Mutual Fund Voting on Environmental and Social Proposals

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1. Introduction

Friedman (1970) argues that businesses should devote resources to social or environmental issues only if such investments increase shareholder value. However, it can be difficult to determine the value effects of these intangible factors. Benefits are difficult to quantify, and they are frequently only realized over the long-run. As a result, differing incentives among contracting parties may lead to either over-investment or under-investment on these issues. As formalized by Benabou and Tirole (2010), managers with a high personal utility on social and environmental issues may over-invest along these dimensions, undertaking negative NPV projects. Alternatively, Benabou and Tirole also consider the scenario in which spending more on environmental and social issues would be value-increasing for the firm, and managerial short-termism causes firms to under-invest in these areas.

Prior literature offers contradictory conclusions on the valuation effects of firms' investments in environmental and social (ES) issues. Dimson, Karakas and Li (2015) analyze over 2,000 investor engagements with companies on issues related to environmental, social, and governance issues, and they conclude that increased resources devoted to these issues contribute to increased firm value. Lins, Servaes and Tamayo (2017) conclude that the benefits to ES investments are primarily accrued in bad times, suggesting that ES provides a form of insurance. However, other studies, e.g., Cheng, Hong and Shue (2013) and Krüger (2015), conclude that agency issues contribute to ES investments.

The objective of this paper is to evaluate this issue through a different lens. We focus on a specific channel through which firm owners pressure firms to devote more resources to ES issues: shareholder proposals. Shareholder proposals can be a useful device of external control, which can lead to change within a firm when there are unresolved conflicts between shareholders and management. Over our 2004 – 2016 period, the number of shareholder

proposals on ES issues each year ranges between 99 and 161, indicating that at least a subset of shareholders feel that managers are not investing sufficiently in these areas.

Our empirical framework focuses on evaluating the incentives of investors as well as management, as a way to provide insight on the determinants of ES proposals receiving support and the associated effects on the underlying firms. First, we collect detail on the person or organization sponsoring each proposal. Second, we examine the propensity of other investors to support these proposals, where we focus on mutual funds, an investor class that owned 31% of the US equity market as of 2017.[1] Like firm managers, mutual fund managers can be motivated by factors other than maximization of long-term firm value, for example short-term biases or conflicts of interest. Finally, we consider the extent of short-termism among firm management.

The uncertainty surrounding these proposals combined with variation in incentives suggests that there would be less agreement regarding the optimal course of action. To provide initial evidence on this, we compare mutual fund votes with ISS recommendations. Prior literature highlights the extremely high correlations between funds' votes and ISS's recommendations across a wide range of agenda items. However, consistent with our predictions, we find the dynamics are strikingly different among ES proposals. While ISS has supported approximately 60% of ES proposals since 2013, average mutual fund support has been less than 20%. Moreover, this lack of agreement has grown over time. The discrepancy is particularly striking as both entities claim to be focused on shareholder value.[2]

These patterns raise several questions, which we examine throughout the remainder of the paper. We begin by analyzing why mutual funds are substantially less likely to follow

[1] 2018 Investment Company Institute Factbook, https://www.ici.org/pdf/2018_factbook.pdf.
[2] Mutual funds have a fiduciary duty to vote based on shareholder value, and ISS states that 'the overall principle guiding all [social/environmental issues] vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short or long term." U.S. Proxy Voting Guidelines, January 4, 2018: https://www.issgovernance.com/file/policy/active/americas/US-Voting-Guidelines.pdf.

ISS's recommendations on ES proposals. One possibility is that, despite its stated objective, ISS is motivated by the positive social welfare effects of ES issues, causing it to recommend for issues even when the effects on firm value are unclear. As a result, firm owners, i.e., the mutual funds, disagree with the recommendations. A second possibility is that mutual funds vote on factors other than long-term shareholder value, e.g., they have conflicted incentives to be friendly toward management or to prioritize short-run value creation. 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. Also, 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.

To differentiate between these alternative explanations, we start by examining the types of investors sponsoring shareholder proposals on ES issues. If ISS's support of these issues is driven predominantly by social welfare preferences, then we would expect most supported proposals to be sponsored by investors with similar preferences. Examples include NGOs, religious groups, and labor unions. Alternatively, if ISS's support of these issues is motivated by their predicted positive effect on firm value, then we would expect more to be sponsored by investors who are more focused on shareholder value. We find that 53% of ES shareholder proposals are brought by asset management companies, whose fiduciary responsibility should require them to focus on firm value above social welfare. In comparison, 26% of ES proposals are brought by religious organizations and 22% by all other entities, including for example individuals, unions, and NGOs. Consistent with ISS's recommendations being tied to

shareholder value, their support is significantly higher among the proposals sponsored by asset management companies.

Given the evidence on sponsor type and on the gap between ISS support and funds' support, we proceed to focus on mutual funds' incentives. We examine the extent to which funds' votes on ES proposals are related to their horizon and their friendliness toward management. Consistent with predictions, we find that funds with shorter horizons are significantly less likely to vote for ES proposals. Results are robust across two alternative proxies for mutual funds' horizon: fund turnover and flow-performance sensitivity (see, e.g., Iliev and Lowry (2015) and Giannetti and Kahraman (2017)). Moreover, the effect is strongest for proposals brought by asset management companies and proposals that ISS supports, i.e., cases that are more likely to represent value increasing proposals. Among other proposals, e.g., proposals sponsored by individuals and NGOs, there is greater agreement that the proposal should be rejected.

To measure funds' friendliness toward management, we measure the percent of past proposals on which the fund supported management, focusing on management proposals that ISS did not support as a way to identify contentious cases. We find that management-friendly funds are significantly more likely to vote against the ES proposals. In fact, the economic effects of management friendliness appear to be larger than the economic effects of fund myopia. Furthermore, the effect of management friendliness is more pronounced when management is under short-term pressure, as measured by firm-years in which earnings are just above zero (following Dechow and Sloan (1991), Bergstresser and Philippon (2006), and Roychowdhury (2006)). In sum, the combination of managerial myopia and funds' concerns about confronting management appears to impede improvements on ES issues.

While the characteristics of investors sponsoring and supporting ES proposals suggests that they are most likely value-increasing, shareholder proposals are not binding, meaning that

management does not have to implement even those proposals that pass. Further, across our entire sample of 1,673 ES proposals, only 14 receive the minimum threshold of 50% support. This raises the question of whether high mutual fund support pressures management into taking action, or whether it serves as a harbinger of future problems.

The final section of the paper examines firms over the two to three years after receiving an ES proposal. Findings are consistent with mutual funds' concerns being justified when they vote for these proposals and with management not voluntarily making changes. Conditional on receiving one or more ES proposals, firms in which a greater percent of mutual funds supported the proposal(s) have significant increases in subsequent ES-related concerns, as published by MSCI KLD. Moreover, these firms also experience more extreme negative returns, measured following Hoepner, Oikonomou, Sautner, Starks and Zhou (2018) as the incidence of benchmark-adjusted returns in the lowest 10^{th} or 25^{th} percentile, indicating that greater ES concerns expressed by mutual funds is associated with greater tail risk.

Our paper is related to several streams of literature. First and foremost, our 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 engagements. Both Dimson, Karakas and Li (2015) and Hoepner et al (2018) look at the engagements of a single large institutional investor, and they find that successful engagements contribute positively to firm value but the probability of success is relatively low. However, survey evidence of Krueger, Sautner and Starks (2018) highlights the extent to which institutions employ multiple channels in addition to engagements, in particular submitting shareholder proposals and voting against management. Moreover, evidence in McCahery, Sautner, and Starks (2016) suggests that shareholder proposals are utilized when private discussions fail, suggesting that they represent more contentious issues. Finally, the fact that all institutional owners vote on shareholder proposals enables us to directly examine the

ways in which incentives of multiple entities– management, mutual fund investors, ES proposal sponsors and proxy advisors – interact to influence outcomes on ES issues.

Second, a growing body of work studies the relation between ES scores and firm value or subsequent firm returns.[3] While recent papers highlight a positive relation, there remains no consensus. A stream of papers studies investor characteristics that are associated with larger investments into high ES firms. Dyck, Lins, Roth, and Wagner (2018) conclude that institutional investors domiciled in countries with strong ES norms influence firms in other countries to improve their ES performance, with the effects concentrated among cases where the ES investments entail financial benefits. Hong and Kostovetsky (2012) focus on political preferences, Riedl and Smeets (2017) on social preferences, Brandon and Krüger (2018) and Starks, Venkat and Zhu (2017) on investment horizon. Compared to these papers, our focus on voice is arguably more informative because the reasons behind investors' actions are explicit, a point originally made by Hirschman (1970). In addition, while all shareholders have the right to vote, an increasing percentage of investors, i.e., indexers, have no choice regarding investment decisions.

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) find that many 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

[3] See, for instance, Edmans (2011, 2012), Oikonomou, Brooks, and Pavelin (2012), Diemont, Moore and Soppe (2016), Flammer (2015), Fabozzi, Ma and Oliphant (2008), Hong and Kacperczyk (2009), Khan, Serafeim and Yoon (2016), Grewal, Serafeim and Yoon (2016), Dyck, Lins, Roth, and Wagner (2018), amongst others

agnostic as to where ideology comes from and what it represents. Our approach differs as we link differences in voting behavior to economic incentives driven by differences in fund horizons and concerns about confronting management.

2. Data

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 or against each proposal in each firm-meeting. We merge these data with CRSP and Compustat, to obtain stock price and financial information for each firm. In total, our sample includes 3,971 firm-years across 1,444 unique firms with shareholder proposals. For much of the paper, we focus on the 1,196 firm-years with one or more ES proposals, across 400 unique firms.

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, employee relations, environment, and human rights.[4]

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.[5]

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.

Panel A of Figure 2 shows that there is a strong time trend in support for these proposals. 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. Across all fund-votes on ES proposals each year, we categorize them into four bins: both ISS and the funds support (orange bars),

[4] 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.
[5] Our classification of sponsors is similar to the approach used in a contemporaneous paper by Gantchev and Giannetti (2018).

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 funds oppose.

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 Table 3 shows that asset management companies sponsor a total of over 3000 proposals over our sample period, with ES proposals representing 23% of this set. In contrast, among religious groups these issues are a more primary issue, representing 61% of all sponsored proposals. This contrast is consistent with asset management companies being focused on shareholder value, and ES proposals generally not representing the primary method of increasing firm value.

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', where religious groups are most likely to bring proposals asking to 'Improve Human Rights Standards or Policies'.

Figure 4 shows that across all these sponsor types, we observe a similar divergence between ISS recommendations and average fund votes. While both ISS and mutual funds have become increasingly likely to support these ES issues, the rate of increase for ISS is substantially higher. That is, funds have been increasingly likely to disagree with ISS. This

disagreement is notable, as a large portion of mutual funds indiscriminately follow ISS on all issues (see, e.g., Iliev and Lowry, 2015).

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.

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). Consistent with the owners being more long-term focused, 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, though the economic magnitudes of these differences are small.

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. Funds' tendencies to vote for ES proposals

3.1 Funds' average propensity to vote for ES proposals

To the extent that ES proposals are more likely than other shareholder proposals to be motivated by social welfare considerations rather than firm value maximization, mutual fund owners should be less likely to support these proposals. Incremental to this, short-termism among mutual fund owners combined with ES initiatives only contributing to firm value over the long-term may further increase the tendencies of mutual fund owners to vote against these proposals.

We first examine mutual funds' propensity to support ES proposals using a sample of all shareholder proposals, and we then conduct a more in-depth analysis on the subsample of proposals related to ES issues. Table 2 shows a series of regressions where the dependent variable equals one if the fund votes for the proposal, zero otherwise. We estimate linear probability models to enable the inclusion of multiple fixed effects. Most explanatory variables are measured as of the fiscal year end prior to the annual meeting date. Exceptions include institutional ownership, which is measured at the quarter end preceding the meeting date, and past return and illiquidity, which are measured over the 12 months preceding the meeting date.

Looking first at Column 1 of Table 2, the sample includes all 7,245 shareholder proposals across 3,961 firm-years and 4,546 distinct mutual-fund owners, a total of 1,518,349

observations. Our independent variables of interest include a dummy variable denoting whether the proposal relates to ES issues 'ES proposal', and this interacted with a dummy denoting whether ISS recommended for the proposal, 'ISS For × ES proposal'. We include meeting and fund fixed effects, where the meeting fixed effect is close to a year × firm fixed effect. Consistent with predictions, mutual funds are significantly less likely to vote for ES issues, compared to other shareholder proposals. Moreover, the difference is particularly large among proposals supported by ISS. In economic terms, funds are 17% less likely to vote for ES issues supported by ISS, compared to other shareholder proposals that similarly receive ISS support.

Column 2 of Table 2 limits the sample to the 1,673 ES proposals, a total of 349,852 observations, and columns 3 and 4 limit it further to those ES proposals with ISS support, a total of 101,421 observations. These columns highlight the pattern previously shown in Figures 2 and 4, that funds' tendencies to disagree with ISS for recommendations on ES proposals has increased over time. Column 2 includes ISS For × 'Time', where Time is defined as a dummy equal to one for the second half of our sample period, years 2010 and later. While mutual funds were 29% more likely to vote for ES proposals that ISS supports during the earlier half of the sample period, the magnitude of ISS's influence is 3% lower in the second half of the sample. Column 3 shows that this holds across proposals sponsored by both asset management companies and by religious groups. Column 4 shows that this conclusion is robust to defining 'Time' as a time trend, equal to one if the first year of our sample, two in the second year, etc.

Coefficients on control variables are generally consistent with mutual funds being more likely to support ES proposals if the firm is more profitable and has more growth opportunities. Coefficients on ROA and M/B are significantly positive across all specifications.

Interestingly, both columns 3 and 4 indicate that the increased disagreement between mutual funds and ISS, with the funds voting against the proposals, is particularly large for

proposals sponsored by the asset management companies. To the extent that these proposals are more likely to be value increasing, it suggests that funds' votes are based on factors other than just long-term firm value. We focus on this issue in the next subsection.

3.2 The effects of fund horizon on support for ES proposals

Table 3 examines the extent to which mutual funds indiscriminately vote against all ES issues, and it also provides initial evidence on heterogeneity across funds. We begin by identifying all mutual funds that voted on 30 or more ES proposals as well as those that voted on 30 or more non-ES shareholder proposals. Funds that voted against 100% of ES proposals (and analogously of non-ES proposals) are characterized as 'blanket voting' on ES (non-ES) issues.

As shown in Panel A of Table 3, blanket voting is significantly more common on ES proposals, compared to other shareholder proposals. As shown in the left-hand side of Panel A, across the full sample period, 21.8% of mutual funds blanket voted against ES proposals, compared to only 0.01% for non-ES shareholder proposals. While funds have become somewhat less likely to blanket vote against ES proposals in the more recent 2010-2016 period, the rate remains a relatively high 21.97%. The right-hand side shows similar statistics, where we extend the sample by relaxing the minimum number of proposals per fund to three (instead of 30). While 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. Overall conclusions regarding differences between ES versus non-ES proposals are similar.

Panel B of Table 3 provides descriptive evidence on the types of mutual funds that tend to blanket vote against on ES proposals, versus those that do not. 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. Specifically, funds that blanket vote

against, which we define using the 30 vote minimum, have significantly higher turnover (0.76 vs 0.68), have significantly higher flow-performance sensitivity (1.05 vs 0.96), and are significantly less likely to be index funds (23% vs 36%). These funds are also much smaller, a significant difference of 2.36 billion vs 5.89 billion, and they have slightly lower returns over the past 12 months. Finally, the funds are also significantly friendlier toward management. Conditional on ISS recommending against management, the blanket against funds still vote for management in 4% of cases, compared to 3% for other funds.

Tables 4 and 5 examine the relation between fund characteristics and fund voting on ES proposals in more depth. Looking first at Table 4, we examine funds' propensity to vote for ES proposals, conditional on two measures of short-termism. First, we focus on 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. Second, we use turnover, a commonly used metric of short horizon, as funds that hold securities for short periods rationally seek to maximize firm performance over similar time frames.[6]

Similar to Table 2, the dependent variable in Table 4 regressions is a dummy equal to one if the fund votes for the ES proposal, zero otherwise. We control for a variety of firm characteristics as well as ISS's recommendation. Looking first at Column 1, we include firm,

[6] 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.

sponsor type, proposal category, and year fixed effects. 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.[7] Mutual funds who tend to experience greater inflows (outflows) when performance is higher (lower) are more concerned with the short-term performance of every firm in their portfolio. As such, they are less likely to support firm 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 ESG funds are significantly more likely to vote for ES proposals, the magnitude is striking, at 33%.

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 (col 3) and across years within a given fund (col 4).

[7] 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 0.1353 equals 5.61%

If the disparity between funds' likelihood of voting for an ES proposal are driven by short-termism, then the differences should be greatest within the subsample of ES proposals that are more likely 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 were value-decreasing. In contrast, we would observe a disparity among proposals that were value-increasing, with short-term focused funds being less supportive. We test this conjecture in Table 5, using two proxies for the likelihood that a proposal is value-increasing. First, we subset by whether the proposal is sponsored by an asset management company (columns 1 – 3). Second, we subset by whether it is supported by ISS (columns 4 – 6).

Results are consistent with predictions. Columns 1 and 2 split the sample into proposals sponsored versus not sponsored by an asset management company. The coefficient on flow-performance sensitivity is significantly negative in both specifications, but the magnitude is approximately twice as great within the sample of proposals sponsored by asset management companies (col 1). Looking at Column 3, which combines all ES proposals, the interaction term Asset management sponsor × Flow-performance sensitivity equals -0.071, significant at the 5% level. A one standard deviation increase in flow-performance sensitivity is associated with an 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.[8]

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

[8] The standard deviation of flow-performance sensitivity (0.0594) times the coefficient on this variable (-0.100) divided by the sample mean of 0.1353 equals -4.39%. Looking at the interaction, the analogous statistics are 0.0379 * -0.071 / 0.1353 = -0.01989, for a total effect of -6.38%.

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.

In sum, across proposals that are less likely to be value-increasing, as proxied by ISS recommending against, there is broad agreement among all mutual funds that the proposal should not be supported. In contrast, within the sample of proposals that are more likely to be value-increasing, shareholders' horizon is a significant determinant of their level of support.

3.3 The effects of funds' friendliness toward management, on support for ES proposals

Prior literature concludes that certain mutual funds are particularly supportive of management. For example, 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. Thus, we proxy for management friendliness 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.

Our first prediction is that mutual funds that are friendlier toward management will be less likely to vote for ES proposals. We test this in Column 1 of Table 6, in a format similar to Tables 4 and 5. The sample consists of all mutual fund votes on all ES proposals, and the dependent variable equals one if the fund voted for the proposal, zero otherwise. Our independent variable of interest is management friendliness, and we include all control variables previously used in Table 2 (not tabulated to conserve space). We also include firm, year, sponsor type, and proposal category fixed effects. Consistent with predictions, more

management-friendly funds are significantly less likely to vote for ES proposals, with a one standard deviation increase in friendliness associated with an 25.8% lower likelihood of voting for the shareholder proposal, relative to the sample mean of 13.77%.[9]

Subsequent columns of Table 6 examine these relations in more depth, in a format that follows that of Table 5. In a similar logic, we conjecture that the higher tendency of management-friendly funds, compared to other funds, to vote with management will be concentrated within proposals that are more likely value-increasing. Among the value-decreasing ES proposals, we would expect all funds to vote with management, i.e., against the ES proposal. Results are consistent with predictions. Looking first at the left-hand side of Table 6, a one standard deviation increase in a fund's management friendliness is associated with an 33% greater probability of voting against ES proposals sponsored by an asset management company, compared to a smaller 10.9% probability among other proposals (similarly expressed relative to the sample mean). Similar to Table 5, subsampling on the ISS recommendation produces even starker results. The greater tendency of management-friendly funds to vote against ES proposals is entirely concentrated within proposals on which ISS recommends support; among other proposals there is more widespread agreement to vote against the proposal.

In sum, results throughout this section highlight the extent to which fund manager preferences on factors other than long-term value maximization influence their stance toward ES issues, and in particular influence their voting behavior. These findings highlight the extent to which outcomes on shareholder proposals are influenced by the shareholder base.

3.4 The effects of managerial myopia

[9] This is calculated as the standard deviation of fund friendliness equals 0.0971, times the coefficient of -0.366, divided by the sample mean vote For rate of 0.1377.

While Tables 2 – 6 highlight the effects of fund characteristics, we further posit that management incentives will also play a role. 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)). Management's opposition may reflect disagreement regarding the value effects of the initiative, or it may reflect a disparity between short-term versus long-term value maximization. We hypothesize that myopia among top management contributes to their opposition of at least some ES initiatives.

We proxy for the extent of management's short-term focus using a dummy equal to one if the firm's earnings per share (EPS) or net income (NI) is 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. It follows that managers would be particularly opposed to undertaking ES proposals in such years, as many of these projects are characterized by upfront costs, with the majority of 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 during years in which firm management is under more short-term pressure, e.g., years in which earnings were barely above zero.

Table 7 tests these predictions. Similar to prior tables, the sample consists of mutual funds' votes on ES proposals, and the dependent variable equals one if the fund voted for the proposal, zero otherwise. The independent variables of interest are fund-management friendliness, and this variable interacted with 'earnings management'. We use four alternative

measures of earnings management. In columns 1 and 2, we employ a dummy equal to one if EPS over the past year was between 0 and 0.05, and a dummy equal to one if NI over the past year was between 0 and $10 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. Similar to results in Table 6, the coefficient on fund-management friendliness is 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 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 a -1 to -6%, relative to the -25% effect from Table 6.

Results throughout this section highlight several phenomena. First, mutual funds are significantly less likely to vote for ES proposals, compared to other shareholder proposals on which ISS recommends support. Second, the disparity between ISS's recommendation and mutual funds' voting has increased over time. Third, both fund short-termism and fund-management friendliness contribute to this disparity. Mutual funds with a more short-term focus and mutual funds that are friendlier toward management are significantly less likely to vote for ES proposals, and both these effects are concentrated within subsets of ES proposals that are more likely to be value-increasing. Finally, short-termism among management also plays a role, with management-friendly funds being significantly more likely to vote against ES proposals when management is under more short-term pressure.

4. Long-term effects for the underlying firm

Findings in the prior section suggest that many of the proposed ES initiatives have a positive expected value. The proposals are supported by fund types that are most focused on

long-term value creation, i.e., funds that are less myopic and less friendly toward management. Moreover, the higher support of such funds is greatest among those proposals that are sponsored by entities most focused on shareholder value, i.e., by asset management companies. However, it is also the case that shareholder proposals are not binding. Further, only 14 of the 1,673 ES proposals in our sample receive more than 50% support, meaning that even if they were binding firms would not be forced to take any action in the vast majority of cases. Cuñat, Giné and Guadalupe (2012) find a sharp discontinuity in the probability of implementing changes around the threshold point, generally 50%.

To the extent that proposals with greater support from mutual funds represent initiatives with a higher expected value, then the failure to implement changes following these proposals should be associated with more negative future outcomes. We focus on three negative future outcomes. First, we focus on the change in the ES score. The ES score represents the equal-weighted average of the company's net strength (strengths minus concerns) across five ES-related categories, as coded in the KLD data: "product", "community", "employee relations", "environment", and "human rights". We use a change in ES score dummy, which equals 1 if the firm's ES score increased from the following year, 0 if it did not change, and -1 if it decreased. As the KLD data is only available through 2014, these analyses are restricted to this somewhat shorter time period. Second, following Hoepner, Oikonomou, Sautner, Starks and Zhou (2018), we measure value-at-risk 10^{th} percentile, which equals 0 if the firm's four-factor alpha calculated over the past 12 months was above the 10^{th} percentile and it equals the absolute value of the alpha for returns below the 10^{th} percentile. Third we measure value-at-risk 25^{th} percentile, which is similar but based on the 25^{th} percentile cut-off point.

Looking at Panel A of Table 8, the sample consists of firm-years for which the firm had one or more ES proposals over the past two years, i.e., during (t-2, t-1). The requirement of past voting data and KLD data further restricts the sample in Columns 1 and 2 to the 2006 -

2014 period. For each firm-year, the independent variable of interest equals average mutual fund support across this set of ES proposals. To minimize the likelihood that management voluntarily initiated changes following one of these proposals, we limit the sample to cases in which the proposals received less than 50% support.

Column 1 indicates that firms for which average support on ES proposals was higher within the past two years are significantly more likely to experience an increase and/or less likely to experience a decrease in their ES concern score. Consistent with these concerns not lessening, columns 3 and 5 indicate that these firms also have significantly higher value-at-risk in the years following ES proposals with greater support. Columns 2, 4, and 6 are analogous, with the exception that they categorize proposals by whether or not they received ISS support. Results are similar, albeit slightly weaker.

Panel B of Table 8 shows a similar analysis, but it extends the sample to firms that had one or more ES proposals over the past three years, i.e., during the (t-3, t-1) period. To allow for the one additional year of prior data, the sample for this analysis begins in 2007, causing the sample size to be somewhat smaller.[10] Conclusions are similar using this specification.

Our findings of negative relations between mutual fund support for 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 ES engagements are most effective in lowering downside risk when the engagement is more successful. Our finding of higher ES concerns and higher downside risk is consistent with both: the proposals not being implemented, and overall mutual fund support predicting increasing levels of ES related problems in the future.

[10] Two contrasting influences affect sample size. The requirement of one more year of data to calculate fund support over the prior three years shrinks the sample size, while the inclusion of firms that had an ES proposal at any point within the past three years (instead of two years) increases firm size.

5. 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 close relation between these issues and individuals' ethical preferences makes it difficult to discern the true motivation behind a proposal and behind the firm's associated response. Second, ES-related investments tend to have long time horizons, with many unknown factors that make it difficult to ascertain effects on firm value.

The ambiguity regarding the optimal course of action increases the extent to which individuals' incentives influence observed outcomes. To identify a set of contentious issues on ES issues, we focus on shareholder proposals. 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. Moreover, the higher support rate by these investors is concentrated within proposals that are most likely to be value-increasing, with lower quality proposals likely to be rejected more universally.

Our results further suggest that mutual funds' concerns regarding these ES issues are justified. Shareholder proposals are non-binding and even highly supported cases generally receive less than 50% of votes, meaning management is not forced to undertake changes. Our findings are consistent with firms exercising this right to disregard suggested changes. Firm-years with ES proposals that receive high support are followed by deterioration in ES scores and by higher value at risk in subsequent years. Firms would arguably benefit by paying more attention to their shareholders' recommendations.

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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 ES issues
ISS for	A dummy variable that equals one if ISS recommends for the proposal
Asset mgmt sps	A dummy variable that equals one if the proposal is sponsored by an asset management company
Religious group sps	A dummy variable that equals one if the proposal is sponsored by a religious group (including religious funds)
Other sponsors	A dummy variable that equals one if the proposal is sponsored by individuals, union, or NGOs
ISS Avg For (t-k,t-1)	Average ISS support across all ES proposals in a given company over a *k* year period; *k* equals either 2 or 3
Mutual Fund variables	
Fund votes for proposal	A dummy variable that equals one if the fund votes for the proposal, zero otherwise
Mutual Funds Avg For (t-k,t-1)	Average fund support across all ES proposals in a given company over a *k* year period; *k* equals either 2 or 3
FPS	Estimated from 36 month rolling regressions where fund flows are regressed on average 4-factor alpha in the past12 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	Fraction (in %) of management-sponsored proposals that fund supports when ISS recommends against
ESG 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	
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
ΔES score	A dummy variable that equals -1, 0, or 1 if the firm's ES score has decreased, remained the same, or increased, respectively
Log MV	Natural logarithm of market capitalization defined as price times shares outstanding as of fiscal year-end (in millions)
M/B	Market value of equity divided by book value of equity (book value of stockholders' equity + balance sheet deferred taxes and

	investment tax credit – the book value of preferred stock) as of fiscal year-end
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: $1000\sqrt{\lvert Return\rvert/(Dollar\ Trading\ Volumn)}$
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 equal to one if EPS over the past year was between 0 and 0.05 (NI between 0 and $10 million) before the meeting.
Earning mgmt EPS (Net Income) 5yr	The proporation of years where the EPS was between 0 and 0.05 (NI between 0 and $ 10 million) in the parst five years before the meeting.
VaR10/ VaR25	Absolute value of firm's 12-month average 4-factor alpha if alpha is below the 10^{th} (25^{th}) percentile of the sample; equals zero otherwise

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.

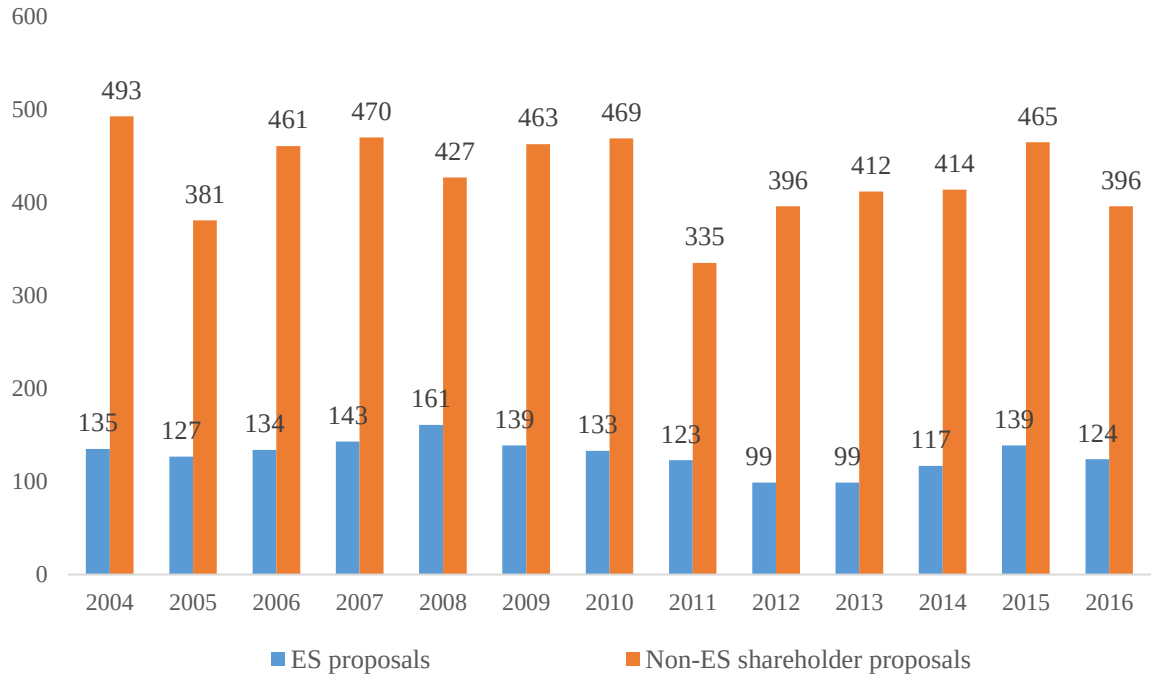
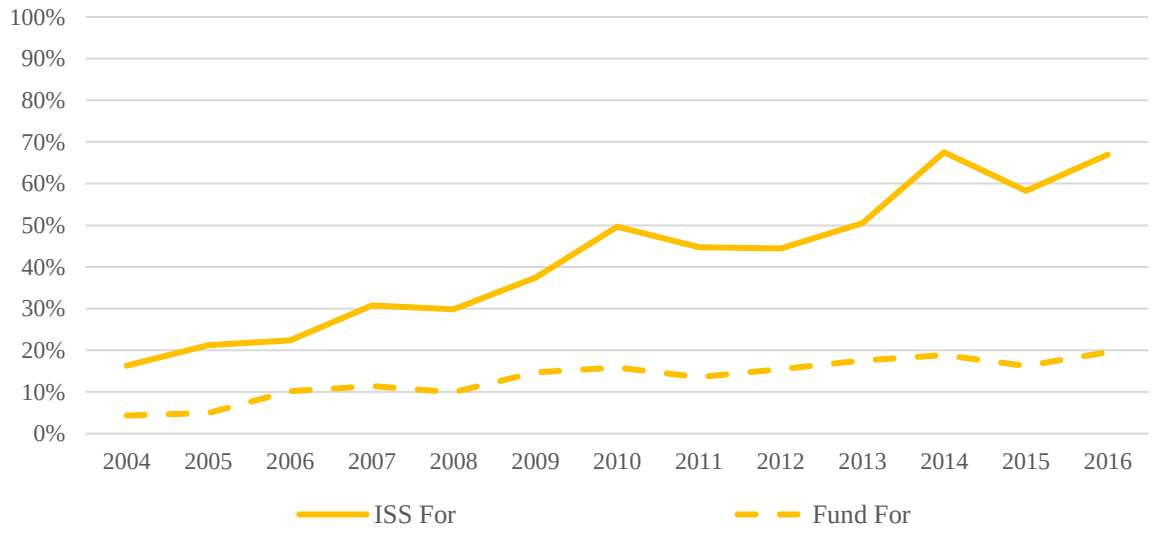


Figure 2: Distribution of fund votes and ISS recommendations on ES proposals over time

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

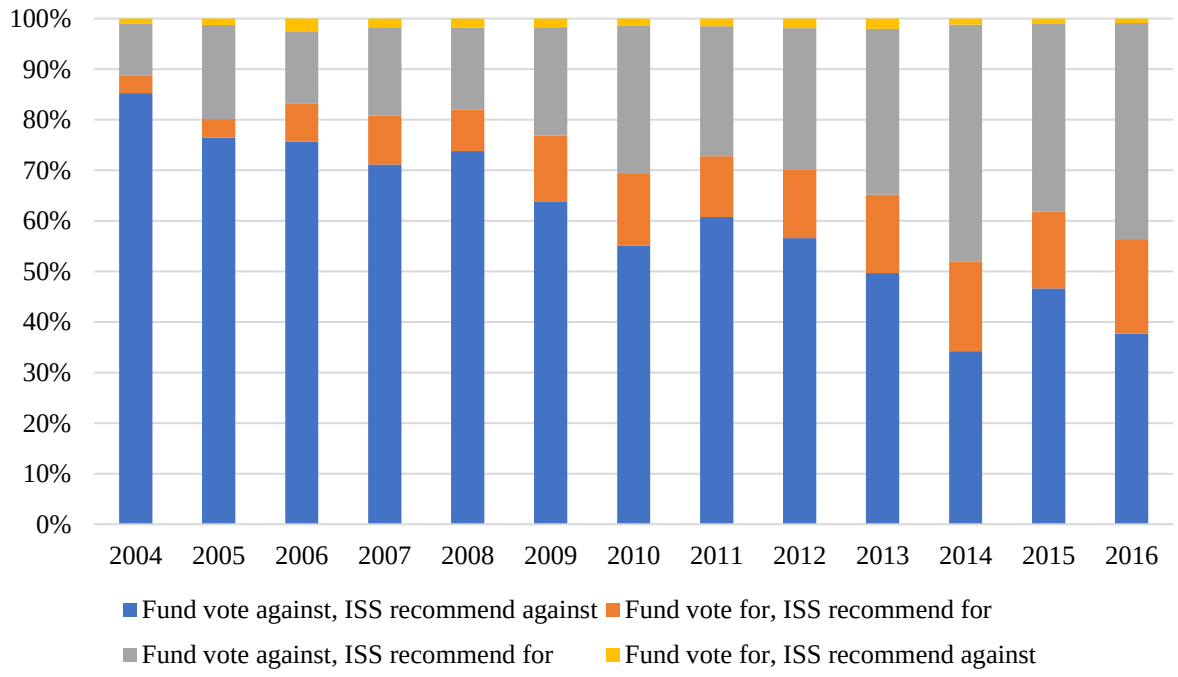
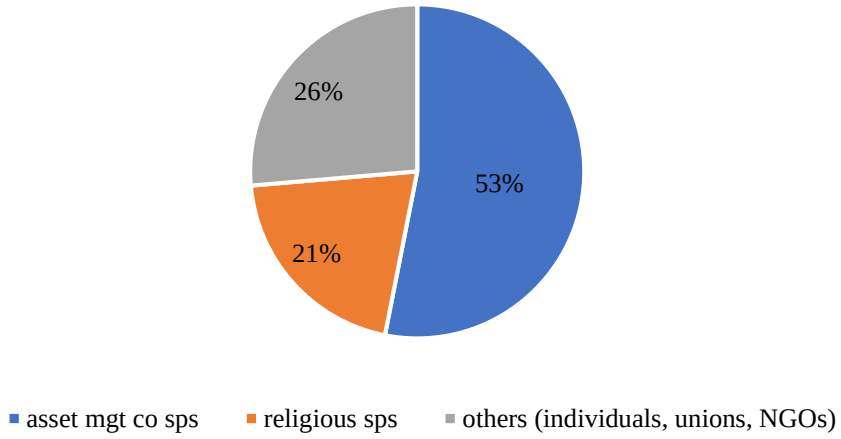


Figure 3 Total number of proposals by sponsor types

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

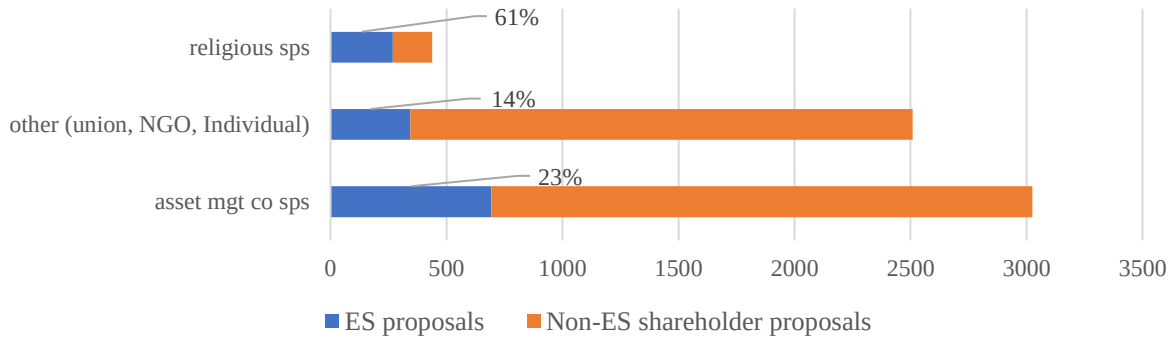


Figure 4: Fund and ISS support rate over the sample period, if the data is missing it means no proposals initiated by certain sponsors during certain period
The sample includes all firms with one or more ES shareholder proposals, over the 2004 – 2016 period. Each panel focuses on proposals by one sponsor type: asset management companies, religious groups, or others. 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. Bars show the number of ES proposals by each sponsor type each year.

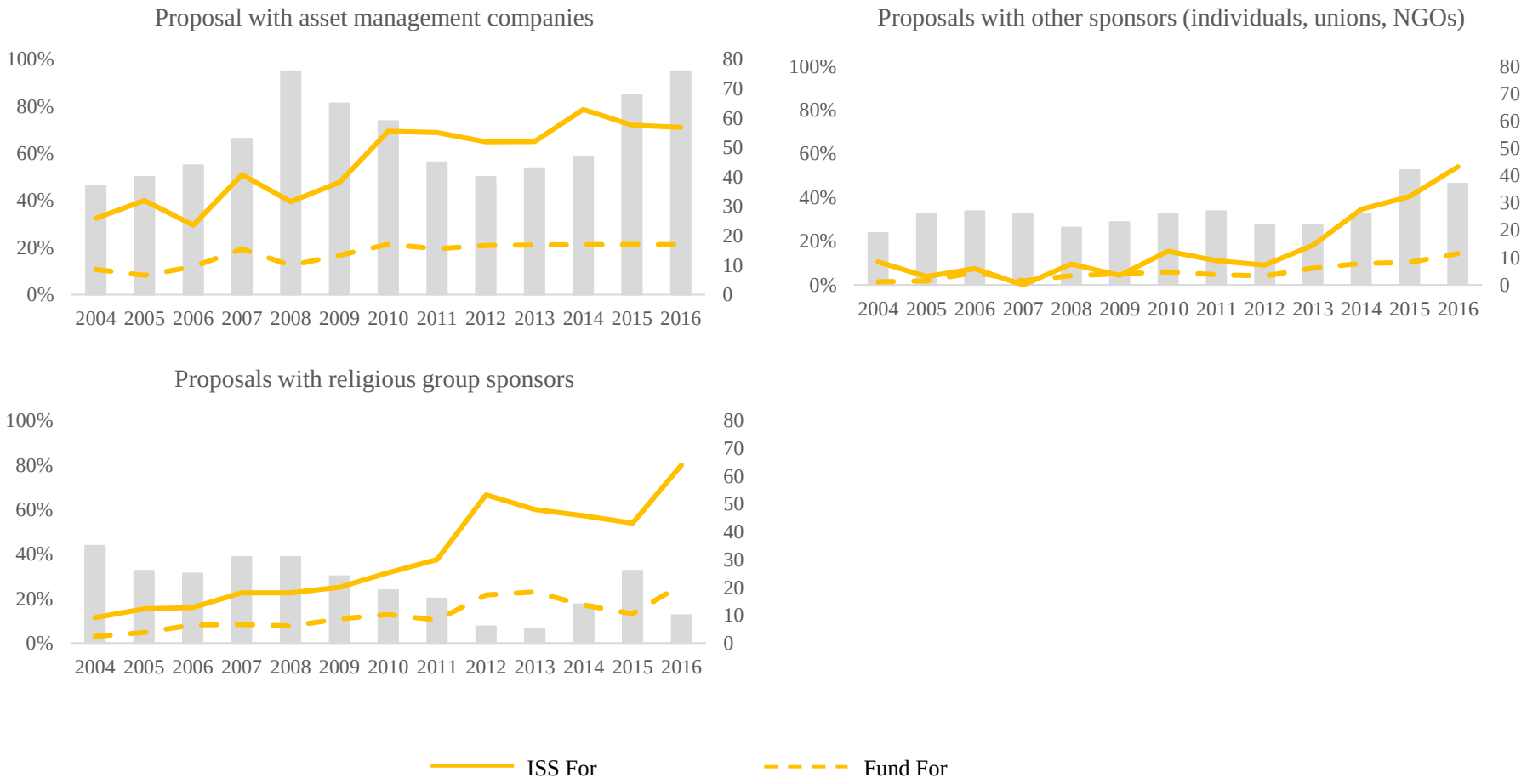


Table 1: Descriptive statistics

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 × mutual fund investor level. Column 1 includes 376,058 fund × proposal observations on ES proposals, and column 2 includes 1,160,536 fund × 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	All Non-ES Firms #unique firms = 5,138 # firm-yrs = 36,926		Non-ES firms with 1+ SH props #unique firms = 1,044 # firm-yrs =2,775	
	Average	Average	Avg. Diff	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
Amihuld 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)	All Non-ES Shareholder Proposals (N=1,160,536)	
	Average	Average	Avg. Diff
Fund characteristics			
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: Fund Support for ES proposals over Time and by Sponsor Type

The sample consists of mutual funds' votes on shareholder proposals in annual and special meetings, over the 2004 – 2016 period. Column 1 includes all shareholder proposals, and columns 2 – 4 are restricted to proposals on ES issues. Regressions are OLS, with standard errors clutered at the fund level. In each column, the dependent variable equals one if the mutual fund votes for the proposal in the firm meeting, zero otherwise. In columns 2 and 3, 'time' is measured as a dummy equal to one if the meeting occurred in 2010-2016, zero otherwise. In column 4, 'time' is defined as a time trend, equal to one if the first year of the sample period, two in the second year, etc. All other varaibles are defined in Appendix I. T-statistics are shown in parenthese, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent variable: fund votes for proposal			
Sample =	All Shareholder proposals	All ES proposals	ES proposals, where ISS recommends For	ES proposals, where ISS recommends For
'Time' measure =		Dummy=1 post-'10	Dummy=1 post-'10	Time trend
ES proposal	-0.032***			
	[-16.466]			
ISS for × ES proposal	-0.141***			
	[-25.154]			
ISS for × 'Time'		-0.028**		
		[-2.042]		
Asset mgmt sps × 'Time'			-0.070***	-0.005***
			[-6.322]	[-3.915]
Religious group sps × 'Time'			-0.025**	-0.004***
			[-2.155]	[-2.720]
ISS for	0.430***	0.292***		
	[46.347]	[23.809]		
'Time'		0.008*	0.026*	-0.002
		[1.676]	[1.798]	[-1.033]
Asset mgmt sps			0.070***	0.065***
			[7.729]	[5.092]
Religious group sps			0.015*	0.029**
			[1.709]	[2.214]
Cash		-0.033***	0.004	-0.039
		[-3.659]	[0.142]	[-1.342]
Sales growth		-0.022***	-0.072***	-0.065***
		[-4.190]	[-6.143]	[-5.738]
M/B		0.001***	0.002***	0.003***
		[3.682]	[2.690]	[3.892]
ROA		0.082***	0.230***	0.187***
		[4.850]	[7.389]	[6.469]
Dividend yield		0.104	0.235	0.609***
		[1.324]	[1.515]	[3.860]
Log MV		-0.002	-0.020***	-0.004
		[-0.484]	[-2.632]	[-0.565]
Past firm return		-0.003	-0.005	-0.018***
		[-0.952]	[-0.884]	[-2.926]
Amihud illiquidity		0.966***	-0.137	0.039
		[3.568]	[-0.214]	[0.060]
Inst ownership		-0.003	-0.080***	-0.048***
		[-0.448]	[-5.849]	[-3.210]
Observations	1,518,349	349,852	101,421	101,421
Adj. R-squared	0.475	0.432	0.619	0.619
Firm FE		×	×	×
Meeting FE	×			
Fund FE	×	×	×	×
Sponsor Type FE		×		
Proposal Category FE		×		
%(Dep.var=1)	34.18%	13.6%	31.73 %	31.73 %

Table 3: Mutual Funds' Blanket Against Votes

The sample consists of mutual funds' votes on shareholder proposals in annual and special meetings, over the 2004 – 2016 period. In Panel A, the left-hand side consists of mutual funds that voted on 30 or more ES proposals (column 1) or non-ES proposals (column 2), with the top of the table focusing on the entire 2004 – 2016 sample period, and subsequent rows being limited to the earlier 2004 – 2009 period and the later 2010 – 2016 period. Each cell tabulates the percent of mutual funds that voted against all ES (or non-ES) proposals among the subset on which they voted during the respective 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 B is based on the subsample of 2,246 mutual funds that vote on 30 or more ES proposals, and it compares the characteristics of the 490 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: Percent of mutual funds that blanket vote against shareholder proposals

	Funds that voted on 30+ proposals		Funds that voted on 3+ proposals	
	ES proposals	Non-ES proposals	ES proposals	Non-ES proposals
Full sample period 2004 – 2016	21.82%	0.01%	30.88%	1.75%
	490 out of 2246 funds	*24 out of 3223 funds*	*1122 out of 3633 funds*	*73 out of 4179 funds*
Early subsample: 2004 – 2009	28.50%	0.60%	37.54%	1.55%
	409 of 1435 funds	*13 out of 2162 funds*	*972 out of 2589 funds*	*47 out of 3040 funds*
Late subsample: 2010 – 2016	21.97%	1.85%	32.45%	3.16%
	315 out of 1434 funds	*41 out of 2215 funds*	*809 out of 2493 funds*	*93 out of 2940 funds*

Panel B: Descriptive Statistics on Blanket-Against Funds versus Non-Blanket-Against Funds.

	Blanket-Against Funds	Non-Blanket-Against Funds		
	Average	Average	Avg. Diff	T-stats
Turnover	0.76	0.68	0.07***	15.42
FPS	1.05	0.96	0.08**	2.40
Index fund	0.23	0.36	-0.13***	-54.79
TNA (Billions)	2.36	5.89	-3.52***	-31.61
Fund alpha	0.005	0.006	-0.001***	-6.27
Fund-mgmt friendliness	0.04	0.03	0.01***	13.26

Table 4 Role of Funds' Horizon

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 clutered at the fund level. In each column, the dependent variable equals one if the mutual fund vote for the proposal in the firm meeting, zero otherwise. All varaibles are defined in Appendix 1. T-statistics are shown in parenthese, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent variable: fund votes for proposal			
FPS	-0.128***	-0.062**		
	[-2.912]	[-2.097]		
Turnover			-0.008*	-0.023***
			[-1.693]	[-5.042]
ESG fund	0.330***		0.321***	
	[2.877]		[2.815]	
ISS for	0.269***	0.269***	0.270***	0.270***
	[26.031]	[25.706]	[25.350]	[25.104]
Fund alpha	0.808**	-0.079	0.594**	-0.090
	[2.452]	[-0.540]	[1.998]	[-0.648]
Log TNA	-0.026***	-0.014***	-0.025***	-0.012***
	[-14.810]	[-2.900]	[-12.900]	[-3.066]
Cash	-0.019	-0.018*	-0.026**	-0.022**
	[-1.630]	[-1.908]	[-2.326]	[-2.357]
Sales growth	-0.014***	-0.016***	-0.017***	-0.018***
	[-2.700]	[-3.537]	[-3.283]	[-3.983]
M/B	0.001***	0.000**	0.001***	0.000***
	[2.626]	[2.405]	[3.060]	[2.601]
ROA	0.073***	0.066***	0.072***	0.063***
	[3.640]	[4.019]	[3.601]	[3.881]
Dividend yield	0.021	0.016	0.022	0.042
	[0.233]	[0.207]	[0.249]	[0.567]
Log MV	0.007**	0.003	0.008**	0.003
	[2.161]	[1.091]	[2.391]	[1.282]
Past firm return	0.003	0.002	0.002	0.001
	[0.962]	[0.866]	[0.814]	[0.428]
Amihud illiquidity	0.831**	0.453	0.922**	0.437
	[2.179]	[1.508]	[2.545]	[1.544]
Inst ownership	-0.000	-0.002	0.001	0.000
	[-0.055]	[-0.308]	[0.113]	[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 5 Role of Funds' Horizon, 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 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 4 but are not tabulated. All varaibles are defined in Appendix I. T-statistics are shown in parenthese, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	Dependent variable: fund votes for proposal					
	Asset mgmt co sponsor	Non-asset mgmt co sponsor	All ES proposals	ISS For	ISS against	All ES proposals
	(1)	(2)	(3)	(4)	(5)	(6)
FPS	-0.175***	-0.099***	-0.100***	-0.336***	-0.009	-0.022
	[-3.030]	[-2.651]	[-2.640]	[-3.237]	[-0.389]	[-0.848]
Asset mgmt sps × FPS			-0.071**			
			[-2.250]			
ISS for × FPS						-0.288***
						[-2.679]
Asset mgmt sps			0.008***			
			[4.474]			
ISS for	0.273***	0.269***	0.269***			0.272***
	[27.101]	[24.167]	[26.044]			[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%

Table 6: Role of Funds' Friendliness Toward Management, conditional on sponsor type

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 equals one if the mutual fund votes for the proposal in the firm meeting, zero otherwise. Column 2 (Column 3) includes the subset of ES proposals sponsored by (not sponsored by) an asset management company. Column 5 (Column 6) includes the subset of ES proposals for which ISS recommends for (against). Columns 1, 4, and 7 include the full sample. All regressions include controls previously used in Table 2, but are not tabulated. All variables are defined in Appendix 1. T-statistics are shown in parentheses, and ***, **, and * denote significance at the 1, 5, and 10% levels, respectively.

	Dependent variable: fund votes for proposal						
	All ES proposals	Asset mgmt sps	Non Asset mgmt sps	All ES proposals	ISS For	ISS against	All ES proposals
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Fund mgmt friendliness	-0.366***	-0.462***	-0.305***	-0.313***	-0.840***	-0.025**	-0.074***
	[-15.669]	[-14.495]	[-13.898]	[-14.548]	[-15.658]	[-2.433]	[-6.725]
Asset mgmt sps ×				-0.109***			
Fund mgmt friendliness				[-4.824]			
ISS for ×							-0.698***
Fund mgmt friendliness							[-14.113]
Asset mgmt sps				0.010***			
				[4.631]			
ISS for	0.256***	0.261***	0.257***	0.256***			0.279***
	[20.467]	[21.468]	[18.966]	[20.473]			[21.060]
Observations	200,590	84,363	116,227	200,590	83,430	117,160	200,590
R-squared	0.184	0.169	0.187	0.184	0.056	0.028	0.191
Other controls	×	×	×	×	×	×	×
Firm FE	×	×	×	×	×	×	×
Year FE	×	×	×	×	×	×	×
Sponsor Type FE	×				×	×	×
Proposal Cateogry FE	×	×	×	×	×	×	×
%(Dep.var=1)	13.77%	18.10%	10.62%	13.77%	29.76%	2.37%	13.77%

Table 7: Role of Funds' Friendliness Toward Management

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 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 0.05 (NI over the past year was between 0 and $10 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 narrow band just above zero. All other variables are defined in Appendix I. T-statistics are shown in parenthese, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	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)
Fund mgmt friendliness	-0.366***	-0.363***	-0.355***	-0.365***
	[-15.668]	[-15.633]	[-15.443]	[-15.665]
Earnings mgmt × Fund mgmt friendliness	-0.730**	-0.595***	-1.609***	-0.489
	[-2.211]	[-4.230]	[-4.059]	[-1.143]
Earnings mgmt	-0.045***	-0.007	0.050	-0.011
	[-3.392]	[-0.460]	[1.515]	[-0.323]
ISS for	0.256***	0.256***	0.256***	0.256***
	[20.492]	[20.472]	[20.463]	[20.470]
Cash	-0.007	-0.008	-0.007	-0.008
	[-0.459]	[-0.559]	[-0.471]	[-0.570]
Sales growth	-0.040***	-0.040***	-0.039***	-0.040***
	[-5.935]	[-5.892]	[-5.819]	[-5.931]
M/B	0.000	0.000	0.000	0.000
	[0.109]	[0.034]	[0.173]	[0.150]
ROA	0.112***	0.107***	0.103***	0.106***
	[4.542]	[4.372]	[4.233]	[4.359]
Dividend yield	-0.131	-0.131	-0.131	-0.134
	[-1.075]	[-1.078]	[-1.077]	[-1.101]
Log MV	0.006	0.005	0.005	0.005
	[1.388]	[1.295]	[1.293]	[1.301]
Past firm return	0.001	0.001	0.002	0.001
	[0.191]	[0.386]	[0.606]	[0.330]
Amihud illiquidity	0.620	0.582	0.557	0.581
	[1.268]	[1.193]	[1.143]	[1.190]
Inst ownership	0.005	0.004	0.003	0.004
	[0.531]	[0.421]	[0.329]	[0.429]
Observations	200,590	200,590	200,590	200,590
R-squared	0.184	0.184	0.184	0.184
Firm FE	×	×	×	×
Year FE	×	×	×	×
SpsType FE	×	×	×	×
Proposal Category FE	×	×	×	×
%(Dep.var=1)	13.77%	13.77%	13.77%	13.77%

Table 8 "Costs" of Not Supporting

The sample in Panel A consists of firm-years over the 2006 – 2016 period in which the firm had at least one shareholder proposal related to ES issues within the prior two years (t-2, t-1), in annual and special meetings. Panel B further limits the sample to the 2007 -2016 period, to allow an additional year of past voting data (t-1, t-3, t-1). Regressions are OLS. The dependent variable in Columns 1 and 2 equals a dummy variable equal to -1, 0, or 1 if the firm's ES score has decreased, remained the same, or increased, and data availability on the ES score causes the sample to end in 2014. The dependent variable in Columns 3 and 4 equals Value at $Risk_{10th\ pctl}$, which equals the absolute value of firm's four factor alpha over the past year if this alpha was below the 10th percentile, and zero otherwise. The dependent variable in Columns 5 and 6 is defined analogously, but based on the 25th percentile cutoff. In Panel A, Mutual Funds Avg For is defined as follows: for each firm ES proposal over the prior two years, we calculate the average support rate of mututal funds. We then average this over all ES proposals over this two year period. ISS Avg For is defined analogously, but represents the average percent of ES proposals for which ISS recommended voting for over this two year period. Panel B is similar, with the exception that the sample consists of firms with an ES proposals over the past three years, and these two independent variables of focus are defined over the past three years. All other variables are defined in Appendix I. T-statistics are shown in parenthese, and ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Support of mutual funds and ISS over prior two years

	ΔES score (-1,0,1)		Value at Risk, 10th pctl		Value at Risk, 25th pctl	
	(1)	(2)	(3)	(4)	(5)	(6)
Mutual Funds Avg. For (t-2,t-1)	0.392*		-0.071**		-0.072*	
	[1.952]		[-1.996]		[-1.792]	
ISS Avg. For (t-2,t-1)		0.091		-0.033***		-0.037***
		[1.336]		[-2.803]		[-2.823]
Cash	0.003	0.011	-0.209***	-0.215***	-0.222***	-0.229***
	[0.013]	[0.043]	[-4.502]	[-4.622]	[-4.225]	[-4.358]
Growth	0.075	0.082	0.052*	0.052*	0.047	0.047
	[0.409]	[0.444]	[1.747]	[1.750]	[1.401]	[1.415]
M/B	-0.002	-0.002	0.001	0.001	0.002	0.002
	[-0.224]	[-0.211]	[0.625]	[0.634]	[1.474]	[1.488]
ROA	0.025	0.014	-0.001	-0.007	0.004	-0.003
	[0.080]	[0.046]	[-0.023]	[-0.130]	[0.068]	[-0.058]
Dividend yield	-4.530***	-4.450**	0.250	0.210	-0.235	-0.281
	[-2.591]	[-2.534]	[0.834]	[0.701]	[-0.691]	[-0.829]
Log MV	-0.058**	-0.064**	0.024***	0.023***	0.031***	0.030***
	[-2.248]	[-2.466]	[5.545]	[5.480]	[6.424]	[6.316]
Past firm return	-0.000	-0.000				
	[-0.003]	[-0.001]				
Amihud illiquidity	-2.955*	-3.060*	-0.131	-0.166	0.188	0.139
	[-1.783]	[-1.837]	[-0.479]	[-0.608]	[0.607]	[0.451]
Inst ownership	-0.738***	-0.748***	0.057**	0.056**	0.058*	0.056*
	[-4.130]	[-4.183]	[2.173]	[2.144]	[1.955]	[1.912]
Year FE	×	×	×	×	×	×
Observations	581	581	1,048	1,048	1,048	1,048
Adj. R-squared	0.19	0.19	0.08	0.08	0.08	0.09

Panel B: Support of mutual funds and ISS over prior three years

	ES score (-1,0,1)		Value at Risk, 10th pctl		Value at Risk, 25th pctl	
	(1)	(2)	(3)	(4)	(5)	(6)
Mutual Funds Avg. For (t-3,t-1)	0.360*		-0.062		-0.072*	
	[1.725]		[-1.644]		[-1.689]	
ISS Avg. For (t-3,t-1)		0.093		-0.030**		-0.037***
		[1.271]		[-2.379]		[-2.612]
Cash	0.164	0.174	-0.213***	-0.219***	-0.230***	-0.238***
	[0.598]	[0.632]	[-4.372]	[-4.486]	[-4.160]	[-4.294]
Growth	0.044	0.045	0.046	0.046	0.039	0.040
	[0.232]	[0.241]	[1.509]	[1.534]	[1.120]	[1.152]
M/BB/M	0.003	0.004	0.001	0.001	0.002	0.002
	[0.444]	[0.453]	[0.577]	[0.572]	[1.469]	[1.467]
ROA	0.062	0.060	0.012	0.006	0.026	0.017
	[0.189]	[0.181]	[0.224]	[0.113]	[0.407]	[0.276]
Dividend yield	-4.089**	-4.044**	0.126	0.096	-0.396	-0.433
	[-2.308]	[-2.275]	[0.411]	[0.314]	[-1.137]	[-1.246]
Log MV	-0.064**	-0.069**	0.024***	0.023***	0.030***	0.029***
	[-2.343]	[-2.531]	[5.278]	[5.225]	[5.829]	[5.746]
Past firm return	0.009	0.007				
	[0.090]	[0.075]				
Amihud illiquidity	-3.057	-3.178*	-0.159	-0.186	0.135	0.097
	[-1.608]	[-1.668]	[-0.533]	[-0.625]	[0.400]	[0.286]
Inst ownership	-0.645***	-0.651***	0.054**	0.054**	0.051	0.050
	[-3.410]	[-3.437]	[2.002]	[1.984]	[1.644]	[1.618]
Year FE	×	×	×	×	×	×
Observations	514	514	970	970	970	970
R-squared	0.18	0.18	0.08	0.08	0.08	0.09

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
S0415	9	0.333	Vendor Standards (For Reporting Purposes Only) (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
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