0.016 [-0.789]
M/B	0.001 [1.144]	-0.001 [-0.663]	0.001 [1.119]	-0.001 [-0.643]
ROA	-0.016 [-0.580]	-0.040 [-0.537]	-0.016 [-0.579]	-0.040 [-0.531]
Dividend yield	-0.351*** [-3.429]	0.849*** [2.869]	-0.352*** [-3.431]	0.855*** [2.884]
Log MV	0.122*** [29.435]	0.019* [1.731]	0.123*** [29.450]	0.018* [1.694]
Lagged dep variable	-0.497*** [-47.413]	0.145*** [9.094]	-0.497*** [-47.407]	0.146*** [9.104]
Amihud Illiquidity	0.316*** [10.009]	0.006 [0.085]	0.316*** [10.005]	0.006 [0.093]
Inst ownership	-0.032*** [-2.720]	-0.020 [-0.546]	-0.032*** [-2.721]	-0.019 [-0.525]
IVOL	-0.794*** [-10.959]	0.285* [1.679]	-0.793*** [-10.948]	0.289* [1.696]
Observations	26,614	14,473	26,614	14,473
R-squared	0.362	0.733	0.362	0.733
Year FE	x	x	x	x
Firm FE	x	x	x	x

Internet Appendix

Table A1. ISS average support for ES proposals

This table shows each ES shareholder proposal category, within the ISS database, along with the number of shareholder proposals in the category over the 2004 – 2016 period. Column 3 shows the percent of proposals within the category that ISS supported.

ISS item code	# proposals	ISS support rate	Item name
S0205	9	0	Establish Other Governance Board Committee
S0352	1	0	Company Specific-Governance Related
S0411	29	0	MacBride Principles
S0416	1	0	Human Rights-Related [country] (INACTIVE)
S0425	13	0	China Principles (INACTIVE)
S0704	5	0	Tobacco - Related - Prepare Report
S0708	3	0	Toxic Emissions
S0711	1	0	Nuclear Safety (INACTIVE)
S0725	26	0	Weapons - Related
S0727	19	0	Review Foreign Military Sales
S0728	1	0	CERES Principles (INACTIVE)
S0732	1	0	Sever Links with Tobacco Industry
S0733	7	0	Reduce Tobacco Harm to Health
S0734	14	0	Review Tobacco Marketing
S0735	36	0	Health Care - Related
S0736	55	0	Genetically Modified Organisms (GMO)
S0745	1	0	Climate Change Action
S0815	2	0	Labor Issues - Discrimination and Miscellaneous
S0891	23	0	Animal Testing
S0892	19	0	Animal Slaughter Methods
S0911	40	0	Anti-Social Proposal
S0703	23	0.043	Tobacco - Related - Miscellaneous
S0709	23	0.043	Nuclear Power - Related
S0206	21	0.048	Establish Environmental/Social Issue Board Committee
S0510	37	0.108	Link Executive Pay to Social Criteria
S0890	43	0.116	Animal Welfare
S0729	16	0.125	Review Drug Pricing or Distribution
S0999	169	0.166	Social Proposal
S0740	20	0.200	Environmental - Related Miscellaneous (INACTIVE)
S0730	31	0.258	Report on Environmental Policies Vendor Standards (For Reporting Purposes Only)
S0415	9	0.333	(INACTIVE)
S0814	9	0.333	Glass Ceiling (INACTIVE)
S0414	149	0.342	Improve Human Rights Standards or Policies
S0778	8	0.375	Wood Procurement
S0741	5	0.400	Operations in Protected Areas

S0710	12	0.417	Facility Safety
S0602	14	0.429	Fair Lending
S0779	31	0.452	Renewable Energy
S0417	17	0.471	Workplace Code of Conduct (For Reporting Purposes Only) (INACTIVE)
S0423	14	0.500	Operations in High Risk Countries
S0737	2	0.500	Toxic Substances (INACTIVE)
S0780	6	0.500	Energy Efficiency
S0781	28	0.500	Recycling
S0742	102	0.559	Climate Change
S0427	23	0.565	Data Security, Privacy, and Internet Issues
S0738	21	0.571	Product Safety
S0731	76	0.632	Community- Environmental Impact
S0224	20	0.700	Require Environmental/Social Issue Qualifications for Director Nominees
S0817	4	0.750	Gender Pay Gap
S0812	32	0.781	Report on EEO
S0811	98	0.786	Adopt Sexual Orientation Anti-bias Policy
S0743	125	0.824	GHG Emissions
S0777	149	0.852	Report on Sustainability
S0412	14	0.857	Human Rights Risk Assessment
S0744	16	1	Hydraulic Fracturing

Table A2. Top 5 Sponsors from each sponsor type

This table shows the most common sponsors of ES shareholder proposals over the 2004 – 2016 period, within each of the three categories of sponsors: asset management companies, religious groups, and other, where other includes NGOs, unions, and individuals.

Name	# ES proposals from 2004 to 2016
Asset management companies	
New York City Pension Funds	150
Harrington Investments	48
Calvert Investments	48
Trillium Asset Management	45
Walden Asset Management	44
Religious groups	
Mercy Investment Program	23
Province of St. Joseph of the Capuchin Order	23
Unitarian Universalist Association of Congregations	17
Mercy Investment Program	17
Sisters of St. Dominic of Caldwell	15
Other (NGO, Union, individuals)	
People for the Ethical Treatment of Animals (PETA)	76
You Sow	55
The Humane Society of the United States	20
Trinity Health (a not-for-profit catholic health care system)	16
Jing Zhao	10
The National Center for Public Policy Research	10

Table A3. Descriptions of ES proposal by sponsor type

This table shows the five most common proposal types, within the sample of ES shareholder proposals over the 2004 – 2016 period. The top of the table includes the full sample, and lower panels limit the sample to ES proposals sponsored by each of the three categories of sponsors: asset management companies, religious groups, and other, where other includes NGOs, unions, and individuals.

ISS category code	ISS category description	# ES proposals from 2004 to 2016
Full sample		
S0999	Social Proposal	169
S0414	Improve Human Rights Standards or Policies	149
S0777	Report on Sustainability	149
S0743	GHG Emissions	125
S0742	Climate Change	102
S0811	Adopt Sexual Orientation Anti-bias Policy	98
Proposals sponsored by asset management companies		
S0777	Report on Sustainability	106
S0743	GHG Emissions	72
S0811	Adopt Sexual Orientation Anti-bias Policy	71
S0414	Improve Human Rights Standards or Policies	63
S0999	Social Proposal	40
Proposals sponsored by religious groups		
S0414	Improve Human Rights Standards or Policies	36
S0743	GHG Emissions	28
S0736	Genetically Modified Organisms (GMO)	23
S0725	Weapons - Related	21
S0999	Social Proposal	18
Proposals sponsored by others (individuals, unions, NGOs)		
S0999	Social Proposal	56
S0890	Animal Welfare	37
S0742	Climate Change	25
S0891	Animal Testing	22
S0414	Improve Human Rights Standards or Policies	20

Appendix Table A4. Support for failed ES proposals and subsequent upside tail returns

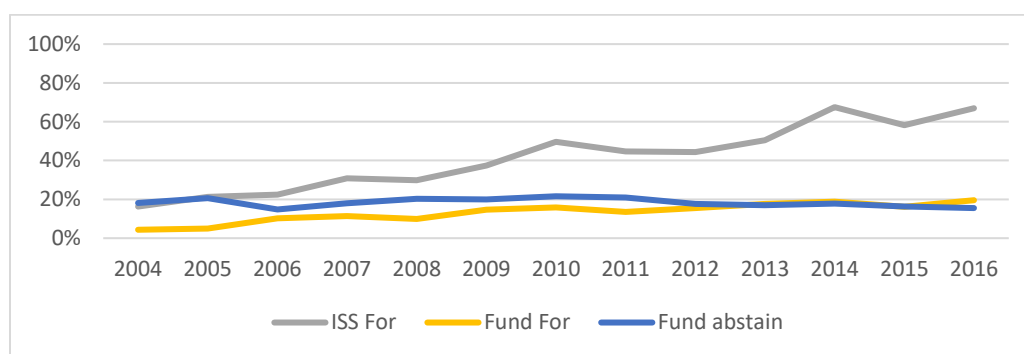
This table shows the relations between failed shareholder proposals and subsequent *Upside Tail Return*, defined as the firm's 12-month average 4-factor alpha in year t if alpha is below the 75th percentile of the sample; it equals zero otherwise. *ES Proposal* is a dummy variable that equals 1 if the firm has at least one failed ES proposal from $t-1$ to $t-2$. *Non-ES Proposal* is a dummy variable that equals 1 if the firm has at least one failed non-ES proposal from $t-1$ to $t-2$. *Support for ES* equals the average support rate in firm's failed ES proposals from $t-1$ to $t-2$. Similarly, *Support for non-ES* equals the average support rate in firm's failed non-ES proposals from $t-1$ to $t-2$. From column 1 to 3, we use average mutual fund support, ISS support and overall shareholder support, respectively. The baseline category includes firm x year observations with no failed shareholder proposals (either ES or non-ES), which includes both firm-years with no shareholder proposals and firm-years in which all shareholder proposals passed. Regressions are OLS, with standard errors clustered at the fund level, and include firm and year fixed effects. Control variables are lagged dependent variable and several firm characteristics, as defined in Appendix I. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	Dependent Variable: Upside Tail Return		
	Fund Support (1)	ISS Support (2)	Overall Support (3)
Failed ES Proposal × Support for ES	0.062 [0.573]	0.010 [0.300]	-0.021 [-0.195]
Failed Non-ES Proposal × Support for Non-ES	0.027 [0.996]	0.010 [0.476]	0.002 [0.054]
Failed ES Proposal Dummy	-0.007 [-0.309]	-0.002 [-0.084]	0.005 [0.239]
Failed Non-ES Proposal Dummy	-0.008 [-0.424]	-0.000 [-0.007]	0.008 [0.489]
Cash	0.201*** [3.910]	0.201*** [3.903]	0.201*** [3.906]
Growth	-0.009 [-0.510]	-0.009 [-0.516]	-0.009 [-0.518]
M/B	0.004*** [2.865]	0.004*** [2.866]	0.004*** [2.867]
ROA	-0.148** [-2.335]	-0.148** [-2.338]	-0.148** [-2.341]
Dividend yield	-1.533*** [-8.398]	-1.530*** [-8.386]	-1.529*** [-8.380]
Log MV	0.130*** [14.600]	0.130*** [14.602]	0.130*** [14.597]
Lagged dep variable	-0.403*** [-45.113]	-0.403*** [-45.123]	-0.403*** [-45.112]
Amihud illiquidity	1.225*** [13.256]	1.225*** [13.257]	1.224*** [13.254]
Inst ownership	-0.190** [-8.013]	-0.190*** [-8.013]	-0.190*** [-8.013]
IVOL	0.984*** [5.968]	0.986*** [5.979]	0.987*** [5.987]
Observations	26,884	26,884	26,884
R-squared	0.275	0.275	0.275
Year FE	x	x	x
Firm FE	x	x	x

Table A5. Robustness tests comparing Abstain versus Against votes

This table presents the results of the analysis that compares the differences of results with *Abstain* versus *Against* votes. The sample consists of mutual funds' votes in shareholder proposals related to ES issues, in annual and special meetings over the 2004 – 2016 period. Panel A shows the frequency of *Abstain* votes in ES proposals over time. Panel B presents the results of the regression analysis using a subsample of mutual fund votes with *Abstain* and *Against* only. In each column, the dependent variable equals 1 if the fund votes abstain and it is set to zero if the fund votes against the proposal. Regressions are OLS, with standard errors clustered at the fund level. All variables are defined in Appendix 1. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Abstain Votes over Time



Panel B. Fund Votes Regressions, among subsample of observations where fund abstains or votes against

	Dependent Variable: Fund Abstains					
	(1)	(2)	(3)	(4)	(5)	(6)
FPS	0.099 [1.102]	0.031 [0.758]	0.037 [0.771]			
Fund mgmt friendliness				0.177*** [4.528]	0.015 [1.519]	-0.015 [-1.038]
ISS for	0.060*** [12.916]	0.025*** [11.490]	0.035*** [11.067]	0.061*** [10.892]	0.024*** [8.839]	0.031*** [9.110]
Observations	258,167	257,653	258,163	168,117	167,785	168,112
R-squared	0.080	0.719	0.588	0.099	0.728	0.647
Other Controls	×	×	×	×	×	×
Year FE	×	×	×	×	×	×
Sponsor Type FE	×	×	×	×	×	×
Firm FE	×	×	×	×	×	×
Proposal Category FE	×	×	×	×	×	×
Fund FE		×			×	
Fund Family FE			×			×

Table A6. Votes Regression, Controlling for Family Fixed Effects

Panel A. Funds' Horizon

	Dependent variable: fund votes for	Dependent variable: fund votes for
FPS	-0.102*** [-3.128]	
Turnover		-0.011*** [-4.195]
ES fund	0.266*** [2.754]	0.256*** [2.765]
ISS for	0.269*** [25.928]	0.270*** [25.334]
Fund alpha	0.010 [0.049]	-0.113 [-0.565]
Log TNA	-0.005*** [-4.638]	-0.006*** [-5.029]
Cash	-0.023** [-2.334]	-0.026*** [-2.692]
Sales growth	-0.016*** [-3.296]	-0.016*** [-3.526]
M/B	0.000 [1.509]	0.000* [1.797]
ROA	0.071*** [4.166]	0.065*** [3.857]
Dividend yield	0.006 [0.069]	0.011 [0.145]
Log MV	0.004 [1.281]	0.005* [1.687]
Past firm return	0.005* [1.770]	0.003 [1.247]
Amihud illiquidity	0.611* [1.952]	0.522* [1.768]
Inst ownership	-0.001 [-0.204]	-0.000 [-0.022]
Observations	298,511	309,862
R-squared	0.384	0.383
Firm FE	×	×
Fund Family FE	×	×
Fund FE		
Sponsor Type FE	×	×
Proposal Category FE	×	×
Year FE	×	×
%(Dep.var=1)	13.53%	13.36%

Panel B. Funds' Friendliness Toward Management

	Dependent variable: fund votes for proposal				
		Earning Management: EPS 1yr	Earning Management: Net Income 1yr	Earning Management: EPS 5yr	Earning Management: Net Income 5yr
	(1)	(2)	(3)	(4)	(5)
Fund mgmt friendliness	-0.108*** [-10.148]	-0.078*** [-7.376]	-0.076*** [-7.147]	-0.079*** [-7.449]	-0.076*** [-7.208]
Earnings mgmt × Fund Mgmt. friendliness		-1.019*** [-3.348]	-0.681*** [-5.520]	0.268 [0.682]	-0.535** [-2.562]
Earnings mgmt		-0.063*** [-4.214]	-0.046*** [-3.158]	-0.046 [-1.229]	-0.018 [-0.696]
ES fund	0.233*** [2.660]	0.249*** [2.819]	0.249*** [2.818]	0.249*** [2.815]	0.249*** [2.818]
ISS for	0.254*** [20.669]	0.254*** [19.452]	0.254*** [19.458]	0.254*** [19.433]	0.254*** [19.439]
Fund alpha	-0.107 [-0.445]	-0.247 [-1.394]	-0.246 [-1.389]	-0.255 [-1.441]	-0.251 [-1.417]
Log TNA	-0.005*** [-4.060]	-0.005*** [-4.231]	-0.005*** [-4.233]	-0.005*** [-4.226]	-0.005*** [-4.221]
Cash	-0.030** [-2.372]	0.014 [0.925]	0.014 [0.950]	0.013 [0.850]	0.012 [0.829]
Sales growth	-0.027*** [-4.431]	-0.009 [-1.423]	-0.008 [-1.321]	-0.009 [-1.433]	-0.009 [-1.413]
M/B	-0.000 [-0.543]	-0.000 [-1.550]	-0.001* [-1.725]	-0.000 [-1.464]	-0.000 [-1.516]
ROA	0.065*** [3.089]	0.146*** [5.525]	0.147*** [5.499]	0.133*** [5.123]	0.135*** [5.118]
Dividend yield	-0.004 [-0.044]	-0.032 [-0.290]	-0.027 [-0.246]	-0.037 [-0.334]	-0.048 [-0.431]
Log MV	0.003 [0.902]	-0.000 [-0.118]	0.000 [0.053]	0.000 [0.021]	-0.000 [-0.021]
Past firm return	0.002 [0.514]	0.002 [0.478]	0.004 [1.033]	0.002 [0.627]	0.003 [0.856]
Amihud illiquidity	0.359 [0.968]	0.524 [1.395]	0.641* [1.711]	0.495 [1.318]	0.584 [1.546]
Inst ownership	-0.002 [-0.200]	-0.012 [-1.305]	-0.009 [-1.036]	-0.012 [-1.291]	-0.011 [-1.169]
Observations	194,840	146,437	146,437	146,437	146,437
R-squared	0.405	0.392	0.392	0.392	0.392
Firm FE	×	×	×	×	×
Fund Family FE	×	×	×	×	×
Year FE	×	×	×	×	×
SpsType FE	×	×	×	×	×
Proposal Category FE	×	×	×	×	×
%(Dep.var=1)	13.72%	12.55%	12.55%	12.55%	12.55%

Table A7. Role of funds' friendliness toward management (with fund FE)

This table shows the robustness of Table 7 results to including fund fixed effects in the empirical specification. The dependent variable equals one if the mutual fund vote for the proposal in the firm meeting, zero otherwise. In column 1 (column 2), earnings management is defined as a dummy equal to one if EPS over the past year was between 0 and 0.1 (NI over the past year was between 0 and \$20 million), zero otherwise. In columns 3 and 4, earnings management is defined over the past five years, as the percent of years in which each of these measures, respectively, was within the defined band just above zero. All other variables are defined in Appendix I. Constant terms are not reported. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	Dependent variable: fund votes for proposal				
	(1)	Earning Management: EPS 1yr (2)	Earning Management: NI 1yr (3)	Earning Management: EPS 5yr (4)	Earning Management: NI 5yr (5)
Fund mgmt friendliness	-0.066*** [-7.338]	-0.040*** [-4.204]	-0.037*** [-3.932]	-0.040*** [-4.264]	-0.038*** [-4.079]
Earnings mgmt × Fund Mgmt. friendliness		-0.878** [-3.065]	-0.668*** [-5.810]	0.275 [0.714]	-0.372* [-1.847]
Earnings mgmt		-0.059*** [-4.177]	-0.045*** [-3.103]	-0.029 [-0.844]	-0.020 [-0.765]
ISS for	0.255*** [20.643]	0.255*** [19.402]	0.255*** [19.408]	0.254*** [19.382]	0.254*** [19.390]
Fund alpha	-0.083 [-0.511]	0.063 [0.366]	0.065 [0.377]	0.053 [0.310]	0.057 [0.331]
Log TNA	-0.009* [-1.924]	-0.012** [-2.159]	-0.013** [-2.173]	-0.012** [-2.160]	-0.012** [-2.161]
Cash	-0.015 [-1.140]	0.034** [2.280]	0.034** [2.315]	0.033** [2.208]	0.032** [2.201]
Sales growth	-0.028*** [-4.820]	-0.010 [-1.642]	-0.009 [-1.524]	-0.010 [-1.636]	-0.010 [-1.613]
M/B	0.000 [0.059]	-0.000 [-1.241]	-0.000 [-1.418]	-0.000 [-1.173]	-0.000 [-1.223]
ROA	0.060*** [3.069]	0.156*** [6.240]	0.158*** [6.215]	0.144*** [5.867]	0.147*** [5.847]
Dividend yield	-0.058 [-0.584]	-0.101 [-0.890]	-0.098 [-0.865]	-0.105 [-0.932]	-0.113 [-1.002]
Log MV	0.002 [0.468]	-0.003 [-0.707]	-0.002 [-0.541]	-0.002 [-0.569]	-0.002 [-0.602]
Past firm return	-0.000 [-0.075]	0.001 [0.167]	0.002 [0.719]	0.001 [0.362]	0.002 [0.532]
Amihud illiquidity	0.400 [1.131]	0.712* [1.886]	0.821** [2.168]	0.682* [1.809]	0.753** [1.981]
Inst ownership	-0.003 [-0.396]	-0.018** [-2.143]	-0.016** [-1.886]	-0.018** [-2.127]	-0.017** [-2.026]
Observations	194,515	146,138	146,138	146,138	146,138
R-squared	0.471	0.457	0.457	0.457	0.457
Firm FE	×	×	×	×	×
Year FE	×	×	×	×	×
Fund FE	×	×	×	×	×
Sponsor Type FE	×	×	×	×	×
Proposal Category FE	×	×	×	×	×
%(Dep.var=1)	13.72%	12.55%	12.55%	12.55%	12.55%

