

**BlackRock vs Norway Fund at Shareholder Meetings:  
Institutional Investors' Votes on Corporate Externalities<sup>1</sup>**

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Abstract: Do institutional investors engage companies on corporate externalities such as climate change, and why? We study the votes at shareholder meetings of two emblematic global universal owners: BlackRock, a standard investor, and the Norway Fund, a responsible investor. Our data cover the year 2014 and include the two institutions' votes for 35,382 resolutions at 2,796 corporations across the world. Both investors oppose management more strongly on externality than on financial issues. The Norway Fund favors more strongly shareholder resolutions on externalities related to environmental and social issues than on governance issues. Overall, delegated philanthropy (see, e.g., Benabou and Tirole, 2010) appears to provide stronger incentives than universal ownership (see, e.g., Monks and Minow, 1995) for institutional investors to fight against negative externalities generated by firms.

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

*“On the same day the news broke that President Trump will reportedly opt out of the Paris climate change deal, preliminary voting results showed that Exxon Mobil shareholders won a battle against the oil and gas company's management to finally require a report on climate change. A big voice hidden in the victory for Exxon Mobil shareholders, according to one report, was the votes of the world's largest asset managers and ETF companies.”*

(Eric Rosenbaum, ‘A big climate change vote against Exxon Mobil, with some heavyweight investors behind it’, in [www.cnbc.com](http://www.cnbc.com), May 31<sup>st</sup>, 2017)

### **1. Introduction**

This paper studies institutional investors' votes at shareholder meetings on issues related to externalities, both environmental and social, such as climate change and human rights. As a first step in this direction, the paper proposes a case study that compares the Norway Fund and BlackRock, two emblematic institutional investors. These two investors have assets under management of more than \$1 trillion and \$5 trillion, respectively, in 2017. The two investors have a large, global and well-diversified equity portfolio. In this sense, both investors are universal owners (see, e.g., Monks and Minow, 1995). The Norway Fund has also a delegated philanthropic mission (see, e.g., Benabou and Tirole, 2010) as it is monitored by the parliament of Norway and a Council on Ethics. Given their size, the two investors are likely to have a large potential 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 separation opens the room for potential conflicts of interests between shareholders and corporate executives (Jensen and Meckling, 1976): managers may not always favor the strategies that are best for shareholders. These potential conflicts call for an active involvement of shareholders in the governance of corporations.

As described by Bebchuk, Cohen and Hirst (2017), institutional investors play a central role in today's corporate governance landscape. To mitigate the negative effects of the conflict between shareholders and executives, institutional investors can induce executives to follow their guidance by engaging companies: 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., Cunaat, Gine, Guadalupe, 2012, Flammer, 2015, and Bach and Metzger, 2017).

A priori, managers know best what is the right course of business for firms and shareholders might thus gain little in influencing firms' strategies. But companies may generate externalities on society, and investors may care more about these externalities than managers. One of the most important externalities is related to climate change.

Two basic arguments warrant institutional investors to be active in engagement. The first argument rests on the universal owner logic (see, e.g., Monks and Minow, 1995, Hawley and Williams, 2000, Mattison, Trevitt and Van Ast, 2011, 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 firms to mitigate the negative externalities imposed on other firms held in their portfolios, to avoid deteriorating their overall value. For example, they may want to consider the negative economic impact that the GHG emissions of a firm might have on other companies' businesses through water, food, health or migration issues. Moreover, universal owners can improve the level of coordination among firms' environmental and social policies, which can be beneficial for all firms' financial value. For example, Benabou and Tirole (2016) show that coordinated policies on managerial compensation issues enable firms to avoid damageable effects of a bonus culture. The situation is very different for corporate executives who, in general, own concentrated stakes in their companies, either because most of their capital is in the form of firm-specific human capital or because their incentive plans requires them to do so. These different risk profiles generate conflicts of interests: executives are less likely to be willing to internalize the effects that their companies have on the payoffs and value of other companies.

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

As shown by Morgan and Tumlinson (2012), such engagement by institutional investors on externality issues is socially desirable because i) companies' actions are less subject to the free-rider problem than individual shareholders would be when deciding to fight against these

externalities, and ii) it makes companies' production decisions more efficient from a social point of view and increases the welfare of shareholders who care about these externalities.

The objective of this paper is to empirically study how two major institutional investors engage companies' management on externality issues. We focus on their votes at general assembly meetings. This enables us to better understand what economic force, universal ownership or delegated philanthropy, is most likely to trigger institutional investors' action to mitigate negative externalities. This also enables us to document the way in which various institutional investors vote during shareholder meetings.

To study these issues, we gathered data that cover the year 2014 and include BlackRock and the Norway Fund votes at 35,382 resolutions for 2,796 firms across the world. Our data also include managers' recommendations as well as various financial and extra-financial 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 resolutions on environmental and social issues as dealing with externality issues. In robustness analyses, we specifically look at climate change resolutions as they are clearly related to externality issues.

We find that both BlackRock and the Norway Fund oppose management more for environmental and social resolutions than for financial resolutions. This result suggests that universal ownership does induce institutional investors to engage corporations on externality issues. However, only the Norway Fund is favoring shareholder resolutions on externalities, despite management opposition, more strongly than shareholder resolutions on governance. Our results hold with and without country fixed effects. Investors' holdings in firms seem not to affect their voting policy. Our results are even stronger when we focus on environmental externalities related to climate change. Overall, our findings suggest that delegated philanthropy is more effective than universal ownership at providing incentives for institutional investors to fight against negative externalities generated by firms.

Our findings have two main implications. On the one hand, they suggest that corporations that have an influence on the future of the planet are not likely to be disciplined by institutional investors, just because these investors hold well-diversified portfolios. Instead, our findings suggest that institutional investors' corporate engagement policy should reflect the values of their clients or beneficiaries. It thus appears important for institutional investors to know what are the main externality issues their clients or beneficiaries would like to see taken care of by firms in which they invest. In this respect, pass-through voting, whereby institutional investors collect votes from their clients and beneficiaries and transmit these votes to general assembly meetings, might be useful. Regulators could also request institutional investors to display more clearly their voting policy in their prospectus to indicate to clients the type of externalities they are going to deal with, if any.

On the other hand, our findings indicate that there is a clear difference of objective between various shareholders regarding corporate emissions of externalities. This suggests that basic tools used in corporate finance such as the net present value need to be revisited. In their most basic form, these tools consider only purely financial wealth created by the firm. In the case

of a firm that emits externalities, that have, by definition, no direct financial consequences for the firm itself, these tools should be adapted to take into account the social value of externalities. One way to value these externalities is offered by 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 displays 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 favors 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' stock 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 it is the case in the US, failure to comply with a majority vote may trigger executive turnover. We complement this literature by analyzing in more details the voting policies of institutional investors and their determinants.

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. These papers focus on the engagement of a given institutional investor. They find that private engagement is effective at triggering changes in targeted companies and that engagement in general increases firms' value. We complement this literature by focusing on voting instead of private engagement and by studying the voting strategies of investors with different motivations, standard and responsible, at a common subset of resolutions.

As shown by McCahery, Sautner and Starks (2016), institutional investors in general complement behind-the-scenes engagement with governance-motivated exit. Heinkel, Kraus, and Zechner (2001) show that, when investors negatively screen out some firms, the cost of capital of these firms increase 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 be positively affecting 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 firms in the US airline industry that are held by common institutional investors are less likely to aggressively compete on the same routes. This empirical study documents the hidden cost of universal ownership. The present study aims at documenting a potential positive side, namely the fact that universal owners might have an incentive to internalize part of the climate change 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 management firms, BlackRock, Vanguard, and State Street. They observe that these firms implement a coordinated voting policy across their different funds, and that they in general vote with management. We complement this descriptive analysis by focusing on votes on externality issues, by comparing them with votes on other issues, and by providing an empirical test of the various reasons why institutional investors may pressure companies to take actions to fight against 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 on votes at shareholder meetings enables us to benefit from a relatively large amount of data and to clearly identify conflicts between management and some shareholders: when management is opposing efforts to fight against negative externalities, some shareholders may fill in resolutions to be voted at shareholder meetings in an attempt to impose a different policy to management.<sup>2</sup> It is then interesting to study what stance large institutional investors take in the votes to know whether they support or not the fact that companies should make such efforts to mitigate negative externalities.<sup>3</sup>

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 of assets under management out 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 holdings above 5%, and 375 holdings above 10%. In the US, Blackrock has about two thousand holdings of 5%, among the 3,900 publicly listed US companies. BlackRock, within its numerous funds, implements both passive asset management, through index funds and exchange-traded funds, and active management. The corporate governance team of BlackRock includes 31 persons that vote on more than 15,000 shareholder meetings and over on 130,000 proposals every year. BlackRock follows a centralized voting policy.

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<sup>2</sup> If management wanted to promote effort against climate change, it would not wait for a resolution to be filled at the annual shareholder meeting before implementing the appropriate policy.

<sup>3</sup> As examples of resolutions aiming 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."

The Norway Fund is a sovereign fund with over \$1 trillion of assets. It holds equity stakes in about 9,000 companies around the world with a total equity portfolio of more than \$500 billion. The average proportion of shares in listed corporations around the world held by the Norway Fund is about 1%. The corporate governance team of the Norway Fund includes a dozen of persons who vote on more than 11,000 general meetings resolutions every year. In 2014, the holdings of the two investors appear highly correlated, whether one considers the holdings, as percentage of a firm's capitalization (the correlation coefficient is 87%) or the weights of companies in investors' portfolios (the correlation is 95%).

Given the large size of their assets under management invested in equity over the world, both BlackRock and the Norway Fund may be characterized as universal owners: they hold a significant equity stake in virtually all major publicly listed firms around the world. However, these two investors differ across several dimensions. On the one hand, BlackRock is a corporation that is listed since 2009. It is thus directed by a board who has a fiduciary duty to represent its own shareholders. Among these shareholders, the major ones, with holdings superior to 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.

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 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 Norway Fund's commitment to responsible investing materializes in the existence of a Council for Ethics that is in charge of evaluating the consistency of its investment policy with ethical guidelines adopted by the Ministry of Finance. We thus consider the Norway Fund as the archetype a responsible well-diversified investor.

By comparing the voting behaviors of BlackRock and the Norway Fund at general assembly meetings, we can identify whether universal ownership alone is sufficient to induce institutional investors to promote corporate actions against negative externalities or whether delegated philanthropy is also necessary. We focus on the year 2014, the first year for which we have detailed information on voting for these two investors.<sup>4</sup> To do our test, we have collected and classified voting data of the two investors on the same resolutions.

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<sup>4</sup> We plan to extend our sample to more recent years to study the potential evolution in voting policies. Moreover, to enrich further the evidence regarding institutional investors votes on externality issues, we plan to extend our sample in two directions. First, we plan to include other large global investment managers, e.g., Vanguard and State Street, so that we can test whether different universal owners are promoting different policies regarding externalities. Second, we plan to include small less-diversified responsible investors such as

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. They belong 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 that one is voting in favor of the proposition to pass. This is because management almost always opposes shareholder resolutions. Thus, if an investor opposes management on an externality shareholder resolution, it means that this investor is favoring the effort against the negative externality.

We compare investors' votes on externality issues to their votes on various other issues: votes on management proposals on financial issues and on governance issues, and votes on shareholder proposals on governance issues. This enables us to clearly identify opposition due to externalities and not to other characteristics of the proposed policies. Moreover, to isolate the impact of preferences for negative externality mitigation actions from other effects, our analysis controls for various factors that can explain disagreement with management or among investors such as agency problems (see, e.g., Agrawal and Knoeber, 1996, Hong, Kubik, Scheinkman, 2012, Cheng, Hong, Shue, 2013), by including a dummy indicating that a resolution has been filled by a shareholder on a governance issue, and differences of opinion (see e.g., Chen, Hong and Stein, 2002, and Hong and Stein, 2003, Boot, Gopalan, and Thakor, 2006 and 2008), as measured by the dispersion in analysts' forecasts (see, e.g., Diether, Malloy, and Scherbina, 2002).

#### **4. Data and variables**

Our data includes detailed information for 35,382 resolutions (among which 326 regarding environmental and social practices), voted by both Blackrock and the Norway Fund in 2014 on a sample of 2,796 corporations across the world.<sup>5</sup> We obtained this data from BlackRock's SEC Filings and from the internet website of the Norwegian Fund.<sup>6</sup> We obtained firm characteristics from Factset and firms' extra-financial ratings from MSCI. For additional analyses that require data on the holdings of the two institutional investors, we also use a smaller sample, based on information retrieved from the Form 13F filings of the SEC's EDGAR database, i.e. 6,037 resolutions out of which 110 on Environmental and Social aspects. A big part of the data collection effort revolved around the manual classifications into various categories (financial, governance, environment...) and subcategories (climate change and GHG emissions, hydraulic fracturing...).

The period under study was dictated by the fact that voting instruction data by the Norges Bank Investment Management is available online from July 1st, 2013. The use of this dataset

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Calvert, that cannot be considered as a universal owner, to test whether delegated philanthropy alone is sufficient to induce investors to promote corporate actions against negative externalities.

<sup>5</sup> We focus on the equity shares owned and voted by BlackRock via its mutual active funds and via its passive funds such as iShares ETFs.

<sup>6</sup> <https://www.nbim.no/en/responsibility/our-voting-records/>.



allowed us to collect the management recommendation for each resolution submitted to vote, besides the content of the resolution and the vote per se.<sup>7</sup>

#### 4.1. Resolutions' description

Following the proxy vote guidelines developed by Institutional Shareholder Services (ISS),<sup>8</sup> we classified manually the resolutions into five major areas: Environmental (E), Social (S), Governance (G), Financial and Others.<sup>9</sup> E, S and G resolutions include several themes which regroup different issues. Table 1 shows summary statistics on the entire data we collected on BlackRock and the Norway Fund votes. Out of 35,382 resolutions voted by both investors, 69 were on environmental issues, including mainly climate change and the reporting of sustainability policies; 257 resolutions were on social issues, dealing mainly with firms' charitable contributions, political lobbying and contributions, and human right issues; 28,396 resolutions were on governance issues, mainly including issues related to board structure, compensation, and audit practices.

#### 4.2. Summary of votes

Table 1 reports the summary statistics on the opposition depending on resolution sponsor, institution (BlackRock vs Norway Fund), and issues. It shows that the rate of opposition to management appears different for BlackRock and the Norway Fund. BlackRock opposes management at 3% of the resolutions while Norway opposes at 8%. The opposition rates are similar to the general statistics for financial and governance issues. Opposition rates appear however different for Environmental and Social issues. BlackRock rarely opposes management on these issues while Norway opposes management at 101 out of 326 resolutions (31%). Figure 1 offers a graphical representation of these results.

*Insert Table 1 about here*

Norway is particularly active on climate change and GHG emissions, with an opposition rate of 83%, and sustainability reporting, respectively 50%.<sup>10</sup> Within the social area, the Norway Fund's degree of opposition amounts to 75% on board diversity issues and 83% on sexual orientation issues) and political contributions (65%). All the environmental resolutions and a majority of the social resolutions are proposed by shareholders. Within the social area, management sponsored 140 resolutions out of 257 (101 concerning political contributions and 39 concerning charitable contributions). Shareholder resolutions on governance are rare (1% of governance resolutions are proposed by shareholders) but they show an interesting divergence between the two investors. The Norway fund opposes management on these

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<sup>7</sup> The dataset collected online was manually cross-checked; each firm identifier was associated to the unique Bloomberg ID to match the Norway Fund and Blackrock data. We thank Thierry Martial Kengne for excellent research assistance.

<sup>8</sup> <https://www.issgovernance.com/file/policy/2016-us-summary-voting-guidelines-dec-2015.pdf>.

<sup>9</sup> 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".

<sup>10</sup> Note that the Norway Fund has never opposed management when they advised to reject a nuclear-related resolution. We have looked more precisely about these resolutions. It turns out that they all concern Japanese companies and were not appropriately formulated thereby preventing any serious institutional investor to second them.

resolutions 36% of the time; BlackRock opposes only 12% of the time. Figure 2 offers a graphical representation of these results.

#### 4.3. Variables description.

##### *Dependent variables.*

We study the voting policies of the Norway Fund and Blackrock. More precisely, the variables we seek to explain are the opposition of these two investors to management recommendations regarding the resolutions submitted to vote. We thus define the following six dummy variables:

- *BR or NF oppose* equals 1 if at least one of the two 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, mainly driven by the Norway Fund 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 “Environmental” or “Social” issues and 0 elsewhere;
- *Resolution G* equals 1 if the resolution is related to “Governance” 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 can be set forth. First, on average, only 2% of the resolutions submitted to vote are sponsored by shareholders. Second, most resolutions are related to governance issues (80% on average).

## Extra-financial characteristics

Different variables are used to capture the ESG performance of firms and their home-countries.

To assess firms' extra-financial 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.<sup>11</sup>
- *Company rating G* is collected from the same MSCI ESG STATS database.

The summary statistics in Table 2, Panel C show that 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 environmental key issues: Greenhouse gas emission per unit of GDP, Air quality and health, Environmental policy stringency index (all coming from OECD statistics<sup>12</sup>), Global per capita CO2 emissions from fossil fuel use and cement production (from the Emission Database for Global Atmospheric Research – EDGAR<sup>13</sup>) 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) Columbia University.<sup>14</sup> Each variable is normalized<sup>15</sup> into an index between 0 and 1 for aggregation purposes.
  - the S rating is the average of two variables that proxy social key 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,

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<sup>11</sup> Following the Intangible Value Assessment (IVA) methodology, MSCI provides scores between 0 (the worst) and 10 (the 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 these exposures. For more details, please refer to MSCI ESG Research, IVA Methodology, 2014.

<sup>12</sup> stats.oecd.org.

<sup>13</sup> EDGARv4.3, European Commission, Joint Research Centre (JRC)/PBL Netherlands Environmental Assessment Agency.

<sup>14</sup> <http://epi.yale.edu> and <http://sedac.ciesin.columbia.edu/data/set/epi-environmental-performance-index-2014>.

<sup>15</sup> Index = (variable – min)/(max-min). An index closer to 1 indicates a better performance in the area under study.

Control of corruption, Political stability and absence of violence/terrorism, all collected from the World Bank governance indicators database.<sup>16</sup>

The statistics reported in Table 2, Panel C indicate that on average, the domiciliation countries for the companies in our sample are quite performant on the different ESG dimensions.

### Firm financial characteristics

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

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

Each company is also associated to its industry among the 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 including 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 the investment in a given company represents within the whole Blackrock, respectively Norway Fund, portfolio;
- *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 defined previously;
- *Holding (average BR NF)* as the average between the holdings of the two investors defined previously.

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<sup>16</sup> The six aggregate indicators are based on 31 underlying data sources reporting the perceptions of governance 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).

## 5. Empirical analysis

We present our empirical results in three steps. First, we offer our main results regarding investors' 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 fight against 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 of 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, BlackRock and the Norway Fund, opposition to managers on externality issues as it compares to their opposition on other issues, such as financial and governance issues. Moreover, our basic specification enables to characterize the voting policy on externality issues of BlackRock and of the Norway fund, separately, and thus to test the relative influence of the universal ownership and the delegated philanthropy logics.

Results from our basic specification are reported in Table 3. We regress the likelihood of opposition onto the fact that the resolution relates to Environmental and Social issues (E and S issues) and onto various control variables. Column (1) shows that it is more likely that one of the two investors oppose corporate management on E and S resolutions submitted by shareholders. The coefficient on E and S 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 by the two investors than financial and governance resolutions, including those governance resolutions submitted to vote by shareholders. This suggests that there is something peculiar related to E and S issues, that we interpret as being related to externalities. The analysis of marginal effects suggests that a resolution being on an E and S topic increases the likelihood that at least one of the two shareholders opposes management by almost 60%. This can be compared to the fact that this likelihood increases by less than 50% 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 on the opposition to management of BlackRock and the Norway Fund, respectively, in particular on E and S issues that involve 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 resolutions submitted by shareholders than for those submitted by the management itself on governance 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 the management itself 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 on externality issues more 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 to financial resolutions. This indicates that universal ownership is a significant motivation of engagement for institutional investors, although not as strong as agency conflict that materialize 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 who does not oppose management more on externality-related than on governance shareholder resolutions. Marginal effects suggest that for the Norway Fund, the rate of opposition to management increases by 56% for externality-related resolutions compared to financial resolutions (to be compared to an increase of 13% for BlackRock). For shareholder resolutions on governance, the rate of opposition of the Norway fund increases only by 44%. This results indicates that delegated philanthropy is also present in the data and constitutes a very strong driver of engagement for institutional investors.

BlackRock nor the Norway Fund tend to oppose corporate management more for management-sponsored proposals on environmental and social issues than for financial issues. Some E and S management proposals are viewed as beneficial by investors 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 shareholder proposal are related to policies to curb externalities. These policies may be viewed as detrimental to firm value, explaining that management opposes these policies, while beneficial to society, explaining that (some) investors favor them.

Overall our results suggest that BlackRock and the Norway Fund are actively opposing managers at shareholder meetings: both investors tend to oppose more management for shareholder-sponsored proposals than for management-sponsored ones. However, only the Norway Fund opposes management more for shareholder resolutions on externality issues than for those on governance issues. This suggests that delegated philanthropy is stronger than universal ownership in providing incentives 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 except that we omit country fixed effects. The results are displayed in Table 4, Column (1) through (3). The results are very similar to those presented in Table 3. Controlling for country-fixed effects thus does not seem to affect our results. Regressions displayed in Table 4, Column (4) and (5), are estimated jointly. These regressions suggest that our findings are valid when one runs a

bivariate probit regression instead of univariate regressions. Moreover, the joint estimation of BlackRock and the Norway Fund's voting policies enable us to compare the propensity of each investors to oppose management on externality issues and thus to support efforts towards improving environmental and social behavior. For the Norway Fund, the coefficient on E and S shareholder resolutions is significantly larger for the Norway Fund, 1.816, than for BlackRock, 1.131 (p-value=0.00).

*Insert Table 4 about here*

To check that our results hold when we control for investors' holdings in firms, we restrict our attention to the firms that appear in the SEC 13F filings that record the holdings of institutional investors (including BlackRock and the Norway fund). Table 5 and 6 display the same type of information as Tables 1 and 2 but for the sample restricted to firms that appear in the 13F filings. In this sample that is nested in our complete sample, we have larger firms but the overall image in terms of 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 Table 7 includes NA values because there is 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 share 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 to 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 issues. Regarding shareholder proposals, the result that opposition to management on E and S issues is larger than on governance issues is not there anymore. There is a clear sample effect: for example, in this sample, management resolutions on governance are significantly less opposed by institutional investors than financial resolutions, a result that is reversed compared to our full sample.

However, it is still the case that the Norway Fund opposes management on shareholder-sponsored resolutions on externality issues more often than BlackRock. When we include holdings as a control variable, the coefficient for the Norway Fund is 0.689, larger than 0.459, the coefficient for BlackRock.

Finally, the coefficients on the holdings' variables are not significant. This indicates that institutional investors opposition to management does not depend 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: Norway favors firms' policies oriented towards mitigating negative externalities more often than BlackRock. 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 fight against climate change. This is relevant because i) climate change poses a major economic challenge with potentially disastrous consequences for people across the world, and ii) emissions of greenhouse gases (GHG) represent a clear externality that firms impose on society. Indeed, firms emit GHG in the atmosphere but do not pay the cost of these negative externalities because there is no appropriate global regulation in place, neither based on GHG taxes (Pigou, 1920) nor on emission allowance markets (Coase, 1960).<sup>17</sup> 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 to what a benevolent global social planner would prescribe.<sup>18</sup>

In order to study how BlackRock and the Norway Fund vote on resolutions that are clearly related to an externality, we include a dummy variable that indicates that a resolution requests the firm to adopt a policy aiming at fighting against climate change. At shareholder meetings, these resolutions are only submitted by shareholders and management is always against.<sup>19</sup>

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 negative recommendations. Results for BlackRock are very different: BlackRock does not oppose

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<sup>17</sup> Some emission markets exist across the globe, but they are sometimes partial, as in the case of the European Union Emissions Trading System that only applies to particular sectors, and do not ensure a unique global price for GHG emissions as requested given the nature of the externality.

<sup>18</sup> These climate externalities are one of the factors favoring 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 strategies regarding climate change policies and thus are likely to have a significant impact on the future of the planet.

<sup>19</sup> This is not to say that firms' management never implement by itself climate change mitigation policies. Our sample focuses only on the firms in which resolutions were filled by shareholders to impose such externality-related policies on corporate management. It corresponds to cases in which behind-the-doors engagement has failed (McCahery, Sautner and Starks, 2016). Our sample thus does not include the firms in which management has voluntarily implemented policies to mitigate negative externalities.



management on climate-related resolution more than it oppose management 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*

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

## **6. Conclusion**

This paper studies the votes at shareholder meetings of two emblematic investors: BlackRock, a large well-diversified financially-oriented investor, and the Norway Fund, a large well-diversified responsible investor. Both investors are universal owners (see, e.g., Monks and Minow, 1995), and the Norway Fund has also a delegated philanthropic mission (see, e.g., Benabou and Tirole, 2010) as it is monitored by the parliament of Norway.

Our data cover the year 2014 and include the two institutions' votes for 35,382 resolutions at 2,796 corporations across the world, as well as managers' recommendations. We find that both investors oppose management more often for environmental and social shareholder resolutions than for financial resolutions. The universal owner logic appears at work in the data. Moreover, we find that support for negative externality reduction resolutions is stronger for the Norway Fund than for BlackRock. Our findings hold with and without country fixed effects as well as if we restrict our analysis to meetings of firms for which investors' holdings are available. Our results are even stronger 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 fight against negative externalities generated by firms. These findings have important policy implications. They indeed suggest that corporations, in particular large multinationals, that have a significant influence on the future of the planet are not likely to be disciplined by institutional investors, just because these investors hold well-diversified portfolios. Instead, our findings suggest that institutional investors' corporate engagement policy should reflect the values of their clients. This could be achieved by setting up pass-through voting or more generally by basing engagement policies on mechanisms designed to measure clients' values regarding the main externality issues.

As suggested by the recent press article highlighted at the beginning of this paper, the behavior of BlackRock and other investors can evolve over time. It will thus be interesting to gather more recent data and data on other institutional investors (Vanguard, State Street, Calvert...) to check further the validity of our findings.

## 7. Tables, Figures and Appendix

### 7.1. Tables

**Table 1: Voted resolutions and the rate of opposition to management**

This table summarizes the number of voted resolutions by the two investors in 2014, within each area, theme and issue (Column 1). The sample includes the firms for which we managed to collect data on their characteristics. Columns 2 and 3 provide the percentage of opposition to management recommendation within each area, theme and issue (independent of the sponsor of the resolution) of BlackRock and the Norway Fund respectively. Columns 5, 6, 7 and 8 report the rate of opposition to management within each area, theme and issue, depending on the sponsor of each resolution (management and shareholder) of BlackRock and the Norway Fund respectively.

	Total number of voted resolutions	Rate of opposition to the management		Rate of opposition to the management by sponsor of the resolution			
		BlackRock	Norway Fund	BlackRock		Norway Fund	
				Management	Shareholder	Management	Shareholder
<b>E</b>	69	4%	49%	-	4%	-	49%
<b>Animal welfare</b>	2	0%	50%	-	0%	-	50%
Animal testing	1	0%	0%	-	0%	-	0%
Animal welfare policies	1	0%	100%	-	0%	-	100%
<b>Climate</b>	24	4%	83%	-	4%	-	83%
Climate change and GHG emissions	24	4%	83%	-	4%	-	83%
<b>Environment and sustainability</b>	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%
<b>Others</b>	9	22%	33%	-	22%	-	33%
<b>S</b>	257	8%	26%	6%	9%	7%	49%
<b>Consumer issues</b>	10	10%	10%	-	10%	-	10%
Genetically modified ingredients	8	13%	13%	-	13%	-	13%
Other consumer responsibility	2	0%	0%	-	0%	-	0%
<b>Diversity</b>	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%
<b>General corporate issues</b>	40	22%	22%	23%	0%	23%	0%
Charitable contributions	40	22%	22%	23%	0%	23%	0%
<b>Human rights</b>	20	10%	35%	-	10%	-	35%
Human rights proposals	20	10%	35%	-	10%	-	35%
<b>Political activities</b>	176	4%	24%	0%	9%	1%	55%
Lobbying	29	10%	38%	-	10%	-	38%
Political contributions	147	3%	21%	0%	9%	1%	65%
<b>G</b>	28,396	3%	8%	3%	12%	8%	36%
<b>Audit practices and risk management</b>	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%
<b>Board accountability and responsiveness</b>	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%
<b>Board independence</b>	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%
<b>Board structure</b>	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%	-
<b>Compensation/Remuneration</b>	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%
<b>Shareholder rights</b>	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%
<b>Total</b>	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 their characteristics. Panel A refers to the disagreement measures, Panel B to the characteristics of the resolutions, Panel C to the extra-financial performance measures for firms and countries, Panel D to firms' financial characteristics. All variables are defined in the Data and Variables section.

Variable	N	Mean	Std. Dev.	Min	Max
<b>Panel A: Measures of opposition</b>					
oppos_atlestone	35 382	0,09	0,28		
oppos_blackrock	35 382	0,03	0,16		
oppos_norway	35 382	0,08	0,27		
<b>Panel B: Resolution characteristics</b>					
shareholder proposal	35 382	0,02	0,15		
resolution ES	35 382	0,01	0,10		
resolution G	35 382	0,80	0,40		
<b>Panel C: Country and firm ESG ratings</b>					
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
<b>Panel D: Firm characteristics</b>					
mktcap	35 382	14 923	32 209	48	439 000
roa	35 382	4,57	8,34	-99,50	189,00
pricetobook	35 382	3,84	32,69	0,19	1 540,00
salesgrowth	35 382	0,22	4,70	-1,04	177,00
assetturnover	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 their characteristics. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1), if Blackrock opposes management recommendation (2), if the Norwegian fund opposes management recommendation (3), and zero elsewhere. Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are 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. MacFadden's pseudo-R<sup>2</sup> measure the model fit. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% levels respectively.

	Probit coefficients			Marginal effects		
	(1) BR or NF oppose	(2) BR opposes	(3) NF opposes	(1) BR or NF oppose	(2) BR opposes	(3) 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***
Mktcap	-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
Pricetobook	0.004	-0.010	0.003	0.001	-0.001	0.000
Salesgrowth	0.015	-0.012	0.017	0.002	-0.001	0.002
Assetturnover	-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 their characteristics. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1), if Blackrock opposes management recommendation (2), if the Norwegian fund opposes management recommendation (3), and zero elsewhere. Columns (4) and (5) report the coefficients of variables that may explain disagreement with management from a bivariate probit estimation without country fixed effects. Specifications (4) and (5) are estimated simultaneously to capture the joint effect of Blackrock opposing to management when the Norway Fund agrees with management recommendation (4), and the Norway Fund opposing to management when Blackrock agrees (5). Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are 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. MacFadden's pseudo-R<sup>2</sup> measure the model fit. For the bivariate probit, the last row reports the probability of the Wald Chi2 test that measures the model fit. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% levels respectively.

	Probit coefficients			Bivariate probit Coefficients	
	(1) BR or NF oppose	(2) BR opposes	(3) NF opposes	(4) BR opposes	(5) NF opposes
Shareholder proposal*resolution ES	1.879***	1.036***	1.828***	1.131***	1.816***
Management proposal*resolution ES	-0.022	0.267	0.039	0.168	-0.001
Shareholder proposal*resolution G	1.532***	1.191***	1.447***	1.262***	1.455***
Management proposal*resolution G	0.313***	0.213***	0.283***	0.210***	0.304***
Country rating ES	-3.429***	-6.609***	-2.852***	-6.143***	-2.837***
Country rating G	0.868***	1.784***	0.692***	1.625***	0.706***
Company rating ES	-0.003	-0.014	-0.002	-0.011	-0.002
Company rating G	-0.036***	-0.038***	-0.035***	-0.038***	-0.034***
Mktcap	-0.045***	-0.053**	-0.045***	-0.049**	-0.044***
ROA	-0.004	-0.084*	0.015	-0.088**	0.012
Pricetobook	0.005	-0.009	0.005*	-0.010	0.005*
Salesgrowth	0.016	-0.012	0.018	-0.019	0.018
Assetturnover	-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 the rate of opposition to management: sample due to firms for which we have investors' holdings**

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

Sponsor of the resolution	BR disagrees with management		NF disagrees with management		Total number of voted resolutions
	Management	Shareholder	Management	Shareholder	
<b>E</b>					32
<b>Animal welfare</b>					2
Animal testing	-	0%	-	0%	1
Animal welfare policies	-	0%	-	100%	1
<b>Climate</b>					18
Climate change and GHG emissions	-	6%	-	78%	18
<b>Environment and sustainability</b>					8
Hydraulic fracturing	-	0%	-	67%	3
Nuclear safety	-	-	-	-	-
Sustainability reporting	-	0%	-	40%	5
<b>Others</b>	-	25%	-	50%	4
<b>S</b>					78
<b>Consumer issues</b>					6
Genetically modified ingredients	-	0%	-	20%	5
Other consumer responsibility	-	0%	-	0%	1
<b>Diversity</b>					4
Board diversity	-	50%	-	100%	2
Discrimination	-	-	-	-	-
Sexual orientation	-	0%	-	50%	2
<b>General corporate issues</b>					1
Charitable contributions	-	0%	-	0%	1
<b>Human rights</b>					13
Human rights proposals	-	15%	-	38%	13
<b>Political activities</b>					54
Lobbying	-	13%	-	38%	24
Political contributions	-	10%	-	57%	30
<b>G</b>					5,748
<b>Audit practices and risk management</b>					565
Audit practices	0%	-	2%	-	564
Risk management	-	0%	-	0%	1
<b>Board accountability and responsiveness</b>					2
Ability to remove directors	-	0%	-	0%	1
Tax transparency	-	0%	-	100%	1
<b>Board independence</b>					26
Competitive activities of directors	-	-	-	-	-
Independent chairman and directors	-	8%	-	85%	26
<b>Board structure</b>					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	-	-	-	-	-
<b>Compensation/Remuneration</b>					827
Employee compensation	5%	0%	8%	50%	182
Executive compensation	2%	3%	7%	61%	645
<b>Shareholder rights</b>					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
<b>Total</b>					6,037

**Table 6: Summary Statistics: reduced sample due to data availability on firms' characteristics and 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 extra-financial performance measures for firms and countries, Panel D to firms' financial characteristics and Panel E to the Norway Fund and BlackRock's holdings in these firms. All variables are defined in the Data and Variables section.

Variable	N	Mean	Std. Dev.	Min	Max
<b>Panel A: Measures of disagreement</b>					
oppos_atleastone	6 037	0,09	0,29		
oppos_blackrock	6 037	0,02	0,12		
oppos_norway	6 037	0,09	0,28		
<b>Panel B: Resolution characteristics</b>					
sponsor_sh	6 037	0,04	0,20		
resol_es	6 037	0,02	0,13		
resol_g	6 037	0,95	0,21		
<b>Panel C: Country and firm ESG ratings</b>					
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
<b>Panel D: Firm characteristics</b>					
mktcap	6 037	29 375	54 882	249	439 000
roa	6 037	4,88	7,61	-44,80	64,20
pricetobook	6 037	7,56	76,66	0,53	1 540,00
salesgrowth	6 037	0,08	0,27	-1,00	3,79
assetturnover	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
<b>Panel E: Company holdings</b>					
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 firms' characteristics and 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 their characteristics and the holdings of the two investors. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1) and (4), if Blackrock opposes management recommendation (2) and (5), if the Norwegian fund opposes management recommendation (3) and (6), and zero elsewhere. Columns (1), (2) and (3) report the results without holdings, while columns (4), (5) and (6) 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 ratio, sales growth rate, asset turnover ratio 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. MacFadden's pseudo-R<sup>2</sup> measure the model fit. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% levels respectively.

	Probit coefficients					
	(1) BR or NF oppose	(2) BR opposes	(3) NF opposes	(4) BR or NF oppose	(5) BR opposes	(6) NF opposes
Shareholder proposal*resolution ES	0.728***	0.471*	0.693***	0.722***	0.459*	0.689***
Management proposal*resolution ES	NA	NA	NA	NA	NA	NA
Shareholder proposal*resolution G	1.015***	0.703***	0.834***	1.020***	0.709***	0.837***
Management proposal*resolution G	-0.985***	-0.816***	-0.961***	-0.984***	-0.813***	-0.960***
Country rating ES	-56.961***	10.192	-54.133***	-56.969***	10.283	-54.076***
Country rating G	NA	NA	NA	NA	NA	NA
Company rating ES	-0.005	0.041	-0.005	-0.006	0.038	-0.006
Company rating G	-0.015	-0.032	-0.006	-0.015	-0.032	-0.005
Company weight in portfolio	NA	NA	NA	10.242	15.563	9.467
Company holding (% of capitalization)	NA	NA	NA	-0.756	-0.988	-0.432
Mktcap	-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
Pricetobook	-0.003	-0.299	-0.002	-0.003	-0.321	-0.002
Salesgrowth	-0.481	1.275*	-0.639	-0.476	1.282*	-0.630
Assetturnover	-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 with focus on the impact of climate resolutions. The sample includes the firms for which we managed to collect data on their characteristics. The dependent variable is a dummy variable equal to one if at least one of the two investors oppose management recommendation (1), if Blackrock opposes management recommendation (2), if the Norwegian fund opposes management recommendation (3), and zero elsewhere. Continuous control variables (market cap, ROA, price-to-book ratio, sales growth rate, asset turnover ratio and analyst dispersion) are 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. MacFadden's pseudo-R2 measure 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***
Mktcap	-0.048***	-0.056**	-0.048***
ROA	-0.011	-0.085*	0.009
Pricetobook	0.004	-0.010	0.003
Salesgrowth	0.015	-0.012	0.017
Assetturnover	-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.

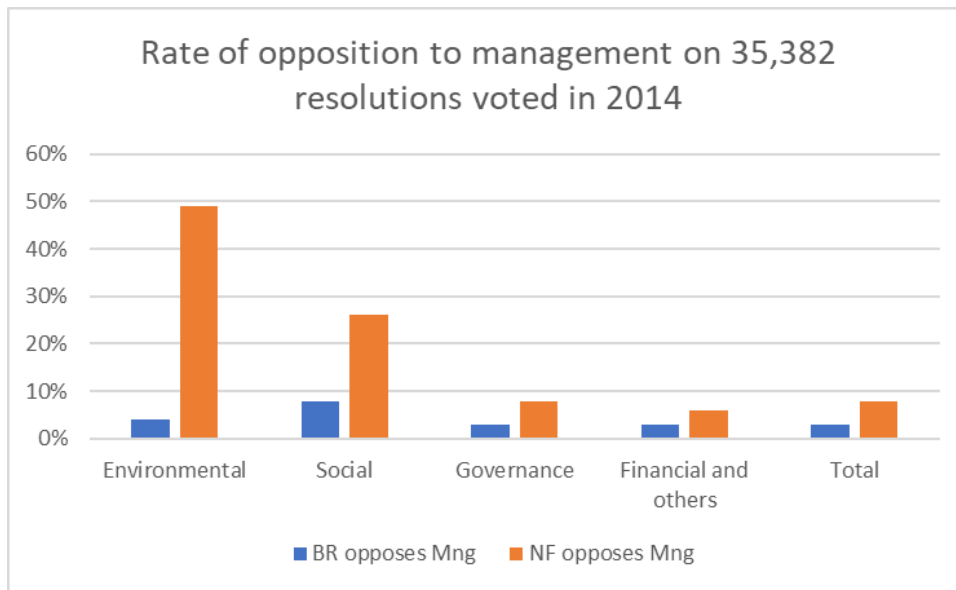


Figure 1: Rate of Opposition to Management depending on the Issue

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.

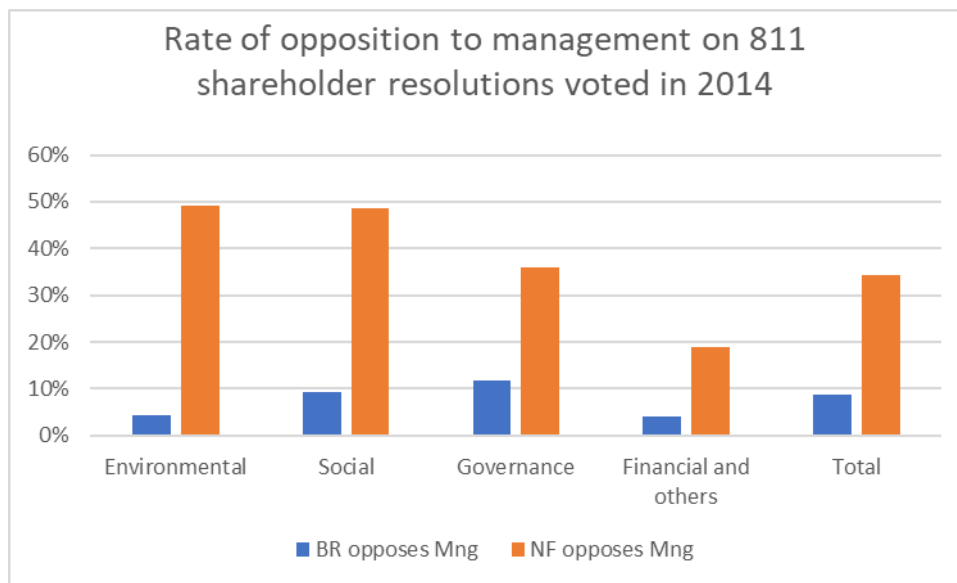


Figure 2: Rate of Opposition to Management depending on the Investor and the Issue

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
<b>Environment</b>		
Greenhouse gas emission per unit of GDP	Total emissions of CO <sub>2</sub> (emissions from energy use and industrial processes, e.g. cement production), CH <sub>4</sub> (methane emissions from solid waste, livestock, mining of hard coal and lignite, rice paddies, agriculture and leaks from natural gas pipelines), nitrous oxide (N <sub>2</sub> O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF <sub>6</sub> ) and nitrogen trifluoride (NF <sub>3</sub> ). Unit: kg/1000 USD	OECD statistics
Air quality and health	Mean exposure of population to PM <sub>2.5</sub> ; concentrations estimates are taken from the Global Burden of Disease (GBD) 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 CO <sub>2</sub> emissions from fossil fuel use and cement production	CO <sub>2</sub> emissions of 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 (such as agricultural waste burning) and large-scale biomass burning (such as forest fires). Unit: ton (Mg) CO <sub>2</sub> 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 fit under one of two overarching objectives (Environmental Health and Ecosystem Vitality). Environmental Health measures the protection of human health from environmental	YCELP and CIESIN

	harm. Ecosystem Vitality measures ecosystem protection and resource management. The “proximity-to-target” methodology, then assesses how close a particular country is to an identified policy target. Scores are converted to a scale of 0 to 100, with 0 being the farthest from the target (worst observed value) and 100 being closest to the target (best observed value).	
<b>Social</b>		
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 years and more 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 years and older 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 years and older.	UNDP
<b>Governance</b>		
Voice and accountability	Composite indicator that measures 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 that measures	World Bank

	<p>perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.</p> <p>Ranges from approximately -2.5 (weak) to 2.5 (strong).</p>	Governance Indicators
Regulatory quality	<p>Composite indicator that measures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.</p> <p>Ranges from approximately -2.5 (weak) to 2.5 (strong).</p>	World Bank Governance Indicators
Rule of law	<p>Composite indicator that measures 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.</p> <p>Ranges from approximately -2.5 (weak) to 2.5 (strong).</p>	World Bank Governance Indicators
Control of corruption	<p>Composite indicator that measures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.</p> <p>Ranges from approximately -2.5 (weak) to 2.5 (strong).</p>	World Bank Governance Indicators
Political stability and absence of violence/terrorism	<p>Composite indicator that measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.</p> <p>Ranges from approximately -2.5 (weak) to 2.5 (strong).</p>	World Bank Governance Indicators

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