

ESG mutual fund voting on executive compensation shareholder proposals

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Abstract

Using 90,318 mutual fund votes on 410 shareholder proposals about executive compensation, we document that a mutual fund with environmental, social, and governance (ESG) objectives is 9% more likely than a non-ESG mutual fund to vote in favor. We also find that this higher likelihood increases to 19.1% for proposals that aim to align executive compensation with environmental and social (ES) objectives and drops to 6.3% for compensation proposals that focus on governance (G) objectives. We next document that ESG funds are 13.7% more likely than non-ESG funds to support proposals that aim to improve the transparency of executive compensation, but only 6.9% more likely to support proposals to redesign executive compensation. The results are consistent with ESG mutual funds experiencing more benefits than other mutual funds from supporting shareholder proposals on executive compensation, particularly ES proposals. At the same time, ESG funds appear sensitive to the costs imposed on the portfolio firms' executives by being less supportive of changing their compensation than improving the firm's transparency on executive compensation.

JEL classification: G23, G30, M12, M14

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1. Introduction

We investigate the voting behavior of mutual funds on shareholder proposals about executive compensation. Recently, the Securities and Exchange Commission (SEC) has highlighted the importance of accountability when investment intermediaries such as mutual funds vote on shareholder proposals, suggesting the importance of establishing trust between investors and intermediaries (Lim and Kiernan, 2021). An investor with ESG investment preferences can evaluate consistency in a mutual fund's actions and stated objectives by comparing how the mutual fund votes on shareholder proposals relative to its stated ESG investment objectives. Prior work has shown that ESG mutual funds are more likely than non-ESG funds to vote in favor of environmental and social (ES) shareholder proposals (Dikolli et al., 2022). However, it remains unclear whether ESG mutual funds are supportive of proposals that affect the economic interest of executives, specifically through their compensation.

We study the voting behavior on shareholder proposals about executive compensation because they provide a unique opportunity for ESG mutual funds to demonstrate their commitment to their stated ESG objectives. Two forms of agency costs exist with mutual funds. The executive is the agent of the investor in the firm's operations, and the mutual fund is the agent of the investor in monitoring the executive. Compensation is a fundamental tool in governance that aligns the economic interests of executives with the interests of their investors to mitigate the former agency cost. Because mutual funds are intermediaries for investors, the reporting of the fund's voting on shareholder proposals related to executive compensation allows investors to gauge the fund's commitment to their interests, mitigating the latter agency cost. To the extent that managers of ESG mutual funds support shareholder proposals, they have taken public action demonstrating their commitment to stated ESG investment objectives, which attract capital from investors with

aligned interests (Hartzmark and Sussman 2016). Voting to support compensation proposals, in particular, a fund manager takes a public action where “the rubber meets the road” by targeting the economic interest of the executives. On the other hand, voting against such proposals would indicate that fund managers face constraints or indifference to aligning executive incentives with their stated ESG investment objectives.

Because we can classify shareholder proposals about executive compensation as either G or ES proposals, we can also examine fund managers’ commitment to aligning executives’ interests with ES objectives, which are unique to the investors in ESG funds. Additionally, we can examine compensation proposals that directly affect the economic welfare of the executives by classifying them as a redesign of compensation, as opposed to increasing transparency around compensation. These classifications permit a more focused examination of fund managers’ willingness to publicly take action as an intermediary to reduce agency costs between the executives’ actions and shareholders’ interests through changes to executive compensation practices of portfolio firms.

Beginning with a 2012 to 2020 sample of 94,695 votes by 2,354 mutual funds on 410 shareholder proposals about executive compensation, we investigate the extent to which ESG funds support shareholder proposals about executive compensation. We use Morningstar’s classification of a mutual fund’s investment objectives to identify ESG funds. We classify the executive compensation proposals in two ways. First, we classify them as ES compensation proposals, where the proposal specifically addresses environmental or social objectives in compensation practices, or G proposals, where the proposal addresses the governance around a firm’s compensation practices. Second, we classify each compensation proposal as relating to either a direct redesign of executive compensation or increased transparency about executive

compensation. For example, a direct redesign might propose the inclusion of new performance metrics as a basis for incentive compensation. Alternatively, more disclosure about compensation or proposals requesting a special report on compensation would be examples of shareholder proposals that increase transparency of compensation practices but do not imply a redesign.

Our main results are as follows. First, our univariate analysis shows ESG funds are more likely than non-ESG funds to vote for shareholder proposals regarding executive compensation, both when those proposals are related to G objectives and when they are associated with ES objectives. We also find ESG funds are no more likely to vote in favor of ES versus G compensation proposals, but ESG funds are more likely to vote in favor of ES proposals only if the compensation proposal relates to improved transparency about compensation. We find ESG funds are less likely to vote in favor of ES proposals if the proposal requires compensation redesign. Overall, the univariate analysis suggests that ESG funds are more likely to support ES-related proposals if the proposal avoids modifying explicit executive incentives to support ES objectives.

Second, in our multivariate analysis, we find that ESG funds are 9% more likely than non-ESG funds to vote in favor of compensation proposals. For G-based compensation proposals, the higher likelihood of ESG funds voting in favor relative to non-ESG funds drops to 6.3%. However, ESG funds are 19.1% more likely than non-ESG funds to vote in favor when the compensation proposal is ES-based. We find that ESG funds are 13.7% more likely than non-ESG funds to vote for shareholder proposals that would increase the transparency around compensation, but that higher likelihood drops to 6.9% for proposals that would result in a redesign of executive compensation. In an exploratory analysis, we find that this latter result is driven by ESG funds' voting on ES proposals. Overall, our findings imply that “where the rubber meets the road” and

mutual funds vote to change the explicit incentives of executives at portfolio firms to be more aligned with ES objectives, ESG mutual funds fall short of their support for ES proposals related to improved transparency.

Our study extends the work examining shareholder voting on say-on-pay (e.g., Conyon and Sadler 2010, Alissa 2015) in two main ways. First, we focus on voting by ESG mutual funds, investor intermediaries whose private incentives may be inconsistent with publicly disclosed investment objectives. In particular, while it is common for ESG mutual funds to disclose their pursuit of ES and G objectives publicly, it is unclear whether their support of ES and G shareholder proposals about executive pay conflicts with private incentives to attract capital flows. Second, in our setting, shareholders do not vote on pay proposals from management; instead, they vote on pay proposals submitted by the shareholders.

We also contribute to the literature on mutual fund voting and, in particular, the voting behavior of ESG mutual funds (Dikolli et al., 2022). Our findings highlight an important tradeoff that ESG fund managers face in attracting investor capital. On the one hand, prior research suggests that a fund manager attracts more capital by being seen as investing its portfolio based on ESG factors (Hartzmark and Sussman 2019). On the other hand, our results suggest that in the pursuit of ES and G investment objectives, fund managers are more reluctant to voice concerns with the way portfolio firm executive compensation is structured around ES versus G objectives. These results are especially telling in that ESG funds miss opportunities to vote in support of aligning executive compensation contracts with ES and G investment objectives.

Finally, we add to a growing literature on how boards include CSR or ESG performance metrics in executive compensation contracts. Related work primarily investigates the determinants and consequences of the choice of CSR or ESG performance metrics in executive compensation,

relying heavily on agency explanations in the theoretical development. Our study introduces a new agency conflict in understanding how CSR or ESG performance measures emerge in executive compensation contracts. ESG mutual funds, as investor intermediaries, are agents for the mutual fund investors but fund managers have incentives to grow the fund by attracting new capital that could conflict with the non-pecuniary objectives of ESG mutual fund investors. Our findings imply that agency conflicts between shareholders and managers through an investor intermediary may influence a board's decision to include CSR or ESG performance measures in executive compensation contracts.

We organize our paper as follows. We develop our hypotheses in Section 2. In Section 3, we describe the data and sample selection. In Section 4, we provide descriptive statistics, describe our research design, and report the results of our primary analysis. Section 5 concludes.

2. Related work and hypotheses development

In this section, we briefly review related work and develop our hypotheses. Three streams of literature are related to this study. First, considerable work has investigated the determinants and consequences of say-on-pay shareholder voting. Second, we highlight findings from the literature on ESG mutual fund voting on shareholder proposals. Third, we relate our investigation to the literature on a board's choice to include performance metrics in executive compensation contracts. We then present three testable hypotheses.

2.1 *Related work*

An important insight from the say-on-pay (SOP) literature is that shareholders are active in voting on proposed executive compensation plans (Conyon and Sadler 2010), suggesting that they view executive compensation as a topic of importance. Prior literature also finds shareholder dissent increases only in excess executive compensation settings, suggesting they exhibit

sophisticated voting behavior (Conyon 2016, Alissa 2015). In response, boards of poorly performing firms reduce excess compensation (Alissa 2015). *ISS* scrutiny of pay practices, which is an input to SOP voting, also matters in that boards respond to that scrutiny by changing the design and transparency of their executive compensation plans to align with shareholder preferences, which is viewed favorably in capital markets (Dey et al. 2022). Additionally, high-support SOP firms exhibit higher future performance outcomes.¹

These insights from the SOP literature suggest that shareholders exhibit tendencies to vote on important topics, consider executive compensation to be a topic of importance, and vote on these important topics in sophisticated ways. Further, the fact that shareholders' support of executive compensation is associated with favorable future performance suggests that they understand whether the features of executive compensation align with shareholders' economic interests. In summary, the SOP literature focuses on voting required under regulation and on executive compensation design that management has approved. In contrast to the SOP literature, this study focuses only on voting behavior related to voluntary shareholder proposals about executive compensation and to which management dissent.

A further contrast to the SOP literature is our focus on the role of mutual fund voting. Mutual funds are intermediaries for their underlying investors and vote on their behalf. However, the mutual fund and its investors can have different objectives. For example, the mutual fund may have a growth strategy while investors are more interested in social impact. Thus, when mutual funds vote on shareholder proposals, it is unclear whether their vote is motivated by their own interests or by the interests of their investors. While Section 206 of the Advisers Act requires

¹ Specifically, in the two years following implementation of the US say-on-pay (SOP) regulations of the Dodd-Frank Act in 2010, research has documented that compared to high SOP dissent firms, high SOP support firms have higher performance, stock returns, CEO ownership, and accounting quality, as well as lower CEO compensation, institutional ownership, and return volatility (Kimbrough and Xu 2016).

investment advisers such as mutual funds to cast votes for its investors “...in a manner consistent with the best interest of its client and must not subrogate client interests to its own...”, the SEC has done little to enforce these fiduciary duties (Sharfman 2020). Research, however, has shown that disclosed voting policies of mutual funds are linked to active mutual fund voting, and portfolio firms, in turn, adopt the governance preferences of the mutual funds (Couvert 2020).

We also focus on the voting behavior of a specific type of mutual fund: ESG mutual funds. These funds have specialized objectives related to sustainability and may conflict with the preferences of the mutual fund manager or other investors who have preferences for higher economic returns (Li et al., 2022). For example, investors in ESG mutual funds may have non-pecuniary preferences for environmentally-protective business practices. Prior work shows that ESG mutual funds are more likely to vote in favor of environmental and social shareholder proposals than non-ESG mutual funds (Dikolli et al., 2022). ESG funds also offer increased ESG exposure to their investors, support ESG initiatives in ways consistent with how the funds are marketed, and do so without sacrificing returns (Curtis et al., 2021). Our study differs from this related prior work because we are interested in shareholder proposals, specifically about executive compensation, which would most likely influence portfolio firm managers' incentives.

Our study additionally contains a specific investigation of voting on proposals to modify explicit compensation design. Such changes include the introduction of ESG-related performance metrics in executive compensation contracts. Related work shows that CEO compensation in portfolio firms is more likely linked to CSR outcomes (i.e., including ES outcomes) when funds with CSR preferences own the stock (Li et al., 2021). On the other hand, Bebchuk and Tallarita (2022) have raised at least two structural concerns about such linkages. First, linking pay to the relatively limited interests of a limited shareholder group may hurt rather than help aggregated

stakeholder welfare. Second, ESG-related performance metrics could exacerbate the agency problem, particularly given that current disclosure requirements do not permit outsiders to effectively scrutinize whether the effect of using ESG metrics makes executive pay insensitive to economic performance. The work suggests ESG mutual funds may have incentives to support modifications to explicit incentives of portfolio firm executives to focus their attention on ESG activities. But it is unclear whether such support would benefit aggregate stakeholders.

2.2 *Hypotheses development*

Prior research finds that ESG mutual funds are more likely than non-ESG funds to vote in support of shareholder proposals related to ESG objectives (Dikolli et al., 2022), suggesting that the net benefits of supporting shareholder proposals are greater for ESG funds than non-ESG funds. We extend prior research by examining a specific type of shareholder proposal related to ESG objectives – shareholder proposals related to executive compensation. Shareholder proposals in general, and compensation-related shareholder proposals in particular, can be categorized as focusing on either environmental, social, or governance objectives. Thus, if ESG mutual funds are genuinely committed to supporting ESG objectives in portfolio firms, they should be more likely than non-ESG mutual funds to vote in favor of proposals that explicitly influence compensation for portfolio firm executives to be aligned with an ESG commitment. Accordingly, we predict:

H1: ESG mutual funds are more likely than non-ESG mutual funds to vote in favor of shareholder proposals about executive compensation.

We will not find support for H1 if the costs of voting in support of proposed changes to executive compensation outweigh the benefits for both ESG and non-ESG funds. Friedman and Heinle (2021) suggest that it is costless to vote on shareholder proposals *generally* because they rarely pass. However, voting on *executive compensation* proposals may induce portfolio firm executives to take non-pecuniary actions, which could reduce portfolio firm returns, fund returns,

and ultimately eliminate the net benefits from funds supporting compensation proposals. In such a case, neither ESG nor non-ESG funds are likely to vote in favor of shareholder proposals about executive compensation.

Our second hypothesis concerns ESG mutual fund voting on ES- versus G-based shareholder proposals related to executive compensation. While not explicitly hypothesized, Dikolli et al. (2022) document evidence that ESG mutual funds are significantly more likely to vote in favor of ES than G proposals. A possible explanation for this finding is that an ESG fund can distinguish itself from non-ESG mutual funds by showing public (through their disclosed voting record) support for shareholder proposals that focus specifically on environmental and social issues. Prior work has shown that shareholders are generally most supportive of governance proposals and least supportive of social proposals (Matsusaka et al., 2021) and that the adoption of governance proposals increases shareholder value (Cuñat et al., 2012). Accordingly, non-ESG funds are more likely to vote in favor of G than ES shareholder proposals, allowing ESG funds to separate their type from non-ESG funds through higher public support of ES shareholder proposals relative to G proposals. We, therefore, expect ESG funds' higher support for ES than G proposals to hold for ES versus G proposals about executive compensation. Formally, we predict:

H2: Relative to non-ESG mutual funds, the higher likelihood of ESG mutual funds voting in favor of shareholder proposals about executive compensation is more pronounced for ES than G proposals.

Finally, to the extent that contractual performance measures are informative about whether executives have allocated sufficient effort to tasks that benefit aggregate stakeholders, multi-tasking agency theory predicts improved risk-sharing between management and shareholders (e.g., Feltham and Xie 1994). However, ESG benefits for aggregate stakeholders are difficult to define in a way that achieves consensus among shareholders. We contend that an ESG fund manager,

who is not genuinely committed to influencing portfolio firm executives to support ES initiatives, will be less likely to support shareholder proposals calling for actions that are most likely to change the incentives of the portfolio-firm executives. Instead, they are more likely to vote in favor of proposals that improve transparency to demonstrate a commitment to ESG objectives but are less costly because they do not directly change the economic incentives of the portfolio-firm executives.

For example, a shareholder proposal to include ES metrics in executive compensation provides an opportunity, through voting, for ESG funds to demonstrate a strong commitment to their stated investment objectives. But this may be unnecessarily costly and constraining on portfolio firm executives, consistent with the arguments in Bebchuk and Tallarita (2022). More generally, even if ESG fund managers do not already select portfolio firms with explicit incentives linked to ESG objectives, they may assess that the cost of constraints outweighs the benefits outlined in the proposal. Instead, ESG funds may be more likely to demonstrate their commitment to ESG objectives through a lower-cost mechanism, i.e., by supporting greater transparency to ESG objectives, which would benefit an ESG fund in terms of raising additional capital. Accordingly, we predict:

H3: Relative to non-ESG mutual funds, the higher likelihood of ESG mutual funds voting in favor of shareholder proposals about executive compensation is more pronounced for transparency than redesign proposals.

A failure to find support for H3 might be explained by ESG fund managers believing there exist benefits to voting consistently on shareholder proposals linked to compensation irrespective of whether they require enhanced transparency or a compensation redesign, which would support the null hypothesis.

3. Sample and data

We obtain data related to shareholder proposals, ISS recommendations, proposal voting outcomes, and mutual fund votes from ISS Voting Analytics for 2012 to 2021.² We obtain mutual fund characteristics from Morningstar. Table 1 Panel A summarizes the sample selection of shareholder proposals related to compensation. First, we merge two ISS Voting Analytics databases containing information related to shareholder proposals, using the proposal id (*itemonagenda*):

- (i) the company database, which includes shareholder proposals and non-routine management proposals for Russell 3000 firms, of which 416 proposals are related to compensation during our sample period; and
- (ii) the mutual fund voting database, which contains details related to the proxy voting records of mutual funds filing Form N-PX, of which 1,315 proposals are related to compensation during our sample period.

We merge the 416 proposals from the company database with the 1,315 proposals from the mutual fund voting database to obtain a sample of 411 proposals related to compensation for US-listed firms from ISS Voting Analytics (see Appendix A for a detailed description of this merge).³ Second, using the ISIN number, we merge the 411 shareholder proposals related to compensation from ISS with the Morningstar data to obtain a final sample of 410 proposals.⁴ Table 1 Panel B reports those 410 proposals are voted on by 2,354 mutual funds and account for 94,695 mutual

² We begin the sample period in 2012 after the full implementation of the Dodd-Frank Act and end the sample period at the last corporate meeting date for which we are able to access data: November, 2021.

³ The number of observations differs across the two databases primarily because the mutual fund voting database contains shareholder proposals related to firms not included in the Russell 3000.

⁴ We thank ISS for providing us with a list of 3,612 fund-specific ISIN numbers that they collected for an internal project, which we use to merge the datasets.

fund-votes.⁵

We classify each proposal in our sample as ES (environmental, social) or G (governance) using a process similar to that in Dikolli et al. (2022) (see Appendix B for details on the method we use to classify proposals into these two categories). Of the 410 proposals in our sample, we classify 62 as ES, and we classify 348 as G. The 62 ES proposals account for 20,462 mutual fund votes, while the 348 G proposals account for 74,233 mutual fund votes (see Table 1 Panel B).

We also classify each proposal in our sample as related to either transparency about compensation or redesign of compensation, depending on whether the proposal, if approved, would result in a change in the design of executive compensation (see Appendix B for details on the process we use to classify proposals into these two categories). Of the 410 proposals in our sample, we classify 306 as related to redesign and 104 as related to transparency. The 306 redesign proposals account for 65,272 mutual fund votes, while the 104 transparency proposals account for 29,423 mutual fund votes (see Table 1 Panel C).

Similar to Dikolli et al. (2022), we classify a mutual fund as ESG if Morningstar classifies the fund as having a sustainable investment objective. Otherwise, we classify the fund as non-ESG.⁶ We classify 2,354 mutual funds in our sample, 2,120 (90%) as non-ESG funds and 234 (10%) as ESG funds, representing 85,643 and 9,052 votes, respectively.

3.1 *Proposal characteristics*

Table 2 presents characteristics of the 410 sample shareholder proposals related to

⁵ This sample selection procedure is consistent with that in Dikolli et al. (2022), except that we do not merge our sample with the ISS Voting Analytics proposal database, as our study does not require data contained in that database.

⁶ Morningstar provides this classification beginning for 2018. Our classification of funds as ESG or non-ESG is based on Morningstar's classification in 2018. We assume that the designation of each fund was stable across our sample period.

compensation, including the number of proposals, the proportion with ISS recommendations in favor, and mutual fund voting outcomes. Overall, ISS recommends in favor of 76% of the proposals. In contrast, mutual funds only vote in favor of 31% of the proposals, substantially below ISS recommendations. This difference in ISS recommendation and voting is similar to Dikolli et al. (2022), who document that ISS recommends in favor of 73% of their sample proposals. However, mutual funds only vote favorable on 38% of the proposals in Dikolli et al. (2022).

ISS support is substantially lower for ES than G proposals (42% vs. 82%, on average). Likewise, the average proportion of mutual funds voting in favor of ES proposals is substantially lower than G proposals (17% vs. 33%, on average). Further, the tendency of ISS to support ES compensation proposals (at 42% in our sample) is substantially lower than its tendency to support ES proposals in general (at 64%, as documented by Dikolli et al., 2022). Mutual funds are about half as likely to vote in support of ES proposals (at 17%) compared to G proposals (at 33%).

ISS support is similar for proposals that would result in the redesign of compensation (75%) and proposals that increase transparency about compensation (78%). Mutual funds vote in support of proposals that would result in the redesign of compensation (29%) is slightly lower than their support for proposals related to transparency (34%).

Overall, when combined with results in Dikolli et al. (2022), these descriptive statistics suggest (i) support by mutual funds for compensation-related shareholder proposals is substantially lower than for other shareholder proposals, (ii) ISS support for ES compensation proposals is substantially lower than for other ES proposals, (iii) both ISS and mutual fund support for compensation-related shareholder proposals is lower when the proposal is related to ES rather than G, and (iv) mutual fund support for proposals related to redesign of compensation is lower than their support for proposals related to transparency.

3.2 Trends across time

3.2.1 Number of shareholder proposals related to compensation

Table 3 reports the number of shareholder proposals related to compensation by year. The total number of compensation-related shareholder proposals showed no discernable pattern other than a tapering off in 2020 and 2021, possibly reflecting distractions related to the COVID-19 pandemic. The number of ES proposals increased over the sample period to a peak in 2018 and 2019, then decreased in 2020 and 2021.⁷ The number of G proposals fluctuated throughout the sample period but also decreased in 2020 and 2021. Shareholders reduced the number of proposals related to the redesign of compensation over the sample period.

Interestingly, mutual fund support for compensation-related shareholder proposals during our sample period was highest in 2012, when 39% of votes favored the proposals. While favorable ISS recommendations and mutual fund voting for G proposals fluctuated up and down throughout the sample period, ISS recommendations in favor of ES proposals increased considerably to 80% in 2019. Mutual fund voting in support of ES proposals also increased throughout the sample period, although with a peak of 29% support in 2020, it continued to remain lower than ISS support. ISS support for both proposals that would redesign compensation and those about the transparency of compensation decreased in the second half of the sample period, except for the low number of redesign proposals in 2020.

4. Results

4.1 Univariate analysis

Table 4 presents our univariate analysis. Consistent with H1, ESG funds are more likely than non-ESG funds to vote for compensation proposals (Column 1). In particular, 37.78% of votes

⁷ This trend is consistent with the increase in ES proposals in general, as documented by Dikolli et al. (2022).

by ESG funds on compensation proposals are favorable, compared to only 27.93% for non-ESG funds (difference significant at $p < 0.01$).

Columns 2 and 3 present the univariate analysis separately for G and ES proposals, respectively. The columns show that ESG funds are more likely than non-ESG funds to vote for both G (6.81%, $p < 0.01$) and ES (20.85%, $p < 0.01$) proposals. Comparing the more favorable support of ESG funds relative to non-ESG funds across the two types of proposals suggests ESG funds are more likely to differentiate themselves through public support of ES proposals, consistent with H2 (14.04% $p < 0.01$). This 14.04% difference is not driven by ESG funds voting differently for the two types of proposals, where 37.42% favorable votes for G proposals compared to 39.04% for ES proposals is not significantly different at conventional levels. The ESG funds appear to equally value compensation proposals focused on ES as on G, as their investment objectives would suggest. The difference arises because non-ESG funds are considerably *less* likely to vote for ES than G proposals (18.19% vs. 30.61%, $p < 0.01$), which is consistent with non-ESG funds having lower net benefits from supporting ES proposals.⁸

Columns 4 and 5 present results related to non-ESG fund and ESG fund voting for proposals that increase transparency around executive compensation and proposals that result in a redesign of executive compensation. ESG funds are more likely than non-ESG funds to support both proposals that increase transparency (13.98%, $p < 0.01$) and proposals that redesign pay practices (7.99%, $p < 0.01$). The more favorable support of ESG funds compared to non-ESG funds is greater among the proposals about transparency than redesign (5.99%, $p < 0.01$), consistent with

⁸ A possible explanation for the lack of significant difference in ESG fund voting on G and ES proposals is that they exhibit a *higher* likelihood of voting for ES than G proposals when they relate to transparency about compensation and don't involve a redesign of compensation (45.87% vs. 40.67%, untabulated), which is offset by a *lower* likelihood of voting for ES than G proposals related to redesigning compensation (14.06% vs. 36.74%, untabulated). We examine these differences further in our multivariate exploratory analysis, presented in Table 7 below.

H3. While both ESG funds (43.61% vs 35.16%, $p < 0.01$) and non-ESG funds (29.63% vs 27.1%, $p < 0.01$) are more likely to support transparency proposals than redesign proposals, which affect executives' economic interest, ESG funds contribute to the difference between the two proposals types more than non-ESG funds (8.45% vs 2.46%, $p < 0.01$).

In total, these results are consistent with ESG funds casting more votes that support shareholder proposals related to executive compensation than non-ESG funds, irrespective of whether they are ES or G proposals. Given that non-ESG funds are less likely to support ES proposals than G proposals, ESG funds can signal their commitment to ES issues by voting in favor of ES proposals. Yet, their higher support of proposals that create more transparency, rather than change executive compensation, is consistent with ESG funds using their votes in support of proposals with less “bite” to virtue signal for the purposes of attracting capital.

4.2 *Multivariate empirical model*

We estimate the following pooled, cross-sectional regression using a linear probability model to test our hypotheses in a multivariate setting.

$$VoteFor_{ij} = \alpha_0 + \alpha_1 ESG_fund_i + \alpha_{2-4} \text{ control variables}_{ij} + C_{ij} + \varepsilon_{ij} \quad (1)$$

Where:

VoteFor = an indicator equal to 1 if fund *i* votes “For” proposal *j*, and 0 otherwise (such as “Against,” “Abstain,” and “Do not vote”);

ESG_fund = an indicator equal to 1 if “Sustainable Investment – Overall” from Morningstar for fund *i* takes on the value of “Yes,” and 0 otherwise;

Control variables (*C_{ij}*):

ISS_for = an indicator that equals 1 if the proposal is supported by ISS and 0 otherwise;

lnTurnoverRatio = the natural logarithm of 1 plus the ratio of the value of traded shares each year to the value of the fund's holdings;

lnFundSize = the natural logarithm of 1 plus a fund's net assets at the end of the month prior to the meeting;

We cluster standard errors at the fund level, consistent with prior research (e.g., Iliev and Lowry 2015). We winsorize all control variables at the 1% level to mitigate the influence of outliers. We include additional variables to control for proposal or fund characteristics that affect voting behavior. Consistent with Dikolli et al. (2022), we control for ISS recommendation (*ISS_for*), as mutual funds are more likely to vote for proposals when supported by ISS. We include the natural log of a fund's turnover ratio (*lnTurnoverRatio*), as funds with longer investment horizons are more likely to vote for shareholder proposals considered to create long-term value. We include fund size (*lnFundSize*), as we expect larger funds to use private channels to influence firms in their portfolios, thus having less need to support other shareholders' proposals.

We also estimate all regressions both without and with firm-year fixed effects. Firm-year fixed effects control for time-invariant differences across meetings (Heath et al., 2022; Dikolli et al., 2022). Doing so results in examining voting on shareholder proposals within a firm's annual meeting and are controlling for portfolio-firm, time-varying characteristics (e.g., firm size, complexity, performance).

4.3 *Multivariate main results*

Table 5 presents descriptive statistics for the variables included in the multivariate regression. Of the 94,695 mutual fund votes, we lose 4,385 due to missing control variable data, so our final sample consists of 90,310 fund-vote observations (Panel A). Table 5 Panel B provides the descriptive statistics for this final sample. Almost ten percent of the observations are associated with ESG funds. ISS recommended voting in favor of proposals for 73% of the observations. Mutual funds in our sample hold \$7.02 billion in average net assets and trade, on average, approximately 57% of the value of their fund's shares annually.

Table 6 Panel A reports results from estimating equation (1) on our entire sample of compensation proposals. Column 1 (2) excludes (includes) firm-year fixed effects. Results from both estimations show that ESG funds are 9% more likely than non-ESG funds to vote for shareholder proposals about executive compensation (the coefficient on *ESG_fund* of 0.090 (.094) in column 1 (2) is positive and significant at $p < 0.01$). This result is consistent with H1, as well as the univariate analysis in Table 4. As expected, ISS recommendations in favor are positively associated with votes in favor of compensation proposals, and fund size is negatively associated with votes in favor.

Table 6 Panel B reports results from estimating equation (1) separately on two classifications of the proposals: (i) G proposals and ES proposals, and (ii) transparency proposals and redesign proposals. Columns 1 – 4 (5 – 8) exclude (include) firm-year fixed effects. The increased likelihood of ESG funds voting in favor of compensation-related proposals holds both for G proposals and ES proposals. The coefficient on *ESG_fund* of 0.063 in Column 1 for G proposals is positive and significant at $p < 0.05$, while the coefficient on *ESG_fund* of 0.191 in Column 2 for ES proposals is positive and significant at $p < 0.01$. H2 predicts that the differential likelihood of votes in favor of a proposal from ESG funds (compared to non-ESG funds) is larger for ES compared to G proposals. The 0.128 difference between the coefficients is significant at $p < 0.01$, consistent with H2 and with the univariate analysis in Table 4. Economically, these results suggest that the support of ESG funds, relative to non-ESG funds, is three times more for ES compensation proposals (19.1%) than G compensation proposals (6.3%). Results reported in columns 5 and 6 are similar when including firm-year fixed effects.⁹

⁹ In the specification in column 6, the coefficient on the *ISS_For* control is fully absorbed in the firm-year fixed effects.

The increased likelihood of ESG funds voting in favor of shareholder proposals related to compensation also holds both for transparency proposals and redesign proposals (the coefficient on *ESG_fund* of 0.137 (0.069) in Column 3 (4) is positive and significant at $p < 0.01$ ($p < 0.05$)). Economically, these results suggest that ESG funds are 13.7% more likely than non-ESG funds to support proposals that aim to improve the transparency, rather than change the design, of executive compensation and 6.9% more likely than non-ESG funds to support proposals to redesign executive compensation. H3 predicts that the differential likelihood of support from ESG funds (compared to non-ESG funds) is larger for transparency compared to redesign proposals. The difference between the *ESG_fund* coefficients of 0.068 is significant at $p < 0.01$, consistent with H3 and with the univariate analysis in Table 4. Results are similar in Columns 5 – 8 when we include firm-year fixed effects.

4.4 Exploratory analysis

For additional insight, we further partition our sample and estimate equation (1) on four subsamples of proposals: G transparency, G redesign, ES transparency, and ES redesign. Table 7 reports the exploratory results. In all the subsamples, the results suggest that ESG funds are more likely than non-ESG funds to vote for the various compensation proposals. Only in Column 1 is the positive coefficient on *ESG_fund* statistically insignificant ($p > 0.10$).¹⁰

Examining the column coefficients, several interesting results emerge. Among the G proposals, there is no statistically significant difference in an ESG fund's likelihood of voting for proposals that are related to transparency and redesign (the difference in the coefficient on *ESG_fund* of 0.051 in Column 1 and 0.066 in Column 2 is not significant at conventional levels,

¹⁰ Note, however, Column 5 shows that the positive coefficient on *ESG_fund* for G transparency is significant ($p < 0.05$) after controlling for firm-year fixed effects.

$p > 0.10$). Thus, ESG funds vote more favorably for G proposals but appear to be indifferent between the types. In contrast, when the proposal is related to ES objectives, ESG funds' increased likelihood of voting, when compared to non-ESG funds, is *greater* for transparency than redesign proposals (the coefficient on *ESG_fund* of 0.214 in column 3 is significantly greater than the coefficient of 0.120 in column 4, $p < 0.01$). Results are similar in Columns 5 – 8 when we include firm-year fixed effects. These results point to hesitancy by ESG funds to support shareholder proposals that would result in a redesign of executive compensation to align with environmental and social objectives.

Comparing G and ES transparency proposals, we find that the higher likelihood of ESG funds (relative to non-ESG funds) voting in favor of compensation transparency is significantly more pronounced for compensation transparency proposals about ES objectives than compensation transparency proposals about G objectives (the coefficient on *ESG_fund* of 0.214 in column 3 is significantly greater than the coefficient of 0.051 in column 1, $p < 0.01$). In contrast, comparing G and ES redesign proposals, we find that the higher likelihood of ESG funds (relative to non-ESG funds) voting in favor of compensation redesign is not significantly different for redesign proposals about G and ES proposals (the coefficient on *ESG_fund* of 0.120 in column 4 is not significantly different to the coefficient of 0.066 in column 2, $p > 0.10$). Both results are the same after also controlling for unobserved time-varying variables captured by firm-year fixed effects (see columns 5 to 8).

Taken together, an interpretation of these findings is all funds equally care about transparency if it is about how compensation relates to G objectives. But ESG funds appear to bear the costs of supporting proposals to provide more transparency about how compensation is aligned with ES objectives. While ESG funds are willing to incur costs in voting for proposals about

compensation transparency, the evidence is also consistent with ESG funds being more willing to support compensation redesign aligned with ES objectives than non-ESG funds. However, such support is not with the same intensity as they support proposals about ES transparency and the support is not statistically different to how they support compensation redesign proposals about G objectives.

4.5 *Summary*

Overall, our results suggest that an ESG fund is more likely than a non-ESG fund to vote in favor of shareholder proposals about executive compensation. Further, that increased likelihood is greater for ES than G proposals and greater for proposals to increase transparency than proposals to redesign executive compensation. The results are consistent with ESG mutual funds experiencing benefits (e.g., higher capital inflows) from their support of ES proposals. But their greater support for proposals to increase transparency around compensation, rather than redesign it, when those proposals are ES (rather than G) related, suggests a sensitivity to the potential higher costs of supporting a change to executive compensation in favor of environmental and social issues.

5. Conclusion

This study examines the voting behavior of ESG mutual funds on shareholder proposals about executive compensation. ESG mutual funds are an important intermediary between investors and the firm because they attract capital based on stated environmental, social, and governance investment objectives. Yet relatively few mechanisms exist by which these funds can signal their adherence to their investors' non-pecuniary objectives. ESG funds can signal their alignment with investors' objectives by holding firms with higher published ESG metrics in their portfolios. However, this mechanism does little to signal a fund's efforts to align the firm's management with

the fund's investors. Instead, ESG funds can vote on shareholder proposals to signal their efforts to align management with their investors' interests. By examining voting behavior on executive compensation proposals, we gain insight into the commitment of ESG funds to act on behalf of its investors to reduce agency costs by aligning the economic interests of the firm's management with the non-pecuniary interests of its investors.

Our main findings suggest that while shareholder proposals about executive compensation rarely gain significant support from shareholders, ESG funds are more likely to vote in favor of such proposals than non-ESG funds. We show this finding holds for compensation proposals focused on G objectives, and ES objectives and proposals focused on improving transparency and redesigning executive compensation. We also show that the higher likelihood of ESG funds supporting compensation proposals compared to non-ESG funds differs depending on the proposal type. ESG funds are three times more likely to vote in support of ES proposals than G proposals and twice as likely to support transparency proposals as redesign proposals. When examining the higher support for ES compensation proposals by ESG funds compared to non-ESG funds, ESG funds are less likely to vote for proposals that require the redesign of compensation than improved transparency. This final result suggests that when opportunities arise to explicitly align the economic interest of portfolio firm executives to their investors' preferences, ESG funds appear to shy away.

Future research can examine the implications of ESG funds' relative tendency to avoid ES-based compensation redesign proposals, relative to ES-based transparency proposals. While the lack of majority support for all compensation proposals implies that boards are unlikely to make changes to portfolio firm executive compensation, future research could investigate more deeply the cases in which relatively higher support for compensation proposals prevails. This analysis

will likely reveal how ESG voting on compensation proposals can affect future compensation design and, ultimately, future firm performance, similar to the work in the say-on-pay literature. Additionally, it will likely be of interest to ESG fund managers to understand the capital flow implications of not supporting shareholder proposals to change the incentives of portfolio firm executives.

Appendix A

Merge of Datasets in ISS Voting Analytics

We access two Institutional Shareholder Services (ISS) Voting Analytics databases available through Wharton Data Research Services (WRDS), defined as follows:

1. Company Vote Results Dataset (“Company” data)
2. Mutual Fund Vote Dataset (“Voting” data)

We use the name of each shareholder proposal (variable names “*AgendaGeneralDesc*” and “*ItemDesc*” to classify the proposal as either Environmental or Social (ES) or corporate governance (G) as well as into Transparency or Redesign (see Appendix B). Two coauthors manually code the classification independently, and any discrepancy is reconciled by discussion among the four coauthors. We also use the Company data to identify the ISS recommendation (variable name “ISSrec”). We use the Voting data to identify how specific mutual funds voted in response to a shareholder proposal, enabling us to determine whether funds voted in support of or against ES and G proposals.

We merge Company and Voting data by the company’s proposal id (variable name “*ItemOnAgendaID*”). Unmatched observations can be (i) proposals with no mutual fund voting or (ii) companies that are not listed.

The results of a merge of the two datasets, yielding our final sample selection, are specified in Table 1.

Appendix B

Classification of Proposals

We rely on the *ResolutionType* variable from the ISS Voting Analytics data to classify proposals in our sample along several dimensions.

First, we classify proposals as G or ES using a process like that outlined in Dikolli et al. (2022) (see their Appendix A Part 2). In particular, we identified all proposals related to compensation. Then, three co-authors each grouped those into ES-related and G-related, compared their groupings, and discussed discrepancies to determine a resolution. ES-related proposals related to incorporating ESG or CSR factors into compensation. G-related proposals fell into three broad categories:

1. Proposal to submit severance agreement or retirement plan to shareholder vote
2. Proposal related to performance-based compensation (unrelated to incorporating ESG or CSR factors)
3. Proposal to ratify, limit, or change the compensation plan (unrelated to incorporating ESG or CSR factors)

Second, we classify proposals as either related to the redesign of executive compensation or improved transparency of compensation. Two co-authors independently classified the *ResolutionType* into one of six broad categories. Those co-authors compared classifications and discussed discrepancies to determine a resolution.

1. Proposal to change the design of incentive compensation (60 proposals)
2. Proposal to change the design of compensation, not incentive related (246 proposals)
3. Proposal to obtain shareholder approval of future compensation matters (41 proposals)
4. Proposal for management or the board to produce a non-recurring report (34 proposals)

5. Proposal for management or the board to provide a recurring disclosure(s) (10 proposals)
6. Proposal for management or the board to assess the feasibility of a change in the design of compensation (19 proposals)

For the purposes of our analysis, we group the first two categories and label them “redesign” and group the last four categories and label them “transparency.”

The table below presents, by proposal description, the number of proposals, the classification as ES or G, and the classification as redesign or transparency.

Appendix B (continued)

Coding for each type of shareholder proposal related to compensation

Proposal description	Number of proposals	ES or G	Transparency (T) or Redesign (R)
Pro-rata Vesting of Equity Awards	92	G	R
Submit Severance Agreement (Change-in-Control) to Shareholder Vote	22	G	T
Pro-rata Vesting of Equity Plans	18	G	R
Claw-back of Payments under Restatements	15	G	R
Assess Feasibility of Including Sustainability as a Performance Measure for Senior Executive Compensation	14	ES	T
Clawback of Incentive Payments	14	G	R
Limit Accelerated Vesting of Equity Awards Upon a Change in Control	13	G	R
Report on Integrating Risks Related to Drug Pricing into Senior Executive Compensation	10	ES	T
Prohibit Accelerated Vesting of Awards to Pursue Government Service	9	G	R
Include Sustainability as a Performance Measure for Senior Executive Compensation	8	ES	R
Submit SERP to Shareholder Vote	8	G	T
Performance-Based and/or Time-Based Equity Awards	7	G	R
Pro-rata Vesting of Equity Plan	7	G	R
Require Shareholder Approval of Specific Performance Metrics in Equity Compensation Plans	7	G	T
Adjust Executive Compensation Metrics for Share Buybacks	6	G	R
Adopt Anti Gross-up Policy	5	G	R
Amend Compensation Clawback Policy	5	G	R
Limit/Prohibit Accelerated Vesting of Awards	5	G	R
Report on Integrating ESG Metrics Into Executive Compensation Program	4	ES	T
Adopt Multiple Performance Metrics Under Executive Incentive Plans	4	G	R
Restrict Severance Agreements (Change-in-Control)	4	G	R
Adopt a Policy in which the Company will not Make or Promise to Make Any Death Benefit Payments to Senior Executives	4	G	R
Clawback Disclosure of Recoupment Activity from Senior Officers	4	G	R
Limit Executive Compensation	4	G	R
Report on Certain Vesting Program	4	G	T
Report on Incentive-Based Compensation and Risks of Material Losses	4	G	T
Disclosure of Recoupment Activity from Senior Officers	4	G	T
Include Carbon Reduction as a Performance Measure for Senior Executive Compensation	3	ES	R
Assess Feasibility of Cyber Security and Data Privacy as a Performance Measure for Senior Executive Compensation	3	ES	T
Prohibit Adjusting Compensation Metrics for Legal or Compliance Costs	3	G	R
Use GAAP for Executive Compensation Metrics	3	G	R
Cease Compliance Adjustments to Performance Criteria	3	G	R
Eliminate Above-Market Earnings in Executive Retirement Plans	3	G	R
Increase Disclosure of Compensation Adjustments	3	G	T
Cease Using Oil and Gas Reserve Metrics for Senior Executive's Compensation	2	ES	R
Performance-Based Equity Awards	2	G	R
Exclude the Impact of Stock Buyback Programs on the Financial Metrics on which CEO Pay is Based	2	G	R
Cessation of All Stock Options and Bonuses	2	G	R
Eliminate or Restrict Severance Agreements (Change-in-Control)	2	G	R
Adopt Compensation Clawback Policy	2	G	R
Amend Clawback Policy	2	G	R
Clawback Amendment	2	G	R
Limit Accelerated Vesting of Awards	2	G	R
Adopt Compensation Benchmarking Policy	2	G	R
Adopt Policy Prohibiting Hedging and Pledging Transactions	2	G	R
Adopt Policy Prohibiting Tax Payments on Restricted Stock Awards	2	G	R
Amend Bylaws to Limit Board Compensation	2	G	R
Cease CEO Compensation Benchmarking Policy	2	G	R
Improve Principles of Executive Compensation Program	2	G	R
Report on Incentive Compensation Plans	2	G	T
Increase Disclosure of Executive Compensation	2	G	T
Adopt Executive Compensation Philosophy with Social Factors	1	ES	R
Include Diversity as a Performance Metric	1	ES	R

Appendix B (continued)

Coding for each type of shareholder proposal related to compensation

Proposal description	Number of proposals	ES or G	Transparency (T) or Redesign (R)
Include Executive Diversity as a Performance Measure for Senior Executive Compensation	1	ES	R
Include Sustainability and GHG Emissions Reductions As Performance Measures for Senior Executive Compensation	1	ES	R
Link CEO Compensation to Patient Access to the Company's Medicine	1	ES	R
Link Executive Compensation to Sustainability Performance	1	ES	R
Reform Executive Compensation Policy with Social Responsibility	1	ES	R
Remove or Adjust Reserve Metrics used for Executive Compensation	1	ES	R
Adjust Executive Compensation Program for Reserve Write-Downs	1	ES	R
Approve Report on Executive Pay & Sustainability Performance	1	ES	T
Report on Executive Compensation Incentives Aligned with Low Carbon Scenarios	1	ES	T
Report on GHG Emissions Targets as a Performance Element of Executive Compensation	1	ES	T
Report on Integrating Community Impacts Into Executive Compensation Program	1	ES	T
Report on Integrating Drug Pricing Risks into Incentive Compensation Plans	1	ES	T
Report on Integrating Drug Pricing Risks into Senior Executive Compensation Arrangements	1	ES	T
Report on Using Oil and Gas Reserve Metrics for Named Executive's Compensation	1	ES	T
Assess Feasibility of Data Privacy as a Performance Measure for Senior Executive Compensation	1	ES	T
Assess Feasibility of Increasing the Impact of the Company's Performance on Quality Metrics for Senior Executive Compensation	1	ES	T
Performance Based Equity Awards	1	G	R
Pricing of Stock, Options, and Warrants to Management and Directors	1	G	R
Adopt Policy that Adjust Financial Performance Metrics to Exclude The Impact of Share Repurchases for Executive Officers	1	G	R
Adopt a Portfolio Approach on Management's Long-Term Incentive Compensation	1	G	R
Adopt Specific Performance Standards	1	G	R
Consent to Demand that the Board Change the Company's Executive Compensation Program to Include Metrics that More Directly Align Management Incentives With Shareholder Value Enhancement	1	G	R
Policy to Not Exclude Legal and Compliance Costs for Purposes of Determining Executive Compensation	1	G	R
Adopt Clawback Policy	1	G	R
Amend Senior Executive Compensation Clawback Policy	1	G	R
Amend the General Clawback Policy	1	G	R
Claw-back Statements under Restatements	1	G	R
Clawback Policy and Disclosure of Clawback Activity	1	G	R
Death Benefits/Golden Coffins	1	G	R
Discussion Item - Shareholder Proposal Relating To the Company's Clawback Policy	1	G	R
Double Trigger on Equity Plans	1	G	R
Eliminate Perquisites	1	G	R
Limit Accelerated Vesting	1	G	R
Limit Matching Contributions to Executive Retirement Plans	1	G	R
Pro-rata Vesting on Equity Plans	1	G	R
Abolish Professional Services Allowance	1	G	R
Adopt a Policy Prohibiting Derivative, Speculative and Pledging Transactions	1	G	R
Amend Equity Award Plan for Employees and Officers	1	G	R
Amend Principles of Executive Compensation Program	1	G	R
Approve Stockholder Proposal Regarding Executive Compensation	1	G	R
Improve Executive Compensation Program and Policy	1	G	R
Improve Guiding Principles of Executive Compensation	1	G	R
Improve the Executive Compensation Philosophy	1	G	R
Recommend the Board and Management Act Expeditiously to Effectuate an IPO and Subsequent REIT Conversion of the Real Estate and Self-Storage Businesses	1	G	R
Submit Severance Agreement to Shareholder Vote	1	G	T
Approve Quantifiable Performance Metrics	1	G	T
Require Shareholder Approval of Quantifiable Performance Metrics	1	G	T
Seek Shareholder Approval to Release of Unvested Restricted Stock Awards and Unvested PSU Awards to Senior Executives	1	G	T
Report on and Assess Proxy Voting Policies in Relation to Executive Compensation	1	G	T
Report on Comprehensive Compensation Study and Retention of the Chief Executive Officer	1	G	T
Report on Executive Pay and Proxy Voting	1	G	T
Adopt Policy Disclosing Rationale Behind Approval of Sale of Compensation Shares by a Senior Executive During a Buyback	1	G	T
Total	410		

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Table 1
Sample Characteristics

Panel A: Sample Selection of compensation-related proposals (2012-11/2021)

I: ISS Voting Analytics Company Vote Results Database

Number of usable shareholder proposals related to compensation from company database	416
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II: ISS Voting Analytics Mutual Fund Vote Records Database

Number of usable shareholder proposals related to compensation from mutual fund voting database	1,315
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III: Morningstar Database

Number of usable shareholder proposals related to compensation at the Intersection of I and II	411
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Excluding missing proposals in Morningstar Database	(1)
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Number of shareholder proposals available for use in analyses	410
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Table 1 (continued)
Sample Characteristics

Panel B: Sample Description of Votes by Type of Proposal (G vs. ES) and Fund

	G Proposal	ES Proposal	
Non-ESG Fund	Votes: 67,202 (348)	Votes: 18,441 (62)	Funds: 2,120 Families: 230 Votes: 85,643
ESG Fund	Votes: 7,031 (334)	Votes: 2,021 (62)	Funds: 234 Families: 64 Votes: 9,052
	Proposals: 348 Funds: 2,315 Families: 237 Votes: 74,233	Proposals: 62 Funds: 1,820 Families: 220 Votes: 20,462	Proposals: 410 Funds: 2,354 Families: 238 Votes: 94,695

Panel C: Sample Description of Votes by Type of Proposal (transparency vs. redesign) and Fund

	Transparency	Redesign	
Non-ESG Fund	Votes: 26,614(104)	Votes: 59,029 (306)	Funds: 2,120 Families: 230 Votes: 85,643
ESG Fund	Votes: 2,809 (103)	Votes: 6,243 (293)	Funds: 234 Families: 64 Votes: 9,052
	Proposals: 104 Funds: 1,966 Families: 221 Votes: 29,423	Proposals: 306 Funds: 2,277 Families: 237 Votes: 65,272	Proposals: 410 Funds: 2,354 Families: 238 Votes: 94,695

Table 2
Characteristics of Shareholder Proposals Related to Compensation

Proposal Description	# Proposals	% Proposal ISS Rec For	% For fund votes	# families voted	# funds voted	# of votes
Total	410	76%	31%	238	2,354	94,695
G Proposals	348	82%	33%	237	2,315	74,233
ES Proposals	62	42%	17%	220	1,820	20,462
Transparency proposals	104	78%	34%	221	1,966	29,423
Redesign proposals	306	75%	29%	237	2,277	65,272

Table 3
Number and Type of Shareholder Proposals Related to Compensation by Year

	G proposals			ES proposals			Transparency proposals			Redesign proposals			Total		
	% ISS % for fund votes			% ISS % for fund votes			% ISS % for fund votes			% ISS % for fund votes			% ISS % for fund votes		
Year	# props	for	fund votes	# props	for	fund votes	# props	for	fund votes	# props	for	fund votes	# props	for	fund votes
2012	33	91%	42%	3	0%	2%	6	83%	42%	30	83%	38%	36	83%	39%
2013	56	91%	37%	2	0%	1%	10	100%	43%	48	85%	34%	58	88%	36%
2014	47	81%	31%	1	0%	1%	7	86%	40%	41	78%	29%	48	79%	31%
2015	76	88%	33%	5	0%	2%	18	83%	36%	63	83%	29%	81	83%	31%
2016	36	78%	29%	9	33%	11%	8	100%	43%	37	62%	21%	45	69%	25%
2017	21	71%	25%	8	25%	11%	8	50%	26%	21	62%	20%	29	59%	21%
2018	30	73%	32%	11	55%	21%	12	67%	28%	29	69%	30%	41	68%	29%
2019	23	65%	32%	10	80%	28%	14	79%	31%	19	63%	30%	33	70%	30%
2020	12	83%	36%	8	63%	29%	13	69%	30%	7	86%	38%	20	75%	33%
2021	<u>14</u>	<u>64%</u>	<u>29%</u>	<u>5</u>	<u>40%</u>	<u>24%</u>	<u>8</u>	<u>63%</u>	<u>30%</u>	<u>11</u>	<u>55%</u>	<u>26%</u>	<u>19</u>	<u>58%</u>	<u>27%</u>
Total	348	82%	33%	62	42%	17%	104	78%	34%	306	75%	29%	410	76%	31%

Table 4
Univariate Analysis: Proportion of Votes in Favor of Proposal

	(1)	(2)	(3)		(4)	(5)	
	Total	G Proposals	ES Proposals	Diff. (ES vs. G Proposals)	Transparency Proposals	Redesign Proposals	Diff. (Transparency vs. Redesign Proposals)
Non-ESG Funds	23,924 out of 85,643 27.93%	20,569 out of 67,202 30.61%	3,355 out of 18,441 18.19%	-12.42%*** (-33.30)	7,886 out of 26,614 29.63%	16,038 out of 59,029 27.17%	2.46%*** (7.43)
ESG Funds	3,420 out of 9,052 37.78%	2,631 out of 7,031 37.42%	789 out of 2,021 39.04%	1.62% (-1.32)	1,225 out of 2,809 43.61%	2,195 out of 6,243 35.16%	8.45%*** (7.67)
Diff. (ESG vs. Non-ESG Funds)	9.85%*** (H1) (19.67)	6.81%*** (11.72)	20.85%*** (22.14)	14.04%*** (H2) [11.75]	13.98%*** (15.24)	7.99%*** (13.38)	5.99%*** (H3) [5.55]

*** p-value < 0.001 level; z-scores in parentheses; and t-statistics in square brackets.

Table 5
Sample and Data Description for Multivariate Tests

Panel A Sample Selection for the Regression Models

	# of Fund-Vote Obs.
Mutual fund votes	94,695
Excluding:	
- Funds with missing lagged fund size	(1,893)
- Funds with missing fund turnover ratio	(2,492)
Sample with non-missing control variables	90,310

Panel B Descriptive Statistics

Variable	N	mean	p50	sd	min	p1	p25	p75	p99	max
<i>VoteFor</i>	90,310	0.283	0	0.450	0	0	0	1	1	1
<i>ESG fund</i>	90,310	0.098	0	0.298	0	0	0	0	1	1
<i>ISS_for</i>	90,310	0.731	1	0.443	0	0	0	1	1	1
<i>TurnoverRatio</i>	90,310	0.565	0.350	0.698	0.020	0.020	0.130	0.710	4.400	4.400
<i>lnTurnoverRatio</i>	90,310	0.382	0.300	0.333	0.020	0.020	0.122	0.536	1.686	1.686
<i>FundSize (\$ millions)</i>	90,310	7,022	837.8	22,267	3.450	3.450	178.6	3,462	168,216	168,216
<i>lnFundSize</i>	90,310	20.46	20.55	2.239	15.05	15.05	19.00	21.97	25.85	25.85

Table 6 – ESG Fund Voting Behavior on Shareholder Proposals About Executive Compensation

This table reports estimates from a linear probability regression of the proportion of votes in favor of a shareholder proposal on the type of mutual fund, by type of shareholder proposal. *ESG_fund* refers to mutual funds with stated investment objectives related overall to sustainability, as classified by Morningstar. We winsorize all control variables at the 1st and 99th percentiles. We cluster standard errors at the fund level and report *t*-statistics in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Panel A: Regression results for the entire sample

	(1) All	(2) All
<i>ESG_fund</i>	0.090*** (3.16)	0.094*** (3.33)
<i>ISS_for</i>	0.328*** (25.52)	0.267*** (19.22)
<i>lnTurnoverRatio</i>	0.026 (0.91)	0.033 (1.20)
<i>lnFundSize</i>	-0.045*** (-13.58)	-0.045*** (-13.49)
Constant	0.954*** (12.97)	0.991*** (13.41)
Observations	90,310	90,310
Proposals	410	410
Adjusted R ²	0.1612	0.2032
Firm-year FE	NO	YES
Cluster	Fund	Fund

Table 6 – ESG Fund Voting Behavior on Shareholder Proposals About Executive Compensation (continued)

This table reports estimates from a linear probability regression of the proportion of votes in favor of a shareholder proposal on the type of mutual fund, by type of shareholder proposal. *ESG_fund* refers to mutual funds with stated investment objectives related overall to sustainability, as classified by Morningstar. “ES” refers to environmental or pro-social shareholder proposals. “G” refers to governance shareholder proposals. “Redesign” refers to shareholder proposals about the redesign of executive compensation. “Transparency” refers to shareholder proposals about executive compensation that provide more transparent information to shareholders. We winsorize all control variables at the 1st and 99th percentiles. We cluster standard errors at the fund level and report *t*-statistics in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Panel B: Regression results for subsamples of G proposals, ES proposals, transparency proposals, and redesign proposals

	(1) All G	(2) All ES	(3) All transparency	(4) All redesign	(5) All G	(6) All ES	(7) All transparency	(8) All redesign
<i>ESG_fund</i>	0.063** (2.22)	0.191*** (4.59)	0.137*** (3.93)	0.069** (2.50)	0.066** (2.35)	0.192*** (4.66)	0.149*** (4.34)	0.070** (2.52)
<i>ISS_for</i>	0.344*** (25.30)	0.269*** (19.07)	0.308*** (24.48)	0.335*** (24.03)	0.252*** (16.29)	Absorbed	0.349*** (20.05)	0.252*** (16.34)
<i>lnTurnoverRatio</i>	0.026 (0.84)	0.025 (0.95)	0.048 (1.62)	0.017 (0.56)	0.034 (1.12)	0.026 (0.99)	0.059** (1.98)	0.023 (0.79)
<i>lnFundSize</i>	-0.050*** (-13.18)	-0.032*** (-10.20)	-0.044*** (-11.91)	-0.046*** (-13.40)	-0.049*** (-13.00)	-0.032*** (-10.20)	-0.043*** (-11.69)	- (-13.39)
Constant	1.033*** (12.61)	0.684*** (9.67)	0.925*** (11.35)	0.970*** (12.86)	1.091*** (13.22)	0.825*** (11.36)	0.881*** (10.67)	1.023*** (13.58)
Observations	70,882	19,428	27,934	62,376	70,882	19,428	27,934	62,376
Proposals	348	62	104	306	348	62	104	306
Adjusted R ²	0.1526	0.1788	0.1368	0.1725	0.2030	0.1922	0.1920	0.2153
Firm-year FE	NO	NO	NO	NO	YES	YES	YES	YES
Cluster	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund

Table 7 – Exploratory analysis

This table reports estimates from a linear probability regression of the proportion of votes in favor of a shareholder proposal on the type of mutual fund, by type of shareholder proposal. *ESG_fund* refers to mutual funds with stated investment objectives related overall to sustainability, as classified by Morningstar. “ES” refers to environmental or pro-social shareholder proposals. “G” refers to governance shareholder proposals. “Redesign” refers to shareholder proposals about the redesign of executive compensation. “Transparency” refers to shareholder proposals about executive compensation that provide more transparent information to shareholders. We winsorize all control variables at the 1st and 99th percentiles. We cluster standard errors at the fund level and report *t*-statistics in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively.

VARIABLES	(1) G transparency	(2) G redesign	(3) ES transparency	(4) ES redesign	(5) G transparency	(6) G redesign	(7) ES transparency	(8) ES redesign
<i>ESG_fund</i>	0.051 (1.55)	0.066** (2.31)	0.214*** (4.67)	0.120*** (3.48)	0.063** (2.00)	0.066** (2.33)	0.216*** (4.74)	0.118*** (3.47)
<i>issrecfor</i>	0.380*** (27.99)	0.335*** (23.77)	0.247*** (17.01)	Absorbed	0.322*** (7.37)	0.242*** (14.99)	Absorbed	Absorbed
<i>Inturnoverratio</i>	0.052 (1.47)	0.020 (0.64)	0.048 (1.44)	-0.035** (-2.25)	0.071** (2.05)	0.026 (0.85)	0.047 (1.42)	-0.030** (-1.97)
<i>lnl1mfundsize</i>	-0.048*** (-10.29)	-0.050*** (-13.42)	-0.041*** (-10.33)	-0.005*** (-3.07)	-0.046*** (-9.67)	-0.050*** (-13.42)	-0.041*** (-10.42)	-0.005*** (-2.69)
Constant	0.987*** (9.59)	1.042*** (12.94)	0.870*** (9.92)	0.145*** (3.26)	0.984*** (8.88)	1.108*** (13.73)	1.050*** (11.61)	0.132*** (2.92)
Observations	13,364	57,518	14,570	4,858	13,364	57,518	14,570	4,858
Proposals	64	284	40	22	64	284	40	22
Adjusted R-squared	0.1265	0.1571	0.1459	0.0448	0.2060	0.2014	0.1590	0.0658
firm-year FE	NO	NO	NO	NO	YES	YES	YES	YES
Cluster	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund

Table 7 – Exploratory analysis (continued)

Comparison of *ESG fund* coefficients across columns

Col. 1 vs. Col. 2:	-0.015 (F-stat: 0.48, p-value: 0.489)
Col. 3 vs. Col. 4:	0.094*** (F-stat: 7.54, p-value: 0.006)
Col. 1 vs. Col. 3:	-0.163*** (F-stat: 14.12, p-value: 0.000)
Col. 2 vs. Col. 4:	-0.054 (F-stat: 2.61, p-value: 0.106)
Col. 5 vs. Col. 6:	-0.003 (F-stat: 0.02; p-value: 0.881)
Col. 7 vs. Col. 8:	0.098*** (F-stat: 8.08; p-value: 0.005)
Col. 5 vs. Col. 7:	-0.153*** (F-stat: 12.92; p-value: 0.000)
Col. 6 vs. Col. 8:	-0.052 (F-stat: 2.50; p-value: 0.114)