Confidence must be earned

Amundi
ASSET MANAGEMENT

Working Paper | Cross asset Investment Strategy

WP-74-2018

BlackRock vs Norway Fund at Shareholder Meetings: Institutional Investors' Votes on Corporate Externalities

Research & Macro Strategy

BlackRock vs Norway Fund at Shareholder Meetings: Institutional Investors' Votes on Corporate Externalities

Marie Brière
Amundi Research - Advisory Research
Paris Dauphine University, Université Libre de Bruxelles, Solvay Brussels School of Economics and Management - Centre Emile Berheim
marie.briere@amundi.com

Sébastien Pouget
Toulouse School of Economics (University of Toulouse)
spouget@univ-tlse1.fr

Loredana Ureche-Rangau
CRIISEA, University of Picardie Jules Verne
loredana.ureche@u-picardie.fr

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 Fund, a responsible sovereign wealth fund. Our data cover 2014 and include the two institutions' votes on 35,382 resolutions at 2,796 corporations across the world. 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 rather than governance issues. The difference between the two investors' voting behavior is larger when we focus on resolutions related to greenhouse gas emissions, a clearly identified externality. Overall, universal ownership (see, e.g., Monks and Minow, 1995) and, more importantly, delegated philanthropy (see, e.g., Benabou and Tirole, 2010) both appear to provide incentives for institutional investors to combat negative externalities generated by firms.

Keywords: Institutional Investors, Voting, Corporate Externalities, Social Responsibility, Universal Ownership, Delegated Philantropy

JEL Classification: G23, G32, G34

About the authors

Marie Brière

Marie Brière is head of the Investor Research Center at Amundi. She is also an affiliate professor at Paris Dauphine University and an associate researcher at the Centre Emile Bernheim at Solvay Brussels School of Economics & Management. Dr. Brière began her career as a quantitative researcher at the proprietary trading desk at BNP Paribas. She also served as a fixed-income strategist at Crédit Lyonnais Asset Management and as head of fixed income, foreign exchange, and volatility strategy at Crédit Agricole Asset Management. Her scientific articles have been published in international academic journals including the Financial Analyst Journal, Journal of Banking and Finance, Journal of International Money and Finance, World Development, etc. She received the Markowitz award for her article with Zvi Bodie on "Sovereign Wealth and Risk Management", published in the Journal of Investment Management. She holds a PhD in economics from the University Paris X and graduated from ENSAE.

Sébastien Pouget

Sebastien Pouget is Professor of Finance at Toulouse School of Management and member of the Toulouse School of Economics (Université Toulouse 1 Capitole). He was a visiting Professor of Economics and Finance at Princeton University where he taught asset management and behavioral finance, and at New York University – Shanghai Campus where he taught Corporate Finance. Prof. Pouget's research studies financial markets with a multidisciplinary approach combining insights from economics, psychology and history. His research has been published in international academic journals such as *Econometrica*, *Management Science*, the *Journal of Finance* and the *Review of Economic Studies*. Prof. Pouget is co-director of the research center « Finance Durable et Investissement Responsable » (chaire FDIR), a research center on sustainable finance and responsible investments sponsored by a dozen of asset managers and institutional investors in Paris.

Loredana Ureche-Rangau

Loredana Ureche-Rangau is Professor of Finance at the Université de Picardie Jules Verne, Amiens. She holds a PhD in Business Administration, Major in Finance, from the Université d'Orléans. She previously worked as Associate Professor of Finance at Ieseg School of Management, Lille, France and is Visiting fellow at the Free University of Brussels, Belgium. Her research topics include sovereign debt crises, financial markets dynamics and, more recently, socially responsible investments. Loredana authored a book on the volatility and risk of sovereign debt and many scientific articles that have been published in academic journals such as the Journal of Economic History, Economic Modelling, Journal of International Financial Markets, Institutions and Money, Finance, Financial History Review.

BlackRock vs Norway Fund at Shareholder Meetings:

Institutional Investors' Votes on Corporate Externalities

"The theory is that they can become 'universal owners', treating it as part of their remit to prod companies towards more healthy social outcomes for their members.

John Rogers, former head of the CFA Institute, the largest professional body for investors, calls this 'fiduciary capitalism'... 'If we look back 30 or 40 years from now we could see we lived through an era in which capital was allocated by investors who were looking to invest for the long term, minimising negative externalities and maximising positive ones.'"

(John Authers, '*Responsible investment: Vice versus nice*', Financial Times, June 25, 2015)

1. Introduction

This paper studies whether institutional investors engage with companies to reduce 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 it. Externalities are a major source of market failure since market equilibria reflect private effects that are perceived by the parties undertaking the activity, but not overall societal effects. In a report based on research by Trucost, a leading consultancy in sustainability analysis, Mattison, Trevitt, and Van Ast (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, already very significant, does not consider the companies' social externalities such as consumer safety issues and human rights violations.

Do institutional investors engage companies to reduce negative externalities? If so, why do they do so? To address these issues, we study institutional investors' votes at shareholder meetings on resolutions related to both environmental and social issues. Focusing on shareholder meetings is useful because it provides us with a large amount of data on one type of engagement: shareholder voting on clearly identified externality issues. To be even more precise in terms of identification, we also restrict our attention to greenhouse gas (GHG) emissions, a clear example of an externality that companies produce.

To understand what might prompt investors to care about such externalities, we concentrate on the Norway Fund and BlackRock, two emblematic institutional investors with more than $1 trillion and $5 trillion, respectively, under management in 2017. Both have a large, global and well-diversified equity portfolio. In this sense, they are universal owners (see, e.g., Monks and Minow, 1995). The Norway Fund also has a delegated philanthropic mission (see, e.g., Benabou and Tirole, 2010), monitored by the Norwegian parliament and an independent

Council on Ethics.[2] Given their size, both investors likely have a significant influence on corporate behavior across the world.

Separation between ownership and control is one of the fundamental characteristics of modern companies (Berle and Means, 1932). This opens the door to potential conflicts of interests between shareholders and corporate executives (Jensen and Meckling, 1976) because managers may not always favor the strategies that are best for shareholders. These potential conflicts require active involvement of shareholders in corporate governance. Hence our interest in institutional investors' engagement.

As described by Bebchuk, Cohen and Hirst (2017), institutional investors now play a central role in the corporate governance landscape. To mitigate the negative effects of the conflict between shareholders and executives, institutional investors can lead executives to follow their guidance by engaging with companies, notably by discussing with executive managers and board members (see, e.g., Dimson, Karakas, and Li, 2015, and Barko, Cremers and Renneboog, 2017), filing shareholder proposals (see, e.g., Gillian and Starks, 2000, Cziraki, Renneboog, Szilagyi, 2010, and Renneboog and Szilagyi, 2011) and voting during shareholder general meetings (see, e.g., Cunat, Gine, Guadalupe, 2012, Flammer, 2015, and Bach and Metzger, 2017).

Two basic non-exclusive arguments explain why institutional investors should engage actively with companies on externality issues. The first rests on universal ownership (see, e.g., Monks and Minow, 1995, Hawley and Williams, 2000, Dimson, Kreutzer, Lake, Sjo, and Starks, 2013, and Azar, 2017). Large institutional investors own shares in virtually all listed companies and have a long horizon. As universal owners, they might engage with firms that could impose negative externalities on other firms in their portfolios and deteriorate the overall portfolio value. For example, these investors may want to consider the negative economic impact that a firm's GHG emissions might have on other companies' businesses because of issues relating to water, food, health or migration. 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 likely less willing to internalize the effects that their companies have on the payoffs and value of other companies.

The universal owner mindset is well summarized in Mattison, Trevitt, and Van Ast (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

[2] As indicated in its annual report 2016, available online, "the Council on Ethics for the Government Pension Fund Global (GPFG) is an independent body that makes recommendations to Norway's central bank, Norges Bank, to exclude companies from the GPFG 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 criteria, such as the production of tobacco or certain types of weapons, and conduct-based exclusion criteria, 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), page 7).

companies, adversely affecting other investments, and hence overall market return" (Mattison et al. (2011), page 4). Larry Fink, Chairman and CEO of BlackRock, says that passive investors, as universal owners, have strong incentives to engage with 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" (quoted in John Authers, 'Responsible investment: Vice versus nice', in *Financial Times*, June 25, 2015).

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

The second argument for active engagement by institutional investors on externality issues is related to delegated philanthropy (Benabou and Tirole, 2010). Institutional investors such as pension funds, mutual funds and sovereign wealth funds invest on behalf of clients or citizens whose externality-related preferences may differ from those of companies' managers. Institutional investors might thus want to promote the values and preferences of these clients and citizens, and persuade management to choose the appropriate course of action. For example, the global risk generated by a firm in terms of climate change or nuclear energy might not be valued in the same way by corporate managers and by institutional investors, who represent clients or citizens. Investors may thus want to inform corporate executives about their preferred level of precaution. And this can only be achieved through engagement. One important reason why institutional investors may endorse delegated philanthropy is that they care about their reputation among clients or citizens.

As shown by Morgan and Tumlinson (2012), engagement by institutional investors on externality issues is socially desirable, for two reasons: first, companies' actions are less subject to the free-rider problem than individual shareholders would be when deciding to fight these externalities; second, engagement makes companies' production decisions more efficient from a social viewpoint and increases the welfare of shareholders who care about these externalities.

In the delegated philanthropy approach, conflicts of interest may emerge when corporate executives and shareholders have different values on and preferences towards corporate externalities. Shareholders will find it important to tell executives about their values and preferences so that firms will adopt their preferred behavior.

The universal ownership approach is the most common reason cited by institutional investors to rationalize their policies on responsible investment and engagement (see, e.g., the quote from the *Financial Times* at the beginning of this paper). One reason is that universal ownership focuses on financial returns only and is thus consistent with a narrowly defined concept of fiduciary duty. There are, however, several impediments to this argument. On the one hand, the externalities should be correctly evaluated and be material to companies' profits. On the other hand, externalities should not materialize too far into the future that they could not significantly affect asset valuations. Delegated philanthropy does not suffer from

these drawbacks, but its strength can be attenuated by the difficulty of finding a consensus among clients and citizens regarding the externalities on which institutional investors should focus and actively engage with companies.

In consequence, it is interesting to put both approaches to an empirical test. For that purpose, we gathered data covering 2014 and including BlackRock and Norway Fund votes at 35,382 resolutions for 2,796 firms worldwide. Our data also include managers' recommendations as well as various financial and environmental, social and governance (ESG) characteristics of firms. We classified resolutions into several categories according to the sponsor (management versus shareholders) and the topic (financial, governance, social and environmental issues). We consider shareholders' resolutions on environmental and social issues as dealing with externality issues. Given that management almost always opposes such resolutions, our study can be understood as focusing on investors' support for resolutions requesting firms to combat negative externalities.[3] In our robustness analyses, we specifically look at climate change resolutions as they are clearly related to externalities. Our variable of interest is the opposition of investors to management on externality resolutions.

We find that both BlackRock and the Norway Fund oppose management more frequently on environmental and social resolutions than on financial ones, which we use as a benchmark. This result suggests that universal ownership prompts institutional investors to engage corporations on externality issues. Of the two institutions, however, only the Norway Fund puts more emphasis on shareholder resolutions concerning externalities - despite management opposition - than on those relating to governance. Our results hold with and without country fixed effects. Investors' holdings seem not to affect their voting policy. Our results are even more economically and statistically significant when we focus on environmental externalities related to climate change. Overall, our findings suggest that both universal ownership and delegated philanthropy provide incentives for institutional investors to combat negative externalities generated by firms. Delegated philanthropy, though, seems to be a stronger motivation.

These findings have two main implications. On the one hand, they suggest that corporations that have an influence on the future of the planet are unlikely to be firmly 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. It thus seems important that institutional investors should know the main externality issues that their clients or beneficiaries want investee firms to address. In this respect, pass-through voting, where institutional investors collect votes from their clients and beneficiaries and send them to general meetings, might be useful. Regulators could also request institutional investors to display their voting policy more clearly in their

[3] If corporate managers were in favor of a given policy to combat negative externalities, they could have adopted such a policy without waiting for shareholders to impose it through a vote at the general meeting. Note that, as shown by Bach and Metzger (2017), even if votes on externality resolutions are generally non-binding, management has an incentive to implement policies favored by a significant proportion of shareholders to avoid future campaigns against non-responsive boards.

prospectuses in order to inform clients about the type of externalities, if any, they intend to deal with.

On the other hand, our findings indicate that there is a clear difference of objective between various shareholders regarding companies that have negative externalities. This suggests that the basic tools used in corporate finance, such as net present value, need to be revisited. In their most stripped-down form, these tools consider only purely financial wealth created by the firm. In the case of a firm that emits externalities, which have, by definition, no direct financial consequences for the firm itself, these tools should be adapted to take into account the social value of those externalities. One way to measure them is through cost-benefit analysis (see, e.g., Adler and Posner, 2006).

The rest of this paper is organized as follows. Section 2 discusses the related literature. Section 3 presents our methodology. The data and variables are presented in Section 4. Our empirical analysis is developed in Section 5. Section 6 concludes. Tables, figures and appendix are in Section 7. Section 8 gives the references.

2. Related literature

Several papers have studied how voting at shareholder meetings can alter corporate behavior. Cunat, Gine, Guadalupe (2012) show that close votes in favor of changes in governance trigger an improvement in the valuation of market capitalization. Likewise, Flammer (2015) and Flammer and Bansal (2017) show that close votes on environmental and social issues and on long-term executive compensation plans, respectively, are associated with an increase in firms' market valuation. Bauer, Braun, and Viehs (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 US, failure to comply with a majority vote may trigger executive turnover. We supplement this literature by analyzing institutional investors' voting policies and their determinants in greater detail.

Other papers have studied how behind-the-scenes engagement by investors may affect corporate behavior and performance, see, e.g., Smith (1996) and Becht, Franks, Mayer and Rossi (2009) on governance issues; and Dimson, Karakas and Li (2015), and Barko, Cremers, Renneboog (2017) on environmental and social issues. All 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 add to this literature by focusing instead on voting for private engagement and by studying the voting strategies of investors with different motivations, i.e. standard and responsible, on a common subset of resolutions.

As shown by McCahery, Sautner and Starks (2016), institutional investors in general supplement behind-the-scenes engagement with governance-motivated exit. Heinkel, Kraus, and Zechner (2001) show that, when investors negatively screen out some firms, those firms'

cost of capital increases at equilibrium. This conclusion is supported by the empirical observations of Hong and Kacperczyk (2011) on sin stocks, Chava (2014) and Bauer and Hann (2014) on environmental performance, Bauer, Derwall and Hann (2009) on employee relations, and Borgers, Derwall, Koedijk, and Horst (2013) on stakeholder relations. This literature suggests that positive voting outcomes on climate change issues might positively affect firms' market value. These conclusions are supported by the event studies proposed by Flammer (2013) and Krueger (2014).

Azar, Schmaltz, and Tecu (2017) show that US airline firms that are held by common institutional investors are less likely to aggressively compete on the same routes. Keswani, Stolin and Tran (2016) study the voting behavior of financial firms at their competitors' general meetings. They find that these firms are more likely to support the investee's management, thus reducing directors' efficacy and lowering firm valuation. These empirical studies document the hidden cost of universal ownership. Our study aims at documenting a potential positive impact, especially the fact that universal owners might have an incentive to internalize part of the corporate externalities, as argued for example by Mattison, Trevitt and Van Ast (2011).

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

3. Methodology

To pursue our research objective, we propose 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 some shareholders.[4] When management opposes efforts to fight negative externalities, some shareholders may fill in resolutions to be voted at shareholder meetings in an attempt to impose a different policy on management.[5] In this case it is interesting to study 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.[6]

[4] One drawback is that we are unable to observe behind-the-doors discussions, an important type of corporate engagement by shareholders (see McCahery, Sautner and Starks, 2016, Dimson, Karakas, and Li, 2015, and Barko, Cremers and Renneboog, 2017).

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

[6] As examples of resolutions aimed at mitigating negative externalities, climate change resolutions request management to "Report on Financial and Physical Risks of Climate Change", to "Indicate Quantitative Goals for GHG and Other Air Emissions", and to "Review Public Policy Advocacy on Climate Change."

In this paper, we focus on two emblematic global investors: BlackRock and the Norway Fund (also known as the Norway Government Pension Fund Global). BlackRock is an asset management firm with over $5 trillion dollars under management, of which the total equity portfolio amounts at $2.6 trillion. According to Fichtner, Heemskerk, and Garcia-Bernardo (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 US, BlackRock has about two thousand holdings of 5%, among the 3,900 publicly listed US companies. Within its numerous funds, BlackRock pursues both passive asset management, through index and exchange-traded funds, and active management. The company's corporate governance team includes 31 persons that vote at more than 15,000 shareholder meetings and more than 130,000 proposals every year. BlackRock follows a centralized 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 twelve people who vote on more than 11,000 resolutions at general meetings every year. In 2014, the two investors' holdings seem highly correlated, whether in terms of a firm's capitalization (the correlation coefficient is 87%) or 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 characterized 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 E&S 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.[7]

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, Dimson and Ilmanen (2012), its goal is "to serve as a long-term savings vehicle

[7] It is possible that BlackRock also pursues a delegated philanthropy approach. This is suggested by the recent letter from Larry Fink, the company's CEO, to the CEOs of the firms in portfolio: "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" (*BlackRock Letter to CEOs*, January 12, 2018, https://www.blackrock.com/corporate/en-no/investor-relations/larry-fink-ceo-letter). Given its size and the diversity of values of its clients, BlackRock might have difficulties in clearly identifying the important issues it needs to focus on. In 2014, BlackRock was less vocal about environmental and social issues: none of these is mentioned in the 2014 BlackRock letter to CEOs, which centered on the tradeoff between short-term challenges and long-term growth (https://online.wsj.com/public/resources/documents/blackrockletter.pdf).

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 recognized as a leader in the responsible investment community (see, e.g., Chambers et al., 2012). The fund's commitment to responsible investing is materialized in the existence of 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), page 26). The Norway Fund is part of "the 25 most responsible asset allocators" list that 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.[8]

By comparing the voting behaviors 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.[9] 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 environmental and social 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

[8] Most sovereign wealth funds have some kind of delegated philanthropy objectives in the sense that their investment strategy reflects the interest of a nation, both in terms of financial issues and of strategic and geopolitical issues. It is, however, not the case that this delegated philanthropy always encourages a keen focus on corporate social responsibility. In the case of the Norway Fund, that focus is clearly stated in its public documentation: "The long-term return depends on sustainable development in economic, environmental and social terms" (*Strategy 2014-2016*, Norges Bank Investment Management, p. 12).

[9] We plan to extend our sample to more recent years in order to study the potential change in voting policies. Moreover, to enrich further the evidence regarding institutional investors' voting on externality issues, we plan to extend our sample in two directions. First, we intend to include other large global investment managers, such as Vanguard and State Street, so that we can test whether different universal owners promote different policies on externalities. Second, we will include small, less-diversified responsible investors, such as Calvert, which cannot be considered as a universal owner, to test whether delegated philanthropy alone is sufficient to prompt investors to promote corporate action against negative externalities.

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, e.g., Agrawal and Knoeber, 1996, Hong, Kubik, Scheinkman, 2012, Cheng, Hong, Shue, 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 e.g., Chen, Hong and Stein, 2002, and Hong and Stein, 2003, Boot, Gopalan, and Thakor, 2006 and 2008), and we include the dispersion in analysts' forecasts (see, e.g., Diether, Malloy, and Scherbina, 2002) as control.

4. Data and variables

Our data includes detailed information for 35,382 resolutions, including 326 on environmental and social practices, voted by both BlackRock and the Norway Fund in 2014 on a sample of 2,796 corporations across the world.[10] We collected this data from BlackRock's SEC filings and the Norwegian Fund's website.[11] We obtained firm characteristics from FactSet and firms' ESG ratings from MSCI. For 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 Emission Database for Global Atmospheric Research (EDGAR) , i.e. a total of 6,037 resolutions, including 110 on environmental and social aspects. Much of the data collection effort revolved around manual classification 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 July 1st, 2013. Using this dataset, 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.[12]

4.1. Description of resolutions

Following the proxy voting guidelines issued by Institutional Shareholder Services (ISS),[13] we manually classified the resolutions into five major areas: Environmental (E), Social (S), Governance (G), Financial, and Others.[14] E, S and G resolutions include several themes which

[10] We focus on the equity shares owned and voted by BlackRock via its active mutual funds and its passive funds such as iShares ETFs.
[11] https://www.nbim.no/en/responsibility/our-voting-records/.
[12] The dataset collected online was manually cross-checked; each firm identifier was associated with the unique Bloomberg ID to match the Norway Fund and Blackrock data. We thank Thierry Martial Kengne for his excellent research assistance.
[13] https://www.issgovernance.com/file/policy/2016-us-summary-voting-guidelines-dec-2015.pdf.
[14] The category called "Others" refers to matters that did not fall into one of the four other areas, e.g. Financial, E, S, G. Examples include "Open Meeting", "Close Meeting", "Amend Articles", "Receive Report of Board".

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 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 E&S. BlackRock rarely opposes management on these issues, while the Norway Fund opposes management on 101 out of 326 resolutions (31%). Figure 1 in Appendix 7.2 offers a graphical representation of these results.

Insert Table 1 about here

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%.[15] 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 a majority of the social resolutions are proposed by shareholders. Within the social area, management-sponsored resolutions account for 140 on a total of 257 (101 on political contributions and 39 on charitable 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%. Figure 2 in Appendix 7.2 offers a graphical representation of these results.

4.3. Variables

Dependent variables.

We study the voting policies of the Norway Fund and BlackRock. More precisely, 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:

[15] Note that the Norway Fund has never opposed management on advice to reject a nuclear-related resolution. We have looked at these resolutions in greater detail. It turns out that they all concern Japanese companies and were not appropriately formulated, thereby preventing any serious institutional investor from seconding them.

- *BR or NF oppose* equals 1 if either or both investors oppose management recommendation, and 0 elsewhere;
- *BR opposes* equals 1 if BlackRock opposes management recommendation, and 0 elsewhere;
- *NF opposes* equals 1 if the Norwegian Fund opposes management recommendation, and 0 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.

Insert Table 2 about here

Explanatory and control variables

Resolution characteristics

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

- *Shareholder proposal* equals 1 if the resolution is sponsored by shareholders and 0 elsewhere;
- *Resolution ES* equals 1 if the resolution is either related to E or S issues and 0 elsewhere;
- *Resolution G* equals 1 if the resolution is related to G issues and 0 elsewhere;
- *Resolution climate* equals 1 if the resolution is related to Climate issues and 0 elsewhere;
- *Resolution ES non climate* equals 1 if the resolution is related to all the other environmental and social issues except for Climate and 0 elsewhere.

Table 2, Panel B summarizes 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* is computed as the average between the E and S scores provided by the MSCI ESG STATS database for corporate social responsibility.[16] We

[16] Following the Intangible Value Assessment (IVA) methodology, MSCI provides scores between 0 (worst) and 10 (best) on three pillars: Environment, Social and Governance. These scores derive from the weighted average of underlying key-issue scores within each ESG theme, also comprised between 0 and 10. On each key issue, the scores reflect the valuation of companies' risks and opportunities exposures and their ability to manage them. For more details, see MSCI ESG Research, IVA Methodology, 2014.

aggregated the E and S scores to obtain a single measure of the firms' performance on societal externalities.

- *Company rating G* is also 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 environmental and social 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* is computed as the average between the Environmental (E) rating and the Social (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 statistics[17]); global per capita CO2 emissions from fossil fuel use and cement production (from EDGAR[18]) 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 (CIESIN) at Columbia University.[19] Each variable is normalized[20] into an index between 0 and 1 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 Program.
- *Country rating G* computed as 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.[21]

Appendix 7.3 presents the precise definition of all variables used to build our ESG country indicators as well as their datasource. 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.

[17] stats.oecd.org.

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

[19] http://epi.yale.edu and http://sedac.ciesin.columbia.edu/data/set/epi-environmental-performance-index-2014.

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

[21] The six aggregate indicators are based on 31 underlying data sources reporting the governance perceptions of survey respondents and experts worldwide. Details on the underlying data sources, the aggregation method, and the interpretation of the indicators can be found in the WGI methodology paper: Kaufmann, Kraay and Mastruzzi (2010).

Firm financial characteristics

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

- market capitalization on December 31, 2013, in thousands of dollars;
- return on assets on December 31, 2013;
- price-to-book ratio on December 31, 2013;
- annual sales growth rate on December 31, 2013;
- asset turnover ratio on December 31, 2013;
- volatility, proxied by the annualized standard deviation of daily stock returns between 2009 and 2013;
- 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, and 10 – Utilities.

Finally, on the reduced sample comprising firms with SEC 13F fillings, 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 3, 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 Norway Fund;
- *Holding BR (% of capitalization)*, 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 fillings on December 31, 2013;
- *Weight in portfolio (average BR NF)* as the average between the weights of the two investors;
- *Holding (average BR NF)* as the average between the two investors' holdings.

5. Empirical analysis

We present our empirical results in three steps. First, we offer our main results regarding investor opposition to management on resolutions related to externalities for the entire sample with country and sector fixed effects. Given that management almost always opposes such resolutions, our study can be understood as focusing on investors' support for resolutions requesting firms to combat negative externalities. Second, 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. Third, we offer 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. Moreover, our basic specification makes it possible to characterize 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 from our basic specification are reported in Table 3. We regress the likelihood of opposition onto the fact that the resolution relates to E and S issues and onto various control variables. Column (1) shows that one of the two investors is more likely to oppose corporate management on E and S 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 first result indicates 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. This suggests that there is something peculiar about E and S issues, which we interpret as being related to externalities. The analysis of marginal effects shows that a resolution on an E and S 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.

Insert Table 3 about here

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 E and S issues involving externalities. The coefficients of the variables indicating that a resolution is sponsored by a shareholder, whether on E and S 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. The fact that the coefficient is significantly larger, according to a Wald test, for governance resolutions submitted by shareholders than for those submitted by management is in line with the existence of agency conflicts, see e.g. Jensen and Meckling (1976) (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. Marginal effects suggest that, for BlackRock, the rate of opposition to management increases by 13% for externality-related resolutions compared with financial resolutions. This indicates that universal ownership is a significant motivation of engagement for institutional investors, although not as strong as agency conflict, materialized in opposition to shareholder resolutions on governance.

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 E and S issues, 1.818, is significantly different from 0 and from the coefficient on governance shareholder resolutions, 1.507 (p-value<0.04). This

is different from what we observe for BlackRock, which does not oppose management more on externality-related than on governance-related shareholder resolutions. 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%, indicating that delegated philanthropy is also present in the data and constitutes a strong driver of engagement on externality issues for institutional investors.[22]

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 stronger incentives than universal ownership does for institutional investors to curb negative externalities generated by firms.

5.2. Robustness analyses

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). The results are very similar to those in Table 3. Controlling for country fixed effects thus does not seem to affect our results. 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 environmental and social behavior. For the Norway Fund, the coefficient on E and S shareholder resolutions is significantly larger, 1.816, than for BlackRock, 1.131 (p-value=0.00).

Insert Table 4 about here

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 (including BlackRock and the Norway Fund). Tables 5 and 6 display the same type of information as Tables 1 and 2 but for the sample restricted to firms in the 13F filings. In

[22] Column (1) of Table 3 shows that investors do not oppose corporate management more for management-sponsored proposals on environmental and social issues than for financial issues. In the view of investors, some E and S management proposals are as beneficial as traditional financial proposals. This might be because some corporate policies related to E and S 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 E and S 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 favor them.

this sample, which is nested in our complete sample, we find larger firms but the overall image in terms of the type of resolutions voted is qualitatively similar.

Insert Table 5 about here

Insert Table 6 about here

The results of our regression analyses are in Table 7. The second line of the table includes NA values because there are no management proposals on E and S issues in this reduced sample. We control for two types of holding measures: 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, i.e., without including holdings as a control, but on the sample 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.

Insert Table 7 about here

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 E and S or on governance issues, and ii) less often for management proposals on governance. Regarding shareholder proposals, the result that opposition to management on E and S 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. This indicates that 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.

Overall, our main conclusion is not reversed in the 13F sample: More often than BlackRock, the Norway Fund favors firms' policies oriented towards mitigating negative externalities. Investors' holdings seem not to affect their voting policy.

5.3. Results on 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." This focus on climate resolutions is relevant because i) climate change poses a major economic challenge, with potentially disastrous consequences for the global population, and ii) GHG emissions 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).[23] 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 too much GHG compared with what a benevolent global social planner would require.[24]

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.[25]

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 favor 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 environmental and social resolutions and even less than on governance resolutions.

Insert Table 8 about here

[23] Emissions markets exist across the globe, but they are sometimes partial (as in the case of the European Union Emissions Trading System, which applies only to particular sectors), and do not ensure a single global price for GHG emissions.

[24] These climate externalities are one of the factors that lead to global warming and are associated with dramatic economic and social consequence (see, for example, the Stern (2007)'s review on the economics of climate change, and the IPCC (2014)'s fifth assessment report). In the absence of an adequate global regulation to curb climate externalities, companies are free to choose their climate change strategies and are thus likely to have a significant impact on the future of the planet.

[25] 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 where filed by shareholders to impose externality-related policies on corporate management. It corresponds to cases in which behind-the-doors engagement has failed (McCahery, Sautner and Starks, 2016) and therefore excludes firms in which management has voluntarily implemented policies to mitigate negative externalities.

Overall, these results are consistent with universal ownership not being a sufficiently strong motivation to get institutional investors to engage with corporations in an attempt to fight negative externalities.

6. Conclusion

This paper studies voting at shareholder meetings by two emblematic investors: BlackRock, a large and well-diversified financially-oriented investor, and the Norway Fund, a large, well-diversified responsible sovereign wealth fund. Both are universal owners (see, e.g., Monks and Minow, 1995), and the Norway Fund also has a delegated philanthropic mission (see, e.g., 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 across the world, as well as managers' recommendations. We find that both investors oppose management more significantly for shareholder resolutions on environmental and social issues than on financial resolutions. The data seem to show a universal owner philosophy. Moreover, we find that support for resolutions on reducing negative externalities is stronger at the Norway Fund than at BlackRock. 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.

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, which 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.

The behavior of institutional investors can evolve over time. It will thus be interesting to gather more recent data and data on other institutional investors, such as Vanguard, State Street, CalPERS and Calvert, to check further the validity of our findings.

Acknowledgement

We would like to thank Andrea Attar, Bruno Biais, Catherine Casamatta, Fany Declerck and Simone Sepe for useful comments and suggestions. Financial support from the research chair on sustainable finance and responsible investing (Chaire FDIR) and from the Amundi research chair on asset management is gratefully acknowledged.

7. Tables, Figures and Appendix

7.1. Tables

Table 1: Voted resolutions and rate of opposition to management

This table summarizes the number of voted resolutions by the two investors, BlackRock and the Norway Fund, in 2014 within each area, theme and issue (Column 1). The sample includes the firms for which we managed to collect data on corporate characteristics. Columns 2 and 3 provide the percentage of opposition to management recommendations within each area, theme and issue (independent of the sponsor of the resolution) by BlackRock and the Norway Fund respectively. 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) by BlackRock and the Norway Fund, respectively.

		Rate of oppostion to the management		Rate of oppostion to the management by sponsor of the resolution			
				BlackRock		Norway Fund	
	Total number of voted resolutions	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 responsability	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 responsiveness	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%

Table 2: Summary statistics

This table provides summary statistics for the 35,382 resolutions common to the Norway Fund and BlackRock voted in 2014. The sample includes the firms for which we managed to collect data on corporate characteristics. Panel A refers to the disagreement measures, Panel B to the characteristics of the resolutions, Panel C to the ESG performance measures for firms and countries, and Panel D to firms' financial characteristics. All variables are defined in the Data and Variables section.

Variable	N	Mean	Std. Dev.	Min	Max
Panel A: Measures of agreement					
Oppos_atleastone	35,382	0.09	0.28		
Oppos_blackrock	35,382	0.03	0.16		
Oppos_norway	35,382	0.08	0.27		
Panel B: Resolution characteristics					
Shareholder proposal	35,382	0.02	0.15		
Resolution ES	35,382	0.01	0.10		
Resolution G	35,382	0.80	0.40		
Panel C: Country and firm ESG ratings					
Country Rating ES	35,382	0.62	0.06	0.36	0.69
Country Rating G	35,382	0.78	0.12	0.14	0.95
Company Rating ES	35,382	4.91	1.49	0.50	9.95
Company Rating G	35,382	6.57	2.68	0.00	10.00
Panel D: Firm characteristics					
Market cap	35,382	14,923	32,209	48	439,000
ROA	35,382	4.57	8.34	-99.50	189.00
Price-to-book	35,382	3.84	32.69	0.19	1,540.00
Sales growth	35,382	0.22	4.70	-1.04	177.00
Asset turnover	35,382	0.79	0.70	0.00	9.39
Volatility	35,382	38.55	13.02	14.04	202.92
Analyst dispersion	35,382	0.13	1.02	-54.22	27.68

Table 3: Opposition to management with country and industry fixed effects

This table reports the probit coefficients and the marginal effects of variables that may explain disagreement with management. The sample includes the firms for which we managed to collect data on corporate characteristics. The dependent variable is a dummy variable equal to one if either or both investors oppose management recommendations (1), if BlackRock opposes management recommendations (2), if the Norwegian Fund opposes management recommendations (3), and zero elsewhere. Continuous control variables (market cap, ROA, price-to-book, sales growth, asset turnover and analyst dispersion) are normalized. 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. McFadden's pseudo-R^2 measures the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

	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	-0.010	0.003	0.001	-0.001	0.000
Sales growth	0.015	-0.012	0.017	0.002	-0.001	0.002
Asset turnover	-0.026	-0.010	-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

Table 4: Opposition to management and bivariate probit estimations without country fixed effects

This table reports the probit coefficients of variables that may explain disagreement with management ((1), (2), (3)) without country fixed effects. The sample includes the firms for which we managed to collect data on corporate characteristics. The dependent variable is a dummy variable equal to one if either or both investors oppose management recommendations (1), if BlackRock opposes management recommendations (2), if the Norwegian Fund opposes management recommendations (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 a management recommendation when the Norway Fund agrees with it (4), and the Norway Fund opposing management when BlackRock agrees (5). Continuous control variables (market cap, ROA, price-to-book, sales growth, asset turnover and analyst dispersion) are normalized. 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. McFadden's pseudo-R^2 measures 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.

	Probit coefficients			Bivariate probit Coefficients	
	(1)	(2)	(3)	(4)	(5)
	BR or NF oppose	BR opposes	NF opposes	BR opposes	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	-0.014	-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

Table 5: Voted resolutions and rate of opposition to management: reduced sample due to data availability on investors' holdings

This table summarizes the percentage of opposition to management recommendations and the number of resolutions voted 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 corporate characteristics and holdings from 13F filings. Columns 2, 3, 4 and 5 report the rate of opposition to management on each issue, depending on the sponsor of each resolution (management and shareholder), by BlackRock and the Norway Fund respectively. Column 6 provides the number of voted resolutions by the two investors in 2014, within each area, theme and issue, on this reduced sample.

	BR disagrees with management		NF disagrees with management		
Sponsor of the resolution	*Management*	*Shareholder*	*Management*	*Shareholder*	Total number of voted resolutions
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 responsability	-	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

Table 6: Summary statistics: reduced sample due to data availability on investors' holdings

This table provides summary statistics for the 6,037 resolutions common to the Norway Fund and BlackRock voted 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 ESG performance measures for firms and countries, Panel D to firms' financial characteristics and Panel E to the Norway Fund's and BlackRock's holdings in these firms. All variables are defined in the Data and Variables section.

Variable	N	Mean	Std. Dev.	Min	Max
Panel A: Measures of disagreement					
Oppos_atleastone	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 capitalization)	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 capitalization)	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%

Table 7: Opposition to management: reduced sample due to data availability on investors' holdings

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 corporate characteristics and the holdings of the two investors. The dependent variable is a dummy variable equal to one if either or both investors oppose management recommendations (1) and (4), if BlackRock opposes management recommendations (2) and (5), if the Norwegian Fund opposes management recommendations (3) and (6), and zero elsewhere. Columns (1), (2) and (3) report the results without holdings, while columns (4), (5) and (6) summarize 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 capitalization)/Weight in BR portfolio* in specification (5), *Holding NF (% of capitalization)/Weight in NF portfolio* in specification (6). Continuous control variables (market cap, ROA, price-to-book, sales growth, asset turnover and analyst dispersion) are normalized. 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. McFadden's pseudo-R^2 measures the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

	Probit coefficients					
	(1)	(2)	(3)	(4)	(5)	(6)
	BR or NF oppose	BR opposes	NF opposes	BR or NF oppose	BR opposes	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 capitalization)	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**	-0.076	-0.086*	-0.221**	-0.075
Analyst dispersion	-0.012	0.0083791	-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

Table 8: Opposition to management: climate resolutions

This table reports the probit coefficients of variables that may explain disagreement with management on the impact of climate resolutions. The sample includes the firms for which we managed to collect data on corporate characteristics. The dependent variable is a dummy variable equal to one if either or both investors oppose management recommendations (1), if BlackRock opposes management recommendations (2), if the Norwegian fund opposes management recommendations (3), and zero elsewhere. Continuous control variables (market cap, ROA, price-to-book, sales growth, asset turnover and analyst dispersion) are normalized. 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. McFadden's pseudo-R2 measures the model fit. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

	Probit coefficients		
	(1)	(2)	(3)
	BR or NF oppose	BR opposes	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	-0.017	-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	-0.027
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

7.2. Figures.

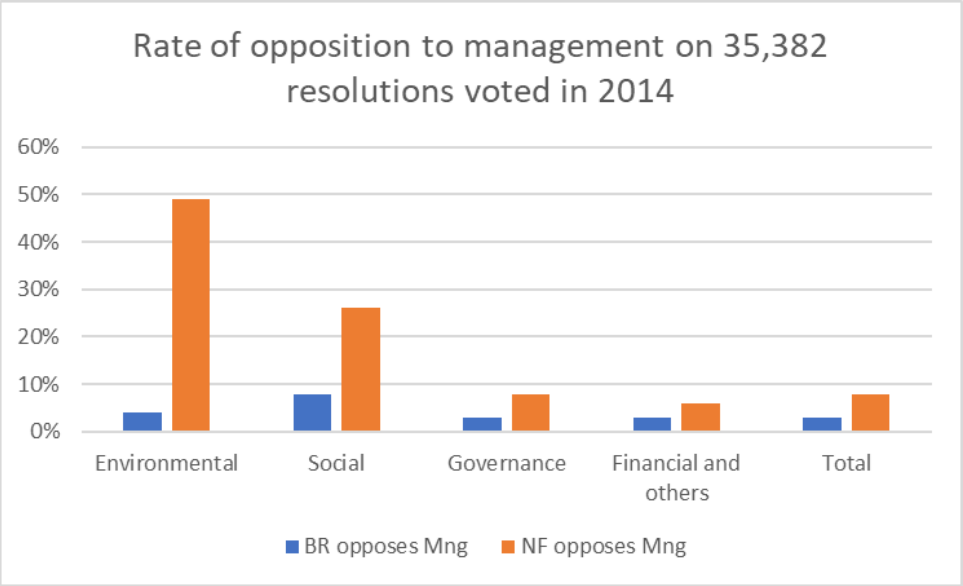

Figure 1: Rate of opposition to management depending on the issue

This figure shows how BlackRock and the Norway Fund voted in 2014. Figure 1 focuses on all 35,382 resolutions, including 69 on Environmental issues, 257 on Social issues, 28,396 on Governance issues, and 6,660 on Financial and other issues.

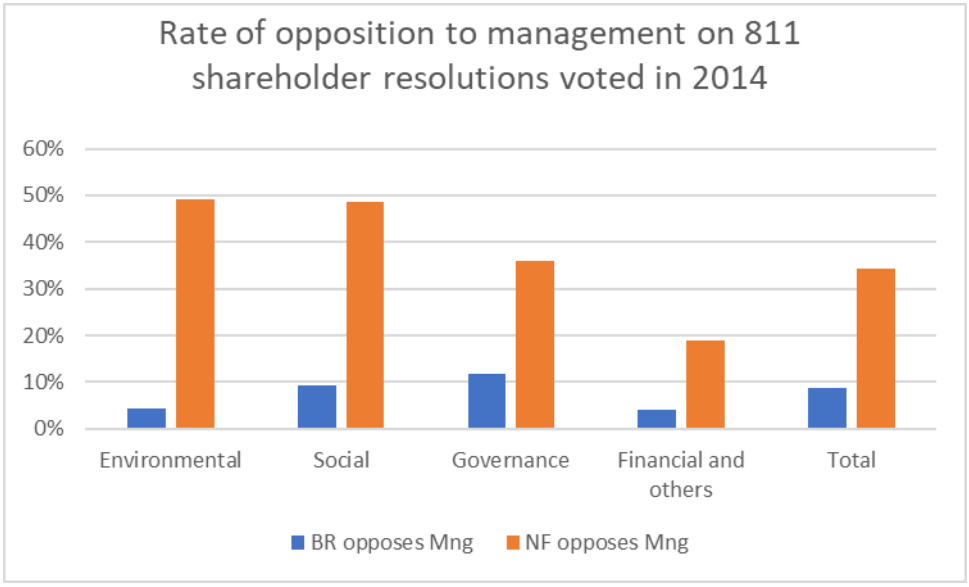

Figure 2: Rate of opposition to management depending on the investor and the issue

This figure shows how BlackRock and the Norway Fund voted in 2014 on shareholder sponsored resolutions. Figure 2 focuses on the 811 shareholder resolutions including 69 on Environmental issues, 117 on Social issues, 398 on Governance issues, and 227 on Financial and other issues.

7.3. Appendix: Variables used to measure countries' ESG performance.

Variable name	Definition	Data source
Environment		
Greenhouse gas emission per unit of GDP	Total emissions of CO2 (from energy use and industrial processes, e.g. cement production), CH4 (methane emissions from solid waste, livestock, mining of hard coal and lignite, rice paddies, agriculture and leaks from natural gas pipelines), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF6) and nitrogen trifluoride (NF3). Unit: kg/1000 USD	OECD statistics
Air quality and health	Mean exposure of population to PM2.5; concentrations estimates are taken from the Global Burden of Disease assessment, derived using satellite observations and chemical transport models, calibrated against ground-based measurements.	OECD statistics
Environmental policy stringency index	The degree to which environmental policies put an explicit or implicit price on polluting or environmentally harmful behavior. Ranges from 0 (not stringent) to 6 (highest degree of stringency).	OECD statistics
Global per capita CO2 emissions from fossil fuel use and cement production	CO2 emissions from fossil fuel use and industrial processes (cement production, carbonate use of limestone and dolomite, non-energy use of fuels and other combustion) for each world country. Excluded are: short-cycle biomass burning (e.g., agricultural waste burning) and large-scale biomass burning (e.g., forest fires). Unit: ton (Mg) CO2 per capita and per year	Emission Database for Global Atmospheric Research
Environmental Performance Index (EPI)	Calculation and aggregation of 20 indicators reflecting national-level environmental data combined into nine issue categories, each of which fits under one of two overarching objectives (Environmental Health and Ecosystem Vitality). Environmental Health measures the protection of human health from environmental harm. Ecosystem Vitality measures	YCELP and CIESIN

	ecosystem protection and resource management. The "proximity-to-target" methodology assesses how close a particular country is to an identified policy target. Scores are converted to a scale from 0 to 100, with 0 being the farthest from the target (worst observed value) and 100 being closest (best observed value).	
Social		
Human Development Index	Summary measure of average achievement in key dimensions of human development: a long and healthy life (life expectancy at birth), being knowledgeable (mean of years of schooling for adults aged 25 and over and expected years of schooling for children of school entering age) and have a decent standard of living (gross national income per capita). HDI is the geometric mean of normalized indices for each of the three dimensions.	UNDP
Gender Inequality Index	Measures gender inequalities in three important aspects of human development—reproductive health, measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by proportion of parliamentary seats occupied by females and proportion of adult females and males aged 25 and over with at least some secondary education; and economic status, expressed as labor market participation and measured by labor force participation rate of female and male populations aged 15 and over.	UNDP
Governance		
Voice and accountability	Composite indicator measuring perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Ranges from approximately -2.5 (weak) to 2.5 (strong).	World Bank Governance Indicators
Government effectiveness	Composite indicator measuring perceptions of the quality of public services, the quality of the civil service and the degree of its independence	World Bank Governance Indicators

	from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Ranges from approximately -2.5 (weak) to 2.5 (strong).	
Regulatory quality	Composite indicator measuring perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Ranges from approximately -2.5 (weak) to 2.5 (strong).	World Bank Governance Indicators
Rule of law	Composite indicator measuring perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence. Ranges from approximately -2.5 (weak) to 2.5 (strong).	World Bank Governance Indicators
Control of corruption	Composite indicator measuring perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as w ell as "capture" of the state by elites and private interests. Ranges from approximately -2.5 (weak) to 2.5 (strong).	World Bank Governance Indicators
Political stability and absence of violence/terrorism	Composite indicator measuring perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Ranges from approximately -2.5 (weak) to 2.5 (strong).	World Bank Governance Indicators

8. References

Adler M., E. Posner (2006). *New Foundations of Cost–Benefit Analysis*. Harvard University Press, Cambridge, MA.

Agrawal A. and C. Knoeber (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis* 31, 377-397.

Azar J. (2017). Portfolio diversification, market power, and the theory of the firm. *Working Paper*.

Azar J., M. Schmaltz and I. Tecu (2017). Anti-competitive effects of common ownership. *Ross School of Business Paper* 1235.

Bach L. and D. Metzger (2017). How do shareholder proposals create value? *Working Paper*.

Barko T., M. Cremers and L. Renneboog (2017). Activism on corporate social responsibility. *Working Paper*.

Bauer R., R. Braun and M. Viehs (2010). Industry Competition, Ownership Structure and Shareholder Activism. *Working Paper*.

Bauer R., J. Derwall and D. Hann (2009). Employee relations and credit risk. *Working Paper*.

Bauer R. and D. Hann (2014). Corporate environmental management and credit risk. *Working Paper*.

BlackRock (2017). BlackRock investment stewardship: global corporate governance and engagement principles, https://www.blackrock.com/corporate/en-br/literature/fact-sheet/blk-responsible-investment-1engprinciples-global-122011.pdf.

Borgers A., J. Derwall, K. Koedijk and J. ter Horst (2013). Stakeholder relations and stock returns: On errors in investors' expectations and learning. *Journal of Empirical Finance* 22, 159-175.

Becht M., J. Franks, C. Mayer and S. Rossi (2009). Returns to shareholder activism: Evidence from a clinical study of the Hermes UK Focus Fund. *Review of Financial Studies* 22, 3093-3129.

Benabou R. and J. Tirole (2010). Individual and corporate social responsibility. *Economica* 77, 1-19.

Benabou R. and J. Tirole (2016). Bonus culture: competitive pay, screening, and multitasking. *Journal of Political Economy* 124, 305-370.

Berle A. and G. Means (1932). *The Modern Corporation and Private Property*. New York: Macmillan Company.

Boot A., R. Gopalan and A. Thakor (2006). The entrepreneur's choice between private and public ownership. *Journal of Finance* 61, 803-836.

Boot A., R. Gopalan and A. Thakor (2008). Market liquidity, investor participation, and managerial autonomy: why do firms go private? *Journal of Finance* 63, 2013-2059.

Chambers D., E. Dimson and A. Ilmanen (2012). The Norway model. *Journal of Portfolio Management* 38, 67-81.

Chava S. (2014). Environmental externalities and cost of capital. *Management Science* 60, 2223-2247.

Chen J., H. Hong, J. Stein (2002). Breadth of Ownership and Stock Returns. *Journal of Financial Economics* 66, 171-205.

Cheng I.-H., H. Hong, K. Shue (2013). Do Managers Do Good with Other Peoples' Money? *Chicago Booth Research Paper* 12-47.

Coase R. (1960). The problem of social cost. *Journal of Law and Economics* 3, 1-44.

Council on Ethics (2016), Council on Ethics for the Norwegian Government Pension Fund Global Annual Report 2016, https://nettsteder.regjeringen.no/etikkradet-2017/files/2017/03/Etikkraadet_annual_report_2016_web.pdf.

Cunat V., M. Gine, M. Guadalupe (2012). The vote is cast: The effect of corporate governance on shareholder value. *Journal of Finance* 67, 1943-1977.

Cziraki P., L. Renneboog, P. Szilagyi (2010). Shareholder activism through proxy proposals: The European perspective. *European Financial Management* 16, 738-777.

Diether K., C. Malloy and A. Scherbina (2002). Differences of opinion and the cross section of stock returns. *Journal of Finance* 57, 2113-2141.

Dimson E., I. Kreutzer, R. Lake, H. Sjo, and L. Starks (2013). Responsible investment and the Norwegian government pension fund global. Oslo: Norwegian Ministry of Finance.

Dimson E., O. Karakas, and X. Li (2015). Active ownership. *Review of Financial Studies* 28, 3225-3268.

Edmans A. and G. Manso (2011). Governance through trading and intervention: A theory of multiple blockholders. *Review of Financial Studies* 24, 2395-2428.

Fichtner J., E. Heemskerk and J. Garcia-Bernardo (2017). Hidden power of the Big Three? Passive index funds, re-concentration of corporate ownership, and new financial risk. *Business and Politics* 19, 298-326.

Flammer C. (2013). Corporate social responsibility and shareholder reaction: The environmental awareness of investors. *Academy of Management Journal* 56, 758-781.

Flammer C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. *Management Science* 61, 2549-2568.

Flammer C., P. Bansal (2017). Does a long-term orientation create value? Evidence from a regression discontinuity, *Strategic Management Journal*, forthcoming.

Krueger P. (2014), Corporate goodness and shareholder wealth, *Journal of Financial Economics* 115, 304-329.

Gillian S. and L. Starks (2000). Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of Financial Economics* 57, 275-305.

Gollier C. and J. Tirole (2015). Negotiating effective institutions against climate change. *Economics of Energy and Environmental Policy* 4.

Hawley J. and A. Williams (2000). The emergence of universal owners: Some implications of institutional equity ownership. *Challenge* 43, 43-61.

Heinkel R., A. Kraus and J. Zechner (2001). The effect of green investment on c orporate behavior. *Journal of Financial and Quantitative Analysis* 36. 431-449.

Hong H. and M. Kacperczyk (2011). The price of sin: The effects of social norms on markets, *Journal of Financial Economics* 93, 15-36.

Hong H., J. Kubik, and J. Scheinkman (2012). Financial Constraints on Corporate Goodness. *NBER Working Paper* 18476.

Hong H. and J. Stein (2003). Differences of Opinion, Short-Sales Constraints, and Market Crashes. *Review of Financial Studies* 16, 487-525.

IPCC, (2014), Climate Change 2014: Mitigation of Climate Change, Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

Jensen M. and W. Meckling (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 4, 305-360.

Keswani A., D. Stolin, and A. Tran (2016). Frenemies: How Do Financial Firms Vote on Their Own Kind? *Management Science* 63, 631-654.

Kaufmann D., A. Kraay and M. Mastruzzi (2010). The Worldwide Governance Indicators: A summary of methodology, data and analytical Issues. *World Bank Policy Research Working Paper* 5430.

Laffont J.J. (1987). Externalities. *The New Palgrave: A Dictionary of Economics*. First Edition. Eds. John Eatwell, Murray Milgate and Peter Newman. Palgrave Macmillan.

McCahery J., Z. Sautner and L. Starks (2016). Behind the scenes: The corporate governance preferences of institutional investors. *Journal of Finance* 71, 2905-2932.

Mattison R., M. Trevitt and L. van Ast Ed. (2011). *Universal ownership: Why environmental externalities matter to institutional investors*. Principles for Responsible Investment and UNEP Finance Initiative.

Monks R. and N. Minnow (1995). *Corporate Governance*. Cambridge, Mass: Basil Blackwell.

Morgan J. and J. Tumlinson (2012). Corporate provision of public goods. *Working Paper*.

Pigou A. (1920). The Economics of Welfare. London: Macmillan Company.

Mattison R., M. Trevitt, L. Van Ast (2011), Universal Ownership: Why environmental externalities matter to institutional investors, http://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf.

Renneboog L. and P. Szilagyi (2011). The role of shareholder proposals in corporate governance. *Journal of Corporate Finance* 17, 167-188.

Smith M. (1996). Shareholder activism by institutional investors: Evidence from CalPERS. *Journal of Finance* 51, 227-252.

Stern N. (2007). *The economics of climate change: The Stern review*. Cambridge University Press, Cambridge, United Kingdom.

The Bretton Wood II Leaders List (2017), *BWII Leaders List: The 25 Most Responsible Asset Allocators*, https://www.dalberg.com/system/files/2017-10/BW2_event_document_FINAL11.pdf.

Chief Editors

Pascal BLANQUÉ
Chief Investment Officer

Philippe ITHURBIDE
Global Head of Research

Cross asset

INVESTMENT STRATEGY

September 2018 | Working paper

DISCLAIMER

In the European Union, this document is only for the attention of "Professional" investors as defined in Directive 2004/39/EC dated 21 April 2004 on markets in financial instruments ("MIFID"), to investment services providers and any other professional of the financial industry, and as the case may be in each local regulations and, as far as the offering in Switzerland is concerned, a "Qualified Investor" within the meaning of the provisions of the Swiss Collective Investment Schemes Act of 23 June 2006 (CISA), the Swiss Collective Investment Schemes Ordinance of 22 November 2006 (CISO) and the FINMA's Circular 08/8 on Public Advertising under the Collective Investment Schemes legislation of 20 November 2008. In no event may this material be distributed in the European Union to non "Professional" investors as defined in the MIFID or in each local regulation, or in Switzerland to investors who do not comply with the definition of "qualified investors" as defined in the applicable legislation and regulation. This document is not intended for citizens or residents of the United States of America or to any «U.S. Person» , as this term is defined in SEC Regulation S under the U.S. Securities Act of 1933.

This document neither constitutes an offer to buy nor a solicitation to sell a product, and shall not be considered as an unlawful solicitation or an investment advice.

Amundi accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material. Amundi can in no way be held responsible for any decision or investment made on the basis of information contained in this material. The information contained in this document is disclosed to you on a confidential basis and shall not be copied, reproduced, modified, translated or distributed without the prior written approval of Amundi, to any third person or entity in any country or jurisdiction which would subject Amundi or any of "the Funds", to any registration requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this material is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching applicable legal or regulatory requirements.

The information contained in this document is deemed accurate as at the date of publication set out on the first page of this document. Data, opinions and estimates may be changed without notice.

You have the right to receive information about the personal information we hold on you. You can obtain a copy of the information we hold on you by sending an email to info@amundi.com. If you are concerned that any of the information we hold on you is incorrect, please contact us at info@amundi.com

Document issued by Amundi, a société anonyme with a share capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris - www.amundi.com

Photo credit: iStock by Getty Images - monsitj/Sam Edwards

Find out more about
Amundi research team

research-center.amundi.com

Amundi
ASSET MANAGEMENT