

BlackRock vs Norway Fund at shareholder meetings: institutional investors' votes on corporate externalities¹

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Abstract

Do institutional investors engage with companies on corporate externalities such as greenhouse gas emissions? And if so, why? We study voting at shareholder meetings by two emblematic global investors: BlackRock, a major asset manager, and the Norway Government Pension Fund Global (the Norway Fund), a responsible sovereign wealth fund. Our data cover 2014 and include the two institutions' votes on 35,382 resolutions at 2,796 corporations worldwide. Both of these so-called universal owners oppose management significantly more often on externality than on financial issues. The Norway Fund is more active on shareholder resolutions concerning externalities related to environmental and social issues than on governance issues. The difference between the two investors' voting behaviour is larger when we focus on resolutions related to greenhouse gas emissions, a clearly identified externality. Overall, universal ownership (see eg Monks and Minow (1995)) and, more importantly, delegated philanthropy (see eg Benabou and Tirole (2010)) both appear to provide incentives for institutional investors to combat negative externalities generated by firms.

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1. Introduction

This paper studies whether and why institutional investors engage companies to reduce the negative externalities they exert on society. As indicated, for example, by Laffont (1987), an externality is the effect produced by an economic activity on parties that are not involved in this activity. Externalities constitute a major source of market failure since market equilibria only reflect private effects that are perceived by the parties involved in the activity, but not overall societal effects. In a report based on research by Trucost, a leading consultancy firm in extra-financial analysis, Mattison et al (2011) estimate that, in 2008, the largest 3,000 publicly listed companies worldwide generated more than US\$ 2.15 trillion or 7% of their combined revenues as environmental externalities such as climate change. This figure, which is already very significant, does not consider companies' social externalities such as consumer safety issues and human rights violations.

To study institutional investors' engagement to reduce companies' negative externalities, we focus on votes at shareholder meetings on resolutions related to both environmental and social (ES) issues. Such a focus is useful because it provides us with a large amount of data on one type of engagement, ie shareholder voting, on societal issues. To be even more precise in terms of identification, we also restrict our attention to greenhouse gas emissions, a clear example of an externality produced by companies.

To understand what motivation may induce investors to care about externalities generated by companies, we focus on the Norway Government Pension Fund Global (the Norway Fund) and BlackRock, two emblematic institutional investors. These two investors had assets under management of more than \$1 trillion and \$5 trillion, respectively, in 2017. They both have a large, global and well diversified equity portfolio. In this sense, both investors are universal owners (see eg Monks and Minow (1995)). The Norway Fund has also a delegated philanthropic mission (see eg Benabou and Tirole (2010)) as it is monitored by the parliament of Norway and a Council on Ethics.² Given their size, the two investors are likely to have a significant influence on corporate behaviour across the world.

Separation between ownership and control is one of the fundamental characteristics of modern companies (Berle and Means (1932)). This separation opens the room for potential conflicts of interests between shareholders and corporate executives (Jensen and Meckling (1976)): managers may not always favour the strategies that are best for shareholders. These potential conflicts call for an active involvement of shareholders in the governance of corporations. This explains why we are interested in institutional investors' engagement.

As described by Bebchuk et al (2017), institutional investors play a central role in today's corporate governance landscape. To mitigate the negative effects of the conflict between shareholders and executives, institutional investors can induce

² "...the Council on Ethics for the Government Pension Fund Global (GPF) is an independent body that makes recommendations to Norway's central bank, Norges bank, to exclude companies from the GPF or place them under observation. The council assesses a company's operations on the basis of guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both product-based exclusion criterion, such as the production of tobacco or certain types of weapons, and conduct-based exclusion criterion, such as gross corruption, human rights violations and environmental damage. The Council has five members and a secretariat with a staff of eight" (Council on Ethics (2016), p7).

executives to follow their guidance by engaging companies, such as (i) holding discussions with executive managers and board members (see eg Dimson et al (2015), Barko et al (2017)), (ii) filing shareholder proposals (see eg Gillian and Starks (2000), Cziraki et al (2010), Renneboog and Szilagyi (2011)) and (iii) voting during shareholder general meetings (see eg Cunat et al (2012), Flammer (2015), Bach and Metzger (2017)).

Two basic arguments justify institutional investors in being actively engaged on externality issues. The first argument rests on the universal owner logic (see eg Monks and Minow (1995), Hawley and Williams (2000), Dimson et al (2013), Azar (2017)). Large institutional investors own shares in virtually all listed companies and have a long horizon. As universal owners, they might engage firms to mitigate the negative externalities imposed on other firms held in their portfolios, to avoid deteriorating their overall value. For example, they may want to consider the negative economic impact that the greenhouse gas (GHG) emissions of a firm might have on other companies' businesses through water, food, health or migration issues.

The universal owner logic is well summarised in Mattison et al (2011): "For a diversified investor, environmental costs are unavoidable as they come back into the portfolio as insurance premiums, taxes, inflated input prices and the physical cost associated with disasters. One company's externalities can damage the profitability of other portfolio companies, adversely affecting other investments, and hence overall market return." Larry Fink, head of BlackRock, indicates that passive investors, as universal owners, have strong incentives to engage companies: "In our index-oriented accounts, we can't sell those stocks even if they are terrible companies. As an indexer, our only action is our voice and so we are taking a more active dialogue with our companies and are imposing more of what we think is correct" (Authers (2015)).

Universal owners can also engage companies to improve the level of coordination among their ES policies, which can be beneficial for all companies' financial value. For example, Benabou and Tirole (2016) show that coordinated policies on managerial compensation issues enable firms to avoid the harmful effects of a bonus culture.

The situation is very different for corporate executives who, in general, own concentrated stakes in their companies, either because most of their capital is in the form of firm-specific human capital or because their incentive plans require them to do so. These different exposure profiles generate conflicts of interests: executives are less likely to be willing to internalise the effects that their companies have on the payoffs and value of other companies.

A second argument that calls for institutional investors to be active in engagement on externality issues is related to delegated philanthropy logic (Benabou and Tirole (2010)). Institutional investors such as pension funds, mutual funds and sovereign funds invest on behalf of clients or citizens who may have preferences regarding externalities that differ from the ones of companies' managers. Institutional investors might thus want to promote these clients' and citizens' values and preferences and induce management to choose the appropriate course of action. One can, for example, think that the level of global risk induced by a firm related to climate change or nuclear energy might not be valued in the same manner by corporate managers and by institutional investors who represent clients or citizens. Investors may thus want to communicate their preferred level of precaution to corporate executives. This can only be achieved via engagement. One important reason why

institutional investors may endorse the delegated philanthropy logic is because they care about their reputation among clients or citizens.

As shown by Morgan and Tumlinson (2012), such engagement by institutional investors on externality issues is socially desirable because (i) companies' actions are less subject to the free-rider problem than that of individual shareholders when deciding to fight against these externalities, and (ii) it makes companies' production decisions more efficient from a social point of view and increases the welfare of shareholders who care about these externalities.

In the delegated philanthropy logic, conflicts of interest may emerge when corporate executives and shareholders have different values and preferences towards corporate externalities. Shareholders will find it important to communicate their values and preferences towards externalities to executives to induce firms to adopt their preferred behaviour.

Universal ownership is the most prevalent reason provided by institutional investors to rationalise their responsible investment and engagement policies. One reason is that the universal ownership logic focuses only on financial returns and is thus consistent with a narrowly defined notion of fiduciary duty. There are, however, several impediments to this logic. On the one hand, the externalities should be correctly evaluated and should be material for companies' profits. On the other hand, the materiality of externalities should not occur too far into the future in order to significantly affect asset valuations. Delegated philanthropy does not suffer from these impediments, but its strength can be attenuated by the difficulty of finding a consensus among clients and citizens regarding the externalities that investors should focus and actively engage companies on.

We aim to put these two basic arguments – ie universal ownership and delegated philanthropy – through an empirical test.

The paper is organised as follows. First, we discuss the related literature, then we present our methodology, data and variables before ending with our empirical analysis and a discussion of our results.

2. Related literature

Several papers have studied how voting at shareholder meetings can alter corporate behaviour. Cunat et al (2012) show that close votes in favour of changes in governance trigger an improvement in the valuation of market capitalisation. Likewise, Flammer (2015) and Flammer and Bansal (2017) show that close votes on ES issues and on long-term executive compensation plans, respectively, are associated with an increase in firms' stock market valuation. Bauer et al (2010) show that firms in less competitive industries are more likely to be targeted by shareholder resolutions. Bach and Metzger (2017) find that shareholder support for a proposal affects firm value because, even if votes are non-binding as is the case in the United States, failure to comply with a majority vote may trigger executive turnover. We complement this literature by analysing in more detail the voting policies of institutional investors and their determinants.

Other papers have studied how behind-the-scenes engagement by investors may affect corporate behaviour and performance, eg Smith (1996) and Becht et al

(2009) tackle governance issues and Dimson et al (2015) and Barko et al (2017) ES issues. These papers focus on the engagement of a given institutional investor. They find that private engagement is effective at triggering changes in targeted companies and that engagement, in general, increases firms' value. We complement this literature by focusing on voting instead of private engagement and by studying the voting strategies of investors with different motivations, standards and responsibilities at a common subset of resolutions.

Azar et al (2017) show that firms in the US airline industry that are held by common institutional investors are less likely to aggressively compete on the same routes. Keswani et al (2016) study the voting behaviour of financial firms at their competitors' general assembly meetings. They find that they are more likely to favour management reducing directors' efficacy and firm valuation. These empirical studies document the hidden cost of universal ownership. The present study aims at documenting a potential positive side, especially the fact that universal owners might have an incentive to internalise part of the corporate externalities, as argued for example by Mattison et al (2011).

Fichtner et al (2017) offer a very interesting description of the voting policies of the three largest passive asset management firms, BlackRock, Vanguard and State Street. They observe that these firms implement a coordinated voting policy across their different funds and that they, in general, vote with management. We complement this analysis by focusing on votes on externality issues, comparing them with votes on other issues, and providing an empirical test of the various reasons why institutional investors may pressure companies to take actions against negative externalities.

3. Methodology

We make an empirical study of institutional investors' votes on externality issues at shareholder meetings. This focus provides us with a relatively large amount of data and allows us to clearly identify conflicts between management and shareholders.³ When management opposes efforts to fight negative externalities, some shareholders may fill in resolutions to be voted upon at shareholder meetings in an attempt to impose a different policy on management.⁴ In this case, it is interesting to investigate what voting stance large institutional investors adopt in order to find out whether they support the idea of companies making such efforts to mitigate negative externalities.

In this paper, we focus on two emblematic global investors: BlackRock and the Norway Fund. BlackRock is an asset management firm with over \$5 trillion dollars under management, of which the total equity portfolio amounts to \$2.6 trillion. According to Fichtner et al (2017), BlackRock is the broadest global blockholder in listed corporations around the world: 3,648 holdings above 3%, 2,632 above 5% and 375 above 10%. In the United States, BlackRock has about 2,000 holdings of 5% among the 3,900 publicly listed US companies. Within its numerous funds, BlackRock

³ One drawback is that we are unable to observe behind-the-doors discussions (see McCahery et al (2016), Dimson et al (2015), Barko et al (2017)).

⁴ If management wanted to promote efforts against negative externalities, it would not wait for a resolution to be filed at the annual shareholder meeting before implementing the appropriate policy.

pursues both passive asset management, through index and exchange-traded funds, and active management. The company's corporate governance team includes 31 people that vote at more than 15,000 shareholder meetings and more than 130,000 proposals every year. BlackRock follows a centralised voting policy.

The Norway Fund is a sovereign wealth fund with over \$1 trillion of assets. It holds equity stakes in about 9,000 companies worldwide, with a total equity portfolio of more than \$500 billion. The average proportion of shares in listed corporations held by the Norway Fund is about 1%. The fund's corporate governance team includes around 12 people who vote on more than 11,000 resolutions at general meetings every year. In 2014, the two investors' holdings seem highly correlated, both in terms of a firm's capitalisation (an 87% correlation coefficient) and the weights of companies in investors' portfolios (a 95% correlation).

Given the amount of managed assets invested in global equity, both BlackRock and the Norway Fund may be characterised as universal owners: they hold a significant equity stake in almost all major publicly listed firms worldwide. However, they differ across several dimensions. On the one hand, BlackRock has been a listed corporation since 2009 and is therefore run by a board that has a fiduciary duty to represent its own shareholders. Among these shareholders, the major ones, with holdings above 3%, are PNC Bank, Norges Bank Investment Management, The Vanguard Group, Wellington Management, Capital Research & Management, State Street Global Advisors Fund Management and BlackRock Fund Advisors. We thus consider BlackRock as the archetype of a standard, well diversified investor. In its Global Corporate Governance and Engagement Principles, BlackRock states that "the trigger for engagement on a particular ES concern is [its] assessment that there is potential for material economic ramifications for shareholders". This is clearly in line with the universal ownership principle described above.⁵

On the other hand, the Norway Fund is a sovereign wealth fund that invests Norway's petroleum revenues to provide steady resources for the country over the long term. As stated by Chambers et al (2012), its goal is "to serve as a long-term savings vehicle which seeks to secure the income from a non-renewable resource by diversifying into a broad portfolio of international securities." The Norway Fund is monitored by the Ministry of Finance, which is itself supervised by the Norwegian parliament. Because of this fiduciary duty to the representatives of the Norwegian people, the Norway Fund is recognised as a leader in the responsible investment community (see Chambers et al (2012)). The fund's commitment to responsible investing is manifested in a Council for Ethics, in charge of evaluating whether the investment policy is consistent with the ethical guidelines adopted by the Ministry of Finance. As indicated in its 2016 annual report, the Council on Ethics' objective when engaging with a company in which the Norway Fund invests is to "gather information to provide a basis for assessing the risk that the company may be contributing to the violation of ethical norms, either now or in the future" (see Council on Ethics (2016)). The Norway Fund is part of "the 25 most responsible asset allocators" list that

⁵ It is possible that BlackRock also pursues a delegated philanthropy approach: "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate" (see BlackRock, *A fundamental reshaping of finance*, www.blackrock.com/corporate/en-no/investor-relations/larry-fink-ceo-letter). However, given its size and the diversity of values of its clients, BlackRock might have difficulties in clearly identifying the most important issues.

distinguishes the most responsible sovereign wealth funds and government pension funds across a universe of more than 200 funds worldwide (The Bretton Wood II Leaders List (2017)). Thus, we consider the Norway Fund as the archetypal responsible, well diversified investor.⁶

By comparing the voting behaviours of BlackRock and the Norway Fund at general meetings, we can identify whether universal ownership alone is sufficient to encourage institutional investors to promote corporate action against negative externalities or whether delegated philanthropy is also necessary. We focus on 2014, the first year for which we have detailed information on voting by these two investors. To do our test, we have collected and classified voting data for the two investors on the same resolutions.

Our analysis focuses on understanding investors' opposition to management. At shareholder meetings, management and shareholders may fill in resolutions. Externality resolutions are proposed by shareholders and pertain to ES issues. When interpreting our results, we pay attention to the ultimate meaning of votes: opposing management on a shareholder proposal means voting for the proposition to pass. This is because management almost always opposes shareholder resolutions. Thus, if an investor opposes management on an externality-related shareholder resolution, it means that this investor is encouraging the effort against the negative externality.

We compare investors' votes on externality issues with those on a variety of other issues, notably management proposals on financial and governance matters, and shareholder proposals on governance. This enables us to clearly identify opposition due to externalities rather than to other characteristics of the proposed policies. Moreover, we want to single out the impact of preferences for negative externality mitigation from other effects. For that purpose, our analysis controls for various factors that can explain disagreement with management or among investors. Agency problems (see eg Agrawal and Knoeber (1996), Hong et al (2012), Cheng et al (2013)) can be one reason for investors' disagreement and we thus include a dummy indicating that a resolution has been filed by a shareholder on a governance issue. Differences of opinion can be another reason (see eg Chen et al (2002), Hong and Stein (2003), Boot et al (2006 and 2008)), and we include the dispersion in analysts' forecasts (see eg Diether et al (2002)) as a control.

4. Data and variables

Our data include detailed information for 35,382 resolutions, including 326 on ES practices, voted upon by both BlackRock and the Norway Fund in 2014 on a sample of 2,796 corporations across the world.⁷ We collected this data from BlackRock's SEC filings and the Norway Fund's website.⁸ We obtained firm characteristics from FactSet and firms' environmental, social and governance (ESG) ratings from MSCI. For

⁶ Most sovereign wealth funds have delegated philanthropy objectives that may not, however, always encourage a focus on corporate social responsibility. Norway Fund's focus is clearly stated: "The long-term return depends on sustainable development in economic, environmental and social terms" (see Norges Bank Investment Management, *Strategy 2014–2016*, p12).

⁷ We focus on the equity shares owned and voted by BlackRock (active mutual funds and passive funds such as iShares ETFs).

⁸ www.nbim.no/en/responsibility/our-voting-records/.

additional analyses that require data on the two institutional investors' holdings, we also use a smaller sample based on information retrieved from the Form 13F filings of the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system, ie a total of 6,037 resolutions, including 110 on ES aspects. Much of the data collection effort revolved around manually classifying data into various categories (financial, governance, environment etc) and subcategories (climate change and GHG emissions, hydraulic fracturing etc).

The period under study was chosen because voting instruction data from Norges Bank Investment Management is available online from 1 July 2013. Using this data set, we were able to collect the management recommendations for each of the resolutions submitted to a vote, as well as the content of the resolution and the vote per se.⁹

4.1. Description of resolutions

Following the proxy voting guidelines issued by Institutional Shareholder Services (ISS),¹⁰ we manually classified the resolutions into five major areas: environmental (E), social (S), governance (G), financial, and others.¹¹ E, S and G resolutions include several themes that include different issues. Table 1 shows summary statistics on the entire data set collected on BlackRock and Norway Fund votes. Out of 35,382 resolutions voted upon by the two investors, 69 were on environmental issues, mainly climate change and reporting of sustainability policies; 257 were on social issues, dealing mainly with firms' charitable contributions, political lobbying and donations, and human right issues; 28,396 were on governance issues, mainly those related to board structure, compensation and audit practices.

4.2. Summary of votes

Table 1 reports the summary statistics on opposition to resolutions by issue of BlackRock and the Norway Fund. It shows that the rate of opposition to management is different for BlackRock and the Norway Fund. BlackRock opposes management on 3% of resolutions, compared with 8% for the Norway Fund. The opposition rates are similar to the general statistics for financial and governance issues. However, opposition rates are different for ES. BlackRock rarely opposes management on these issues, while the Norway Fund opposes management on 101 out of 326 resolutions (31%).

The Norway Fund is particularly active on climate change and GHG emissions, with an opposition rate to management of 83% and sustainability reporting at 50%. On social issues, the Norway Fund's degree of opposition amounts to 75% on board diversity issues, 83% on sexual orientation and 65% on political contributions. All the environmental resolutions and most of the social resolutions are proposed by shareholders. Within the social area, management-sponsored resolutions account for 140 out of a total of 257 (101 on political contributions and 39 on charitable

⁹ The data set collected online was manually cross-checked. We thank Thierry Martial Kengne for excellent research assistance.

¹⁰ www.issgovernance.com/file/policy/2016-us-summary-voting-guidelines-dec-2015.pdf.

¹¹ The category called "others" refers to matters that did not fall into one of the four other areas, eg "open meeting", "close meeting", "amend articles" etc.

contributions). Shareholder resolutions on governance are rare (1% of such resolutions are proposed by shareholders) but they show an interesting divergence between the two investors: the Norway Fund opposes management on these resolutions 36% of the time, BlackRock only 12%.

Voted resolutions and rate of opposition to management

Table 1

| | Total number of voted | Rate of opposition to the management | | Rate of opposition to the management by sponsor of the resolution | | | |
|--|--------------------------|--------------------------------------|-------------|---|-------------|-------------|-------------|
| | | BlackRock | Norway Fund | BlackRock | | Norway Fund | |
| | | | | Management | Shareholder | Management | Shareholder |
| E | 69 | 4% | 49% | - | 4% | - | 49% |
| Animal welfare | 2 | 0% | 50% | - | 0% | - | 50% |
| Animal testing | 1 | 0% | 0% | - | 0% | - | 0% |
| Animal welfare policies | 1 | 0% | 100% | - | 0% | - | 100% |
| Climate | 24 | 4% | 83% | - | 4% | - | 83% |
| Climate change and GHG emissions | 24 | 4% | 83% | - | 4% | - | 83% |
| Environment and sustainability | 34 | 0% | 23% | - | 0% | - | 23% |
| Hydraulic fracturing | 3 | 0% | 67% | - | 0% | - | 67% |
| Nuclear safety | 15 | 0% | 0% | - | 0% | - | 0% |
| Sustainability reporting | 16 | 0% | 50% | - | 0% | - | 50% |
| Others | 9 | 22% | 33% | - | 22% | - | 33% |
| S | 257 | 8% | 26% | 6% | 9% | 7% | 49% |
| Consumer issues | 10 | 10% | 10% | - | 10% | - | 10% |
| Genetically modified ingredients | 8 | 13% | 13% | - | 13% | - | 13% |
| Other consumer responsibility | 2 | 0% | 0% | - | 0% | - | 0% |
| Diversity | 11 | 9% | 73% | - | 9% | - | 73% |
| Board diversity | 4 | 25% | 75% | - | 25% | - | 75% |
| Discrimination | 1 | 0% | 0% | - | 0% | - | 0% |
| Sexual orientation | 6 | 0% | 83% | - | 0% | - | 83% |
| General corporate issues | 40 | 22% | 22% | 23% | 0% | 23% | 0% |
| Charitable contributions | 40 | 22% | 22% | 23% | 0% | 23% | 0% |
| Human rights | 20 | 10% | 35% | - | 10% | - | 35% |
| Human rights proposals | 20 | 10% | 35% | - | 10% | - | 35% |
| Political activities | 176 | 4% | 24% | 0% | 9% | 1% | 55% |
| Lobbying | 29 | 10% | 38% | - | 10% | - | 38% |
| Political contributions | 147 | 3% | 21% | 0% | 9% | 1% | 65% |
| G | 28,396 | 3% | 8% | 3% | 12% | 8% | 36% |
| Audit practices and risk management | 3,113 | 2% | 7% | 2% | 0% | 7% | 8% |
| Audit practices | 3,111 | 2% | 7% | 2% | 0% | 7% | 9% |
| Risk management | 2 | 0% | 0% | - | 0% | - | 0% |
| Board accountability and responsive | 18 | 0% | 11% | 0% | 0% | 0% | 20% |
| Ability to remove directors | 13 | 0% | 0% | 0% | 0% | 0% | 0% |
| Tax transparency | 5 | 0% | 40% | 0% | 0% | 0% | 100% |
| Board independence | 51 | 18% | 88% | 100% | 16% | 100% | 88% |
| Competitive activities of directors | 1 | 100% | 100% | 100% | - | 100% | - |
| Independent chairman and directors | 50 | 16% | 88% | - | 16% | - | 88% |
| Board structure | 20,557 | 2% | 7% | 2% | 5% | 7% | 7% |
| Appointment | 20,143 | 2% | 7% | 2% | 0% | 7% | 1% |
| Board composition | 167 | 1% | 2% | 1% | 0% | 1% | 38% |
| Others board related proposals | 86 | 9% | 10% | 1% | 47% | 3% | 47% |
| Related-party transaction | 161 | 1% | 6% | 1% | - | 6% | - |
| Compensation/Remuneration | 4,462 | 5% | 11% | 5% | 2% | 11% | 47% |
| Employee compensation | 1,606 | 6% | 11% | 6% | 0% | 11% | 15% |
| Executive compensation | 2,856 | 4% | 12% | 4% | 3% | 10% | 53% |
| Shareholder rights | 195 | 27% | 33% | 21% | 35% | 20% | 49% |
| Call special meeting | 20 | 20% | 40% | 0% | 33% | 0% | 67% |
| Proxy access right | 22 | 36% | 41% | 0% | 47% | 0% | 53% |
| Takeover defenses | 87 | 33% | 25% | 29% | 53% | 26% | 20% |
| Voting formalities | 66 | 18% | 38% | 8% | 24% | 12% | 54% |
| Financial | 5,716 | 3% | 5% | 3% | 6% | 5% | 26% |
| Others | 944 | 4% | 6% | 4% | 1% | 6% | 7% |
| Total | 35,382 | 3% | 8% | 3% | 9% | 7% | 34% |

This table summarises the number of voted resolutions by the two investors in 2014, within each area, theme and issue (Column 1). Columns 2 and 3 provide the percentage of opposition to management recommendation within each area, theme and issue (independent of the sponsor of the resolution). Columns 4, 5, 6 and 7 report the rate of opposition to management within each area, theme and issue, depending on the sponsor of each resolution (management and shareholder) of BlackRock and the Norway Fund respectively.

Source: Authors' calculations.

4.3. Variables

Dependent variables

The variables we seek to explain are the two investors' opposition to management recommendations regarding the resolutions submitted to a vote. We thus define the following six dummy variables:

- *BR or NF oppose* equals one if either or both investors oppose management recommendation, and zero elsewhere;
- *BR opposes* equals one if BlackRock opposes management recommendation, and zero elsewhere;
- *NF opposes* equals one if the Norway Fund opposes management recommendation, and zero elsewhere.

The main statistics for these dummies are presented in Table 2, Panel A. Opposition to management concerns 9% of resolutions on average, due mainly to the Norway Fund's voting policy.

| Summary statistics | | | | | Table 2 |
|---------------------------------------|--------|-----------|-----------|--------|------------|
| Variable | N | Mean | Std Dev | Min | Max |
| Panel A: Measures of agreement | | | | | |
| BR or NF oppose | 35,382 | 0.087 | 0.282 | | |
| BR opposes | 35,382 | 0.027 | 0.163 | | |
| NF opposes | 35,382 | 0.078 | 0.268 | | |
| Panel B: Resolution characteristics | | | | | |
| Shareholder proposal | 35,382 | 0.023 | 0.150 | | |
| Resolution ES | 35,382 | 0.009 | 0.096 | | |
| Resolution G | 35,382 | 0.803 | 0.398 | | |
| Resolution climate | 35,382 | 0.001 | 0.026 | | |
| Resolution ES non climate | 35,382 | 0.009 | 0.092 | | |
| Panel C: Country and firm ESG ratings | | | | | |
| Country Rating ES | 35,382 | 0.619 | 0.058 | 0.360 | 0.690 |
| Country Rating G | 35,382 | 0.783 | 0.122 | 0.140 | 0.950 |
| Company Rating ES | 35,382 | 4.913 | 1.486 | 0.500 | 9.950 |
| Company Rating G | 35,382 | 6.567 | 2.683 | 0.000 | 10.000 |
| Panel D: Firm characteristics | | | | | |
| Market cap | 35,382 | 14923.470 | 32209.350 | 47.700 | 439000.000 |
| ROA | 35,382 | 4.575 | 8.343 | -99.5 | 189.000 |
| Price-to-book | 35,382 | 3.837 | 32.693 | 0.192 | 1540.000 |
| Sales growth | 35,382 | 0.218 | 4.702 | -1.04 | 177.000 |
| Asset turnover | 35,382 | 0.790 | 0.698 | 0.000 | 9.390 |
| Volatility | 35,382 | 38.551 | 13.022 | 14.038 | 202.924 |
| Analyst dispersion | 35,382 | 0.130 | 1.016 | -54.22 | 27.678 |

This table provides summary statistics for the 35,382 common resolutions the Norway Fund and BlackRock voted upon in 2014. Panel A refers to the disagreement measures, Panel B to the characteristics of the resolutions, Panel C to the extra-financial performance measures for firms and countries, Panel D to firms' financial characteristics. All variables are defined in the Data and Variables section.

Source: Authors' calculations.

Explanatory and control variables

Resolution characteristics

We define several dummy variables to set forth specific dimensions of voted resolutions, namely:

- *Shareholder proposal equals one if the resolution is sponsored by shareholders and zero elsewhere;*
- *Resolution ES equals one if the resolution is either related to E or S issues and zero elsewhere;*
- *Resolution G equals one if the resolution is related to G issues and zero elsewhere;*
- *Resolution climate equals one if the resolution is related to climate issues and zero elsewhere;*
- *Resolution ES non-climate equals one if the resolution is related to all the environmental and social issues except for climate and zero elsewhere.*

Table 2, Panel B summarises the main statistics for these dummies. Two main observations emerge. First, on average, only 2% of the resolutions submitted to a vote are sponsored by shareholders. Second, most resolutions are related to governance (80% on average).

ESG characteristics

Different variables are used to capture the ESG performance of firms and their home countries. To assess firms' ESG performance, two variables are constructed/collected:

- *Company Rating ES equals the average between the E and S scores provided by the MSCI ESG STATS database for corporate social responsibility.¹² We aggregated the E and S scores to obtain a single measure of the firms' performance on societal externalities.*
- *Company Rating G is collected from MSCI ESG STATS.*

The summary statistics in Table 2, Panel C, show that the firms under study perform better on governance issues (with an average score higher than 6) than on ES topics (average score below 5).

We use different proxies to measure the ESG performance of countries where the firms in our sample are domiciled and obtain this data from several sources. We thus construct the following variables:

- *Country Rating ES equals the average between the E rating and S rating for each country, where:*
 - *the E rating is the average of five variables that proxy key environmental issues: GHG per unit of GDP; air quality and health; environmental policy stringency index (all from OECD statistics¹³); global per capita CO2 emissions from fossil fuel use and cement production (from the Emissions Database for Global Atmospheric Research¹⁴) and the Environmental Performance Index (EPI) produced by Yale Center for Environmental Law and Policy (YCELP) and the Center for International Earth Science Information Network*

¹² See MSCI ESG Research, IVA Methodology, 2014.

¹³ stats.oecd.org.

¹⁴ EDGARv4.3, European Commission, Joint Research Centre (JRC)/PBL Netherlands Environmental Assessment Agency.

- (CIESIN) at Columbia University.¹⁵ Each variable is normalised¹⁶ into an index between zero and one for aggregation purposes;
- the S rating is the average of two variables that proxy key social issues: the Human Development Index and the Gender Inequality Index, both produced by the annual Human Development Reports Office of the United Nations Development Programme.
 - *Country Rating G* equals the average of six index-transformed variables: voice and accountability; government effectiveness; regulatory quality; rule of law; control of corruption; and political stability and absence of violence/terrorism, all collected from the World Bank's Worldwide Governance Indicators database.¹⁷

The statistics reported in Table 2, Panel C, indicate that, on average, the countries in which our sample companies are domiciled are relatively well rated regarding ESG criteria.

Firm financial characteristics

Data for firm characteristics are obtained from FactSet. As illustrated in Table 2, Panel D, these characteristics include:

- *market capitalisation on 31 December 2013, in thousands of dollars;*
- *return on assets on 31 December 2013;*
- *price-to-book ratio on 31 December 2013;*
- *annual sales growth rate on 31 December 2013;*
- *asset turnover ratio on 31 December 2013;*
- *volatility, proxied by the annualised standard deviation of daily stock returns between 2009 and 2013; and*
- *analyst dispersion, measured as the standard deviation of earnings-per-share forecasts scaled by absolute mean earnings forecasts, following Diether et al (2002) and Johnson (2004); we consider, for each firm, analysts' forecasts 6 months before the general meeting date.*

Each company is also associated with its industry in 10 commonly defined sectors:

1. Financials
2. Materials
3. Industrials
4. Consumer discretionary
5. Health care
6. Technology
7. Energy
8. Communications
9. Consumer staples
10. Utilities

All continuous control variables (market cap, ROA, price-to-book, sales growth, asset turnover and analyst dispersion) are normalised.

¹⁵ <http://epi.yale.edu> and <http://sedac.ciesin.columbia.edu/data/set/epi-environmental-performance-index-2014>.

¹⁶ Index = (variable – min)/(max-min). An index closer to 1 indicates a better performance in the area under study.

¹⁷ Details can be found in Kaufmann et al (2010).

Finally, on the reduced sample comprising firms with SEC 13F filings, we also include different measures of holdings to proxy for the financial stake of each of the two investors in each firm. As depicted in Table 6, Panel E, we construct:

- *Weight in BR portfolio (respectively, NF) as the weight that the investment in a given company represents within the entire portfolio of BlackRock, respectively the Norway Fund;*
- *Holding BR (% of capitalisation), respectively NF, as the amount invested in the firm by BlackRock, respectively the Norway Fund, divided by the market cap of the firm, as reported by the 13F filings on 31 December 2013;*
- *Weight in portfolio (average BR NF) as the average between the weights of the two investors; and*
- *Holding (average BR NF) as the average between the two investors' holdings.*

5. Empirical results

We present our main results regarding investors' opposition to management on resolutions related to externalities¹⁸ for the entire sample with country and sector fixed effects, then we provide robustness results from additional regressions without country fixed effects and with bivariate regressions, and regressions that control for the holdings of BlackRock and the Norway Fund and, finally, results on climate change issues that clearly involve externalities.

5.1. Main analyses

Our basic specification studies the two investors' opposition to managers on externality issues, compared with their opposition on other issues related to finance and governance.

The results from our basic specification are reported in Table 3. We regress the likelihood of opposition onto the fact that the resolution relates to ES issues and onto various control variables. Column (1) shows that at least one of the two investors is more likely to oppose corporate management on ES resolutions submitted by shareholders. The coefficient on these issues, 1.867, is significantly different from 0 and from the coefficient on governance issues raised by shareholders, 1.594 (p-value=0.08).

The analysis of marginal effects shows that a resolution on an ES topic increases the likelihood that at least one of the two shareholders will oppose management by almost 60%. This compares with a less than 50% increase in likelihood for shareholder resolutions on governance issues.

¹⁸ Given that management almost always opposes such resolutions, this corresponds to investors' support for combating negative externalities.

Opposition to management with country and industry FE

Table 3

| | Probit coefficients | | | Marginal effects | | |
|------------------------------------|---------------------|------------|------------|------------------|------------|------------|
| | (1) | (2) | (3) | (1) | (2) | (3) |
| | BR or NF oppose | BR opposes | NF opposes | BR or NF oppose | BR opposes | NF opposes |
| Shareholder proposal*Resolution ES | 1.867*** | 1.030*** | 1.818*** | 0.591*** | 0.132*** | 0.559*** |
| Management proposal*Resolution ES | 0.089 | 0.433** | 0.146 | 0.014 | 0.033* | 0.022 |
| Shareholder proposal*Resolution G | 1.594*** | 1.220*** | 1.507*** | 0.485*** | 0.179*** | 0.435*** |
| Management proposal*Resolution G | 0.327*** | 0.238*** | 0.296*** | 0.041*** | 0.010*** | 0.035*** |
| Country rating ES | -2.768*** | -5.333*** | -2.195*** | -0.398*** | -0.259*** | -0.291*** |
| Country rating G | 1.108*** | 1.751*** | 0.900*** | 0.159*** | 0.085*** | 0.119*** |
| Company rating ES | -0.018 | -0.026 | -0.016 | -0.003 | -0.001 | -0.002 |
| Company rating G | -0.038*** | -0.040*** | -0.036*** | -0.005*** | -0.002*** | -0.005*** |
| Market cap | -0.048*** | -0.056** | -0.048*** | -0.007*** | -0.003** | -0.006*** |
| ROA | -0.011 | -0.085* | 0.009 | -0.002 | -0.004* | 0.001 |
| Price-to-book | 0.004 | -0.0104 | 0.003 | 0.001 | -0.001 | 0.000 |
| Sales growth | 0.015 | -0.0121119 | 0.017 | 0.002 | -0.001 | 0.002 |
| Asset turnover | -0.026 | -0.011 | -0.028 | -0.004 | -0.001 | -0.004 |
| Volatility | -0.048** | -0.091*** | -0.037* | -0.007** | -0.004*** | -0.005* |
| Analyst dispersion | 0.001 | -0.013 | 0.003 | 0.000 | -0.001 | 0.000 |
| Industry fixed effect | yes | yes | yes | yes | yes | yes |
| Country fixed effect | yes | yes | yes | yes | yes | yes |
| Observations | 35,382 | 35,382 | 35,382 | 35,382 | 35,382 | 35,382 |
| Pseudo R2 | 0.062 | 0.085 | 0.058 | 0.062 | 0.085 | 0.058 |

This table reports the probit coefficients and the marginal effects of variables that may explain disagreement with management. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1), if BlackRock opposes management recommendation (2), if the Norway fund opposes management recommendation (3), and zero elsewhere. Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are normalised. Country and industry fixed effects are included in all regressions. Standard errors are clustered at the firm level. All variables are defined in the Data and Variables section. MacFadden's pseudo-R2 measure the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

Source: Authors' calculations.

Columns (2) and (3) of Table 3 are at the heart of our investigation: they display the results for opposition to management by BlackRock and the Norway Fund, respectively, in particular on ES issues involving externalities. The coefficients of the variables indicating that a resolution is sponsored by a shareholder, whether on ES or on governance, are significantly positive. This indicates that both investors tend to oppose management more for shareholder-submitted resolutions than for those on financial issues. According to a Wald test, the coefficients for governance resolutions submitted by shareholders, 1.220 for BlackRock and 1.507 for the Norway Fund respectively, are significantly larger than for those submitted by management, at 0.238 and 0.296 respectively (p-value=0.00).

Column (2) of Table 3 shows that BlackRock opposes management more on externality issues than on financial issues, but not more than on shareholder resolutions on governance (1.030 versus 1.220 respectively). Marginal effects suggest that, for BlackRock, the rate of opposition to management increases by 13% for resolutions compared with financial resolutions.

Column (3) of Table 3 shows that the Norway Fund opposes management on externality issues more than on financial issues and on governance resolutions submitted by shareholders. For the Norway Fund, the coefficient on ES issues, 1.818, is significantly different from 0 and from the coefficient on governance shareholder

resolutions, 1.507 (p-value<0.04). Marginal effects suggest that, for the Norway Fund, the rate of opposition to management increases by 56% for externality-related resolutions compared with financial resolutions (versus a 13% increase for BlackRock). For shareholder resolutions on governance, the rate of opposition of the Norway Fund increases by only 44%.

5.2. Robustness checks

To check the robustness of our findings, we run the same regressions as before, but we omit country fixed effects. The results are displayed in Table 4, Columns (1) through (3). They are very similar to those in Table 3. The regressions displayed in Table 4, Column (4) and (5), are estimated jointly. They suggest that our findings are valid when running a bivariate probit regression instead of univariate regressions. Moreover, the joint estimation of BlackRock's and the Norway Fund's voting policies enables us to compare the propensity of each investor to oppose management on externality issues and thus support efforts to improve ES behaviour. For the Norway Fund, the coefficient on ES shareholder resolutions is significantly larger, 1.816, than for BlackRock, 1.131 (p-value=0.00).

Opposition to management and bivariate probit estimations without country FE

Table 4

| | Probit coefficients | | | Bivariate probit Coefficients | |
|------------------------------------|---------------------------|-------------------|-------------------|-------------------------------|-------------------|
| | (1) BR or NF oppose | (2) BR opposes | (3) NF opposes | (4) BR opposes | (5) NF opposes |
| Shareholder proposal*Resolution ES | 1.879*** | 1.036*** | 1.828*** | 1.131*** | 1.816*** |
| Management proposal*Resolution ES | -0.022 | 0.267 | 0.039 | 0.168 | -0.001 |
| Shareholder proposal*Resolution G | 1.532*** | 1.191*** | 1.447*** | 1.262*** | 1.455*** |
| Management proposal*Resolution G | 0.313*** | 0.213*** | 0.283*** | 0.210*** | 0.304*** |
| Country rating ES | -3.429*** | -6.609*** | -2.852*** | -6.143*** | -2.837*** |
| Country rating G | 0.868*** | 1.784*** | 0.692*** | 1.625*** | 0.706*** |
| Company rating ES | -0.003 | -0.015 | -0.002 | -0.011 | -0.002 |
| Company rating G | -0.036*** | -0.038*** | -0.035*** | -0.038*** | -0.034*** |
| Market cap | -0.045*** | -0.053** | -0.045*** | -0.049** | -0.044*** |
| ROA | -0.004 | -0.084* | 0.015 | -0.088** | 0.012 |
| Price-to-book | 0.005 | -0.009 | 0.005* | -0.010 | 0.005* |
| Sales growth | 0.016 | -0.012 | 0.018 | -0.019 | 0.018 |
| Asset turnover | -0.029 | -0.024 | -0.031 | -0.023 | -0.030 |
| Volatility | -0.043** | -0.089** | -0.031 | -0.086*** | -0.033 |
| Analyst dispersion | -0.005 | -0.013 | -0.003 | -0.019 | -0.003 |
| Industry fixed effect | yes | yes | yes | yes | yes |
| Country fixed effect | no | no | no | no | no |
| Observations | 35,382 | 35,382 | 35,382 | 35,382 | 35,382 |
| Pseudo R2/Prob Wald Chi2 | 0.047 | 0.068 | 0.044 | 0.000 | 0.000 |

This table reports the probit coefficients of variables that may explain disagreement with management ((1), (2), (3)) without country fixed effects. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1), if BlackRock opposes management recommendation (2), if the Norway fund opposes management recommendation (3), and zero elsewhere. Columns (4) and (5) report the coefficients of variables that may explain disagreement with management from a bivariate probit estimation without country fixed effects. Specifications (4) and (5) are estimated simultaneously to capture the joint effect of BlackRock opposing to management when the Norway Fund agrees with management recommendation (4), and the Norway Fund opposing to management when BlackRock agrees (5). Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are normalised. Industry fixed effects are included in all regressions. Standard errors are clustered at the firm level. All variables are defined in the Data and Variables section. MacFadden's pseudo-R² measure the model fit. For the bivariate probit, the last row reports the probability of the Wald Chi2 test that measures the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

Source: Authors' calculations.

To check that our results hold when controlling for investors' holdings in firms, we restrict our attention to the firms listed in the SEC 13F filings that record the holdings of institutional investors. Tables 5 and 6 display the same type of information as Tables 1 and 2, but for the sample the information is restricted to firms in the 13F filings. In this sample, we find larger firms but the overall image in terms of the type of resolution voted upon is qualitatively similar.

Voted resolutions and rate of opposition to management: reduced sample

Table 5

| Sponsor of the resolution | BR disagrees with management | | NF disagrees with management | | Total number of voted resolutions |
|--|------------------------------|--------------------|------------------------------|--------------------|-----------------------------------|
| | <i>Management</i> | <i>Shareholder</i> | <i>Management</i> | <i>Shareholder</i> | |
| E | | | | | 32 |
| Animal welfare | | | | | 2 |
| Animal testing | - | 0% | - | 0% | 1 |
| Animal welfare policies | - | 0% | - | 100% | 1 |
| Climate | | | | | 18 |
| Climate change and GHG emissions | - | 6% | - | 78% | 18 |
| Environment and sustainability | | | | | 8 |
| Hydraulic fracturing | - | 0% | - | 67% | 3 |
| Nuclear safety | - | - | - | - | - |
| Sustainability reporting | - | 0% | - | 40% | 5 |
| Others | - | 25% | - | 50% | 4 |
| S | | | | | 78 |
| Consumer issues | | | | | 6 |
| Genetically modified ingredients | - | 0% | - | 20% | 5 |
| Other consumer responsibility | - | 0% | - | 0% | 1 |
| Diversity | | | | | 4 |
| Board diversity | - | 50% | - | 100% | 2 |
| Discrimination | - | - | - | - | - |
| Sexual orientation | - | 0% | - | 50% | 2 |
| General corporate issues | | | | | 1 |
| Charitable contributions | - | 0% | - | 0% | 1 |
| Human rights | | | | | 13 |
| Human rights proposals | - | 15% | - | 38% | 13 |
| Political activities | | | | | 54 |
| Lobbying | - | 13% | - | 38% | 24 |
| Political contributions | - | 10% | - | 57% | 30 |
| G | | | | | 5,748 |
| Audit practices and risk management | | | | | 565 |
| Audit practices | 0% | - | 2% | - | 564 |
| Risk management | - | 0% | - | 0% | 1 |
| Board accountability and responsiveness | | | | | 2 |
| Ability to remove directors | - | 0% | - | 0% | 1 |
| Tax transparency | - | 0% | - | 100% | 1 |
| Board independence | | | | | 26 |
| Competitive activities of directors | - | - | - | - | - |
| Independent chairman and directors | - | 8% | - | 85% | 26 |

| | | | | | |
|----------------------------------|-----|-----|-----|-----|-------|
| Board structure | | | | | 4,251 |
| Appointment | 1% | 0% | 7% | 0% | 4,223 |
| Board composition | 0% | - | 0% | - | 4 |
| Others board related proposals | 0% | 33% | 0% | 67% | 24 |
| Related-party transaction | - | - | - | - | - |
| Compensation/Remuneration | | | | | 827 |
| Employee compensation | 5% | 0% | 8% | 50% | 182 |
| Executive compensation | 2% | 3% | 7% | 61% | 645 |
| Shareholder rights | | | | | 77 |
| Call special meeting | 0% | 33% | 0% | 67% | 19 |
| Proxy access right | 0% | 43% | 0% | 29% | 8 |
| Takeover defenses | 0% | 80% | 0% | 20% | 26 |
| Voting formalities | 14% | 24% | 0% | 41% | 24 |
| Financial | 2% | 18% | 20% | 68% | 156 |
| Others | 9% | - | 22% | - | 23 |
| Total | | | | | 6,037 |

This table summarises the percentage of opposition to management recommendation and the number of voted resolutions by the two investors in 2014, within each area, theme and issue. The sample includes only the firms for which we managed to collect data on their characteristics and holdings from 13F filings. Columns 2, 3, 4 and 5 report the rate of opposition to management within each issue, depending on the sponsor of each resolution (management and shareholder). Column 6 provides the number of voted resolutions by the two investors in 2014, within each area, theme and issue, on this reduced sample.

Source: Authors' calculations.

Summary statistics: reduced sample

Table 6

| Variable | N | Mean | Std Dev | Min | Max |
|---------------------------------------|-------|--------|---------|--------|----------|
| Panel A: Measures of disagreement | | | | | |
| Oppos_atleystone | 6,037 | 0.09 | 0.29 | | |
| Oppos_blackrock | 6,037 | 0.02 | 0.12 | | |
| Oppos_norway | 6,037 | 0.09 | 0.28 | | |
| Panel B: Resolution characteristics | | | | | |
| Shareholder proposal | 6,037 | 0.04 | 0.20 | | |
| Resolution ES | 6,037 | 0.02 | 0.13 | | |
| Resolution G | 6,037 | 0.95 | 0.21 | | |
| Panel C: Country and firm ESG ratings | | | | | |
| Country Rating ES | 6,037 | 0.7 | 0.00 | 0.65 | 1 |
| Country Rating G | 6,037 | 0.75 | 0.02 | 0.75 | 0.89 |
| Company Rating ES | 6,037 | 4.62 | 1.48 | 0.55 | 9.95 |
| Company Rating G | 6,037 | 6.73 | 2.79 | 0 | 10.00 |
| Panel D: Firm characteristics | | | | | |
| Market cap | 6,037 | 29,375 | 54,882 | 249 | 439,000 |
| ROA | 6,037 | 4.88 | 7.61 | -44.80 | 64.20 |
| Price-to-book | 6,037 | 7.56 | 76.66 | 0.53 | 1,540.00 |
| Sales growth | 6,037 | 0.08 | 0.27 | -1.00 | 3.79 |
| Asset turnover | 6,037 | 0.72 | 0.70 | 0.00 | 4.45 |
| Volatility | 6,037 | 38.58 | 14.83 | 14.08 | 150.77 |
| Analyst dispersion | 6,037 | 0.10 | 0.76 | -8.14 | 20.10 |
| Panel E: Company holdings | | | | | |
| Weight in BR portfolio | 6,037 | 0.08% | 0.32% | 0.00% | 3.00% |
| Holding BR (% of capitalisation) | 6,037 | 0.76% | 2.17% | 0.00% | 28.29% |
| Weight in NF portfolio | 6,037 | 0.07% | 0.30% | 0.00% | 3.00% |
| Holding NF (% of capitalisation) | 6,037 | 2.81% | 7.37% | 0.00% | 101.57% |
| Weight in portfolio (average BR NF) | 6,037 | 0.13% | 0.28% | 0.00% | 2.92% |
| Holding (average BR NF) | 6,037 | 1.79% | 4.60% | 0.00% | 51.14% |

This table provides summary statistics for the 6,037 common resolutions the Norway Fund and BlackRock voted upon in 2014 for which we managed to collect, besides firms' characteristics, the holdings of the two investors as provided by the 13F filings. Panel A refers to the disagreement measures, Panel B to the characteristics of the resolutions, Panel C to the extra-financial performance measures for firms and countries, Panel D to firms' financial characteristics and Panel E to the Norway Fund and BlackRock's holdings in these firms. All variables are defined in the Data and Variables section.

Source: Authors' calculation

The results are in Table 7. The second line of the table includes NA values because there are no management proposals on ES issues in this reduced sample. We control for two types of holding measure: the weight of the firm in the investor's portfolio (company weight in portfolio) and the proportion of the firm's stock held by the investor (company holding). Columns (1) through (3) display the results of the same regression as before, ie without including holdings as a control, but on the sample the results are restricted to firms in the 13F filings. Columns (4) through (6) display the results for the regressions that include holdings as a control. Holdings appear not to affect the voting policy of the two investors.

Opposition to management: reduced sample

Table 7

| | Probit coefficients | | | | | |
|---------------------------------------|---------------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|
| | (1) BR or NF oppose | (2) BR opposes | (3) NF opposes | (4) BR or NF oppose | (5) BR opposes | (6) NF opposes |
| Shareholder proposal*Resolution ES | 0.728*** | 0.471* | 0.693*** | 0.722*** | 0.459* | 0.689*** |
| Management proposal*Resolution ES | NA | NA | NA | NA | NA | NA |
| Shareholder proposal*Resolution G | 1.015*** | 0.703*** | 0.834*** | 1.020*** | 0.709*** | 0.837*** |
| Management proposal*Resolution G | -0.985*** | -0.816*** | -0.961*** | -0.984*** | -0.813*** | -0.960*** |
| Country rating ES | -56.961*** | 10.192 | -54.133*** | -56.969*** | 10.283 | -54.076*** |
| Country rating G | NA | NA | NA | NA | NA | NA |
| Company rating ES | -0.005 | 0.041 | -0.005 | -0.006 | 0.038 | -0.006 |
| Company rating G | -0.015 | -0.032 | -0.006 | -0.015 | -0.032 | -0.005 |
| Company weight in portfolio | NA | NA | NA | 10.242 | 15.563 | 9.467 |
| Company holding (% of capitalisation) | NA | NA | NA | -0.756 | -0.988 | -0.432 |
| Market cap | -0.077*** | -0.054** | -0.066*** | -0.079*** | -0.057** | -0.067*** |
| ROA | -0.004 | -0.243* | 0.010 | -0.007 | -0.257* | 0.007 |
| Price-to-book | -0.003 | -0.299 | -0.002 | -0.003 | -0.321 | -0.002 |
| Sales growth | -0.481 | 1.275* | -0.639 | -0.476 | 1.282* | -0.630 |
| Asset turnover | -0.214*** | -0.194* | -0.193*** | -0.209*** | -0.186* | -0.191*** |
| Volatility | -0.088* | -0.221** | -0.0763742 | -0.086* | -0.221** | -0.076 |
| Analyst dispersion | -0.012 | 0.008 | -0.014 | -0.012 | 0.008 | -0.013 |
| Industry fixed effect | yes | yes | yes | yes | yes | yes |
| Observations | 6,037 | 5,648 | 6,037 | 6,037 | 5,648 | 6,037 |
| Pseudo R2 | 0.143 | 0.181 | 0.130 | 0.143 | 0.182 | 0.131 |

This table reports the probit coefficients of variables that may explain disagreement with management. The sample includes only the firms for which we managed to collect data on their characteristics and the holdings of the two investors. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1) and (4), if BlackRock opposes management recommendation (2) and (5), if the Norway Fund opposes management recommendation (3) and (6), and zero elsewhere. Columns (1), (2) and (3) report the results without holdings, while columns (4), (5) and (6) summarise the results with holdings. Company holding/company weight in portfolio refer to holding (average BR NF)/weight in portfolio (average BR NF) in specification (4), holding BR (% of capitalisation)/weight in BR portfolio in specification (5), holding NF (% of capitalisation)/Weight in NF portfolio in specification (6). Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are normalised. Industry fixed effects are included in all regressions. Standard errors are clustered at the firm level. All variables are defined in the Data and Variables section. MacFadden's pseudo-R2 measure the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

Source: Authors' calculations.

In the two specifications included in Table 7, the results are as follows: compared with proposals on financial issues, both investors appear to oppose management (i) more often for shareholder proposals, whether on ES or on governance issues, and (ii) less often for management proposals on governance. Regarding shareholder proposals, the result that opposition to management on ES issues is larger than on governance issues is no longer present. There is a clear sample effect. For example, in this sample, management resolutions on governance arouse significantly less opposition from institutional investors than financial resolutions do, a result that is reversed compared with our full sample.

However, it is still the case that the Norway Fund opposes management more often than BlackRock on shareholder-sponsored resolutions on externality issues. When we include holdings as a control variable, the coefficient for the Norway Fund

is 0.689, larger than the 0.459 coefficient for BlackRock. Finally, the coefficients on the holdings' variables are not significant.

5.3. Climate change resolutions

We now study shareholder resolutions that request firms to adopt policies to combat climate change. This type of resolution calls on management to, for example, "Report on financial and physical risks of climate change", "Indicate quantitative goals for GHG and other air emissions", and "Review public policy advocacy on climate change."

To study how BlackRock and the Norway Fund vote on resolutions that are clearly related to an externality, we include a dummy variable for a resolution asking the firm to adopt a climate change mitigation policy. At shareholder meetings, these resolutions are always submitted by shareholders, and management always opposes them.¹⁹

Table 8 displays our results. We find that the Norway Fund opposes management more often on climate-related resolutions than on other externality resolutions and on shareholder resolutions on governance (p-value=0.00). This indicates that the Norway Fund has a strong tendency to vote in favour of climate change mitigation policies, despite management's negative recommendations. The results for BlackRock are very different: it does not oppose management on climate-related resolutions more than on financial issues (the coefficient on the climate-related resolution dummy is insignificant). Moreover, BlackRock opposes management on climate resolutions less than on other ES resolutions and even less than on governance resolutions.

¹⁹ This is not to say that firms' management never implement climate change mitigation policies on their own initiative. Our sample focuses only on the firms in which resolutions were filed by shareholders to impose externality-related policies on corporate management. Hence, behind-the-doors engagement has failed (McCahery et al (2016)). Firms in which management has voluntarily implemented policies to mitigate negative externalities are thus excluded.

| | Probit coefficients | | |
|--|---------------------------|-------------------|-------------------|
| | (1) BR or NF oppose | (2) BR opposes | (3) NF opposes |
| Shareholder proposal*Resolution climate | 2.785*** | 0.720 | 2.806*** |
| Shareholder proposal*Resolution ES non climate | 1.754*** | 1.063*** | 1.694*** |
| Management proposal*Resolution ES non climate | 0.088 | 0.435** | 0.145 |
| Shareholder proposal*Resolution G | 1.594*** | 1.219*** | 1.507*** |
| Management proposal*Resolution G | 0.327*** | 0.238*** | 0.297*** |
| Country rating ES | -2.777*** | -5.331*** | -2.205*** |
| Country rating G | 1.107*** | 1.752*** | 0.899*** |
| Company rating ES | -0.018 | -0.026 | -0.016 |
| Company rating G | -0.038*** | -0.040*** | -0.036*** |
| Market cap | -0.048*** | -0.056** | -0.048*** |
| ROA | -0.011 | -0.085* | 0.009 |
| Price-to-book | 0.004 | -0.010 | 0.003 |
| Sales growth | 0.015 | -0.012 | 0.017 |
| Asset turnover | -0.025 | -0.011 | -0.028 |
| Volatility | -0.048** | -0.091*** | -0.037* |
| Analyst dispersion | 0.001 | -0.013 | 0.003 |
| Industry fixed effect | yes | yes | yes |
| Country fixed effect | yes | yes | yes |
| Observations | 35,382 | 35,367 | 35,382 |
| Pseudo R2 | 0.062 | 0.085 | 0.058 |

This table reports the probit coefficients of variables that may explain disagreement with management with focus on the impact of climate resolutions. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1), if BlackRock opposes management recommendation (2), if the Norway Fund opposes management recommendation (3), and zero elsewhere. Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are normalised. Industry and country fixed effects are included in all regressions. Standard errors are clustered at the firm level. All variables are defined in the Data and Variables section. MacFadden's pseudo-R2 measure the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

Source: Authors' calculations.

6. Discussion

Our basic specification makes it possible to characterise the voting policy on externality issues of BlackRock and of the Norway Fund, separately, and thus to test the relative influence of universal ownership and delegated philanthropy.

The results of our basic specification indicate that externality issues generate more opposition from the two investors than financial and governance resolutions, including those governance resolutions submitted to a vote by shareholders. It thus suggests that there may be something peculiar about ES issues, which we interpret

as being related to externalities. Moreover, the fact that opposition of both investors is larger for governance proposals submitted by shareholders than for governance proposals sponsored by the management is in line with the existence of agency conflicts (see eg Jensen and Meckling (1976)).

When we disentangle the behaviour of each investor regarding its opposition to management on the different resolutions, we set forth some additional insights. More specifically, the results for BlackRock indicate that universal ownership is a significant motivation for engagement of this institutional investor, although not as strong as agency conflicts, as manifested in opposition to shareholder resolutions on governance. Indeed, BlackRock does not oppose management more on externality-related than on governance-related shareholder resolutions. This is exactly contrary to what we observe for the Norway Fund, indicating that delegated philanthropy may also be present in the data and constitutes a driver of engagement on externality issues for some institutional investors.²⁰

Overall, our results suggest that BlackRock and the Norway Fund actively oppose managers at shareholder meetings: both tend to oppose management more frequently on shareholder-sponsored proposals than on management-sponsored ones. However, only the Norway Fund opposes management more for shareholder resolutions on externality issues than for governance issues. This suggests that delegated philanthropy provides additional incentives beyond universal ownership for institutional investors to curb negative externalities generated by firms.

These results seem robust when we test them using several different specifications. The joint estimation of BlackRock's and the Norway Fund's voting policies in a bivariate setting confirms that the Norway fund's propensity to oppose management and support efforts to improve ES behaviour is significantly higher than for BlackRock. Furthermore, the coefficients on industry dummies²¹ show evidence that the propensity of BlackRock to vote against management on ES proposals is higher in some industries where negative ES externalities are lower, eg the financial and technology sector, compared with industries like energy or materials in which negative externalities may be more present. This is not the case for the Norway Fund, whose voting policy on ES proposals is not driven by a particular industry.

Moreover, institutional investors' opposition to management depends neither on the proportion of a firm's equity they hold nor on the proportion of a firm in an investor's portfolio and our main conclusion is not reversed in the 13F sample: More often than BlackRock, the Norway Fund favours firms' policies oriented towards mitigating negative externalities. Investors' holdings seem not to affect their voting policy.

Finally, we focus on climate resolutions because (i) climate change poses a major economic challenge, with potentially disastrous consequences, and (ii) GHG emissions

²⁰ Column (1) of Table 3 shows that investors do not oppose corporate management more for management-sponsored proposals on ES issues than for financial issues. In the view of investors, some ES management proposals are as beneficial as traditional financial proposals. This might be because some corporate policies related to ES might be good for the firms. This would explain why they are proposed by management and not refused by shareholders. Moreover, this result reinforces our interpretation that ES proposals made by shareholders are related to policies to curb externalities. These policies may be viewed as being detrimental to firm value, explaining why management opposes them, while beneficial to society, which is why (some) investors favour them.

²¹ Available upon request from the authors.

represent a clear externality that firms impose on society. Indeed, firms emit GHG into the atmosphere but avoid the cost of this negative externality because there is no appropriate global regulation in place, whether based on GHG taxes (Pigou (1920)) or on emission allowance markets (Coase (1960)).²² As indicated by Gollier and Tirole (2015): “Most benefits of mitigation are global and distant, while costs are local and immediate.” Firms are thus likely to emit more GHG than a benevolent global social planner would require.

The fact that the Norway Fund opposes management more often on climate-related resolutions than on other externality resolutions and on shareholder resolutions on governance, while it is exactly the contrary for BlackRock, is consistent with universal ownership not being a sufficiently strong motivation to get institutional investors to engage with corporations to fight negative externalities.

Two arguments may nevertheless nuance this main result. First, it is now well known that major money managers, such as BlackRock, engage constantly with companies they hold in their portfolios through different types of direct and private communication with corporate managers. Thus, voting in line with management might also express the fact that potential divergences were discussed and solved ahead of the general meeting, behind closed doors, or negotiated against other management concessions. Unfortunately, as these exchanges are private, it is very difficult to track them and have a clear picture of the topics discussed. However, the same institutional investors are not reluctant to vote against management if they appreciate that firms did not show significant evidence of progress on the issues discussed or if the management is not responsive enough, as stated by Larry Fink in 2018 in a letter to the CEOs of BlackRock portfolio companies.²³ Second, not all ES resolutions submitted by shareholders may be clearly stated, reasonable, or have the same impact in terms of the ES outcome. As an example, on the 13 shareholder resolutions on nuclear safety, neither BlackRock nor the Norway Fund opposed management who were not in favour of the resolutions. A close look at these resolutions shows that they are all proposed for Japanese companies, with a very vague and unclear content. Unfortunately, the limited number of ES resolutions we have in this sample makes it complex to create various clusters on the different issues and get statistically meaningful results. Also, we do not have access to the final outcome of the votes, which could have provided a clearer picture of the resolutions that managed to gather general support beyond the two institutional investors under study and those which were indeed considered as having negligible ES positive outcomes by the same majority of shareholders.

²² Emissions markets exist across the globe, but they are sometimes partial (as in the case of the European Union Emissions Trading System), and do not ensure a single global price for GHG emissions.

²³ “BlackRock can choose to sell the securities of a company if we are doubtful about its strategic direction or long-term growth. In managing our index funds, however, BlackRock cannot express its disapproval by selling the company’s securities as long as that company remains in the relevant index. As a result, our responsibility to engage and vote is more important than ever.” (www.blackrock.com/corporate/en-no/investor-relations/larry-fink-ceo-letter).

7. Conclusion

This paper studies voting at shareholder meetings by two emblematic investors: BlackRock, a large, well diversified, financially oriented investor, and the Norway Fund, a large, well diversified, responsible sovereign wealth fund. Both are universal owners (see eg Monks and Minow (1995)), and the Norway Fund also has a delegated philanthropic mission (see eg Benabou and Tirole (2010)), monitored by the Norwegian parliament and a Council on Ethics.

Our data cover 2014 and include the two institutions' votes on 35,382 resolutions at 2,796 corporations worldwide, as well as managers' recommendations. We find that both investors oppose management more significantly for shareholder resolutions on ES issues than on financial resolutions. The data seem to thus suggest that a universal owner philosophy is at work. Moreover, we find that support for resolutions on reducing negative externalities is stronger at the Norway Fund than at BlackRock. This suggests that the delegated philanthropy logic is also at work. Our findings hold with and without country fixed effects and also if we restrict our analysis to meetings of firms for which investors' holdings are available. Our results are even more significant when we restrict our analysis to climate change issues. For these issues that clearly constitute externalities, we find that only the Norway Fund and its delegated philanthropy logic oppose management in an attempt to fight climate change.

Overall, our findings suggest that delegated philanthropy is stronger than universal ownership at providing incentives for institutional investors to combat negative externalities generated by firms. These findings have important policy implications. They suggest that corporations – in particular large multinationals – that have significant influence on the future of the planet, are unlikely to be disciplined by institutional investors simply because these investors hold well diversified portfolios. Instead, we find that institutional investors' corporate engagement policies ought to reflect the values of their clients or beneficiaries. This could be achieved by setting up pass-through voting or, more generally, by basing engagement policies on mechanisms designed to measure clients' values on the main externality issues.

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