

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

Marie Brière (*Amundi & Dauphine U.*)

Sébastien Pouget (*TSE & TSM, U. of Toulouse Capitole*)

Loredana Ureche-Rangau (*University of Picardie Jules Verne*)

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# Research Project

- Why do institutional investors engage companies on global externalities such as climate change?
- Two (non-exclusive) explanations
  - Universal ownership (Monks and Minow, 1995)
  - Delegated philanthropy (Benabou and Tirole, 2010)

# In a perfect world

- Shareholders are unanimous in requiring executives to maximise the financial value of the firm
- Purely financial objective...
- ... and everything is for the best!
- No need for engagement
- See e.g. Fisher theorem



# In reality

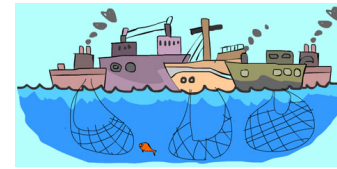
*“The modern corporation is an economic institution in which there is always a potential political (i.e. voting) aspect.”*

S. J. Grossman and J. E. Stiglitz, On value maximization and alternative objectives of the firm, *The Journal of Finance*, MAY 1977

- See e.g. the empirical analyses of Cunat et al., 2012 and Flammer, 2015



# Externalities



- One important reason why shareholders disagree regarding corporate policies might be related to externalities
- Externalities refer to firms' impact on society that are not priced efficiently (CO2 emissions, nuclear energy, excessive use of common resources, Employee training, employee welfare...)
- Investors who value externalities may disagree on the level of externalities the firm should generate

# Universal ownership

- Large institutional investors own a significant share in virtually all listed companies and have a long horizon
- They would like firms to take into account negative externalities to avoid deteriorating the overall financial value of their portfolios
  - Monks and Minow, 1995, Hawley and Williams, 2000, Mattison, Trevitt and Van Ast, 2011, Dimson, Kreutzer, Lake, Sjo, and Starks, 2013, and Azar, 2017

# Universal ownership

- For example, universal owners may want to take into account the negative economic impact that the GHG emissions of a firm on other companies' businesses through water, food, health or migration issues
- Universal owners can also improve the level of coordination among firms' policies towards externalities
  - Benabou and Tirole, 2016 and Azar, Schmaltz, and Tecu, 2017

# Delegated philanthropy

- 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
- They might want to promote these clients' and citizens' values and preferences and induce management to choose the appropriate course of action
  - Heinkel, Kraus and Zechner, 2001, Benabou and Tirole, 2010, Gollier and Pouget, 2016



# Delegated philanthropy

- For example, investors may want to communicate their preferred level of precaution regarding climate change to management
- 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

# Delegated philanthropy

- Morgan and Tumlinson (2012) offer two reasons why engagement by institutional investors on externality issues is legitimate
  - Companies' actions are less subject to the free-rider problem than individual shareholders
  - Companies' production decisions are more efficient from a social point of view and increases the welfare of shareholders and citizens who care about externalities

# Methodology

- Focus on two **archetypical** investors:
  - **BlackRock**: private company listed on NYSE, fiduciary duty to shareholders (PNC Bank, Norges Bank IM, Vanguard, Wellington, BlackRock...) – Equity portfolio around \$2.6 trillion – 3,648 holdings above 3% around the world
  - **Norway Fund**: sovereign wealth fund monitored by the Norwegian Ministry of Finance, fiduciary duty to the representatives of the Norwegian people – Equity portfolio around \$500 billion – Average equity share around 1% around the world

# Methodology

- Both funds are **universal owners**
- Both funds have centralized corporate governance teams (31 persons at BR and around 12 at NF)
- Differences between funds:
  - **BlackRock as a standard investor** – Only the universal investor logic may apply
  - **Norway Fund as a responsible investor** – The delegated philanthropy may also apply

# Methodology

- Study how the two investors vote shareholder resolutions on Environmental (E) and Social (S) issues - e.g., GHG emissions, nuclear safety, GMOs, human rights, diversity - **proxy for externality issues**
- Compare votes on shareholder resolutions on E and S issues to
  - Shareholder resolutions on Governance issues
  - Management resolutions on G and Financial issues
- Focus on investors' **opposition to management**
  - Management opposes all resolutions on E and S issues
  - Identical to studying support of investors for E and S negative externality mitigation policies

# Methodology

- Test what factors are driving corporate engagement of institutional investors on externality issues
- Two logics might explain such engagement:
  - Universal ownership
  - Delegated philanthropy
- If BlackRock engages companies on externality issues, the universal ownership logic is at work
- If the Norway Fund engages, the delegated philanthropy logic is at work

# General assembly meetings

- General meetings (GM) provide shareholders with a corporate governance mechanism
  - Exercise their voting rights, meet the management and challenge certain strategic decisions
- Resolutions submitted at GM may be sponsored by the management or by shareholders
  - cover financial, environmental, social, governance issues
  - In the US, proposals are submitted under the SEC 14a8 rule, by shareholder holding at least \$2,000 or 1% of the company's securities
  - Rules vary in Europe: min 5% in the UK or France, 1% in Austria, 1% in the Netherlands, one single share in Germany or Nordic countries

# Our empirical study

- Focus on 35,382 resolutions at 2,796 corporations across the world for the year 2014
- Resolutions at which **both** BlackRock (BR) and Norway Fund (NF) **voted**
- Data:
  - Votes from SEC filings for BlackRock and from the web for Norway Fund
  - Firm characteristics from Factset (market cap, ROA...)
  - Financial data from Bloomberg
  - Extra-financial ratings from MSCI ESG STATS
  - Analysts' forecasts from I/B/E/S



# Data on environmental issues

	Number of voted resolutions	Rate of opposition to the management by sponsor of the resolution			
		BlackRock		Norway Fund	
		<i>Management</i>	<i>Shareholder</i>	<i>Management</i>	<i>Shareholder</i>
<b>Environmental issues</b>	<b>69</b>	-	<b>4%</b>	-	<b>49%</b>
<b>Animal welfare</b>	2	-	0%	-	50%
Animal testing	1	-	0%	-	0%
Animal welfare policies	1	-	0%	-	100%
<b>Climate</b>	24	-	4%	-	83%
Climate change and GHG emissions	24	-	4%	-	83%
<b>Environment and sustainability</b>	34	-	0%	-	23%
Hydraulic fracturing	3	-	0%	-	67%
Nuclear safety	15	-	0%	-	0%
Sustainability reporting	16	-	0%	-	50%
<b>Others</b>	9	-	22%	-	33%

# Data on social issues

	Number of voted resolutions	Rate of opposition to the management by sponsor of the resolution			
		BlackRock		Norway Fund	
		<i>Management</i>	<i>Shareholder</i>	<i>Management</i>	<i>Shareholder</i>
<b>Social issues</b>	<b>257</b>	<b>6%</b>	<b>9%</b>	<b>7%</b>	<b>49%</b>
<b>Consumer issues</b>	10	-	10%	-	10%
Genetically modified ingredients	8	-	13%	-	13%
Other consumer responsibility	2	-	0%	-	0%
<b>Diversity</b>	11	-	9%	-	73%
Board diversity	4	-	25%	-	75%
Discrimination	1	-	0%	-	0%
Sexual orientation	6	-	0%	-	83%
<b>General corporate issues</b>	40	23%	0%	23%	0%
Charitable contributions	40	23%	0%	23%	0%
<b>Human rights</b>	20	-	10%	-	35%
Human rights proposals	20	-	10%	-	35%
<b>Political activities</b>	176	0%	9%	1%	55%
Lobbying	29	-	10%	-	38%
Political contributions	147	0%	9%	1%	65%

# Data on governance issues

	Number of voted resolutions	Rate of opposition to the management by sponsor of the resolution			
		BlackRock		Norway Fund	
		<i>Management</i>	<i>Shareholder</i>	<i>Management</i>	<i>Shareholder</i>
<b>Governance issues</b>	<b>28 396</b>	<b>3%</b>	<b>12%</b>	<b>8%</b>	<b>36%</b>
<b>Audit practices and risk management</b>	3 113	2%	0%	7%	8%
Audit practices	3 111	2%	0%	7%	9%
Risk management	2	-	0%	-	0%
<b>Board accountability and responsiveness</b>	18	0%	0%	0%	20%
Ability to remove directors	13	0%	0%	0%	0%
Tax transparency	5	0%	0%	0%	100%
<b>Board independence</b>	51	100%	16%	100%	88%
Competitive activities of directors	1	100%	-	100%	-
Independent chairman and directors	50	-	16%	-	88%
<b>Board structure</b>	20 557	2%	5%	7%	7%
Appointment	20 143	2%	0%	7%	1%
Board composition	167	1%	0%	1%	38%
Others board related proposals	86	1%	47%	3%	47%
Related-party transaction	161	1%	-	6%	-
<b>Compensation/Remuneration</b>	4 462	5%	2%	11%	47%
Employee compensation	1 606	6%	0%	11%	15%
Executive compensation	2 856	4%	3%	10%	53%
<b>Shareholder rights</b>	195	21%	35%	20%	49%
Call special meeting	20	0%	33%	0%	67%
Proxy access right	22	0%	47%	0%	53%
Takeover defenses	87	29%	53%	26%	20%
Voting formalities	66	8%	24%	12%	54%

# Data on financial issues and total

	Number of voted resolutions	Rate of opposition to the management by sponsor of the resolution			
		BlackRock		Norway Fund	
		<i>Management</i>	<i>Shareholder</i>	<i>Management</i>	<i>Shareholder</i>
<b>Financial issues</b>	<b>5 716</b>	<b>3%</b>	<b>6%</b>	<b>5%</b>	<b>26%</b>
<b>Others issues</b>	<b>944</b>	<b>4%</b>	<b>1%</b>	<b>6%</b>	<b>7%</b>
<b>Total</b>	<b>35 382</b>	<b>3%</b>	<b>9%</b>	<b>7%</b>	<b>34%</b>

# Descriptive statistics

Variable	N	Mean	Std. Dev.	Min	Max
Panel A: Measures of agreement					
oppos_atleystone	35 382	0,09	0,28		
oppos_blackrock	35 382	0,03	0,16		
oppos_norway	35 382	0,08	0,27		
Panel B: Resolution characteristics					
shareholder proposal	35 382	0,02	0,15		
resolution ES	35 382	0,01	0,10		
resolution G	35 382	0,80	0,40		
Panel C: Country and firm ESG ratings					
Country Rating ES	35 382	0,62	0,06	0,36	0,69
Country Rating G	35 382	0,78	0,12	0,14	0,95
Company Rating ES	35 382	4,91	1,49	0,50	9,95
Company Rating G	35 382	6,57	2,68	0,00	10,00
Panel D: Firm characteristics					
mktpcap	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

# Opposition to management

	Probit coefficients		
	(1) BR or NF oppose	(2) BR opposes	(3) NF opposes
Shareholder proposal*resolution ES	1.867***	1.028***	1.818***
Management proposal*resolution ES	0,089	0.435**	0,146
Shareholder proposal*resolution G	1.594***	1.220***	1.507***
Management proposal*resolution G	0.327***	0.238***	0.296***
Country rating ES	-2.768***	-5.334***	-2.195***
Country rating G	1.108***	1.752***	0.900***
Company rating ES	-0,018	-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	-0,026	-0,010	-0,028
Volatility	-0.048**	-0.091***	-0.037*
Analyst dispersion	0,001	-0,013	0,003
Industry fixed effect	yes	yes	yes
Country fixed effect	yes	yes	yes
Observations	35 382	35 367	35 382
Pseudo R2	0,062	0,085	0,058

# Main results

- **Both investors oppose management** more for E&S shareholder resolutions than for management resolutions on financial issues
- **Only Norway opposes management more for shareholder resolutions on E&S than on governance issues**
- BlackRock tends to oppose more E&S resolutions proposed by management – cases in which management wants to mitigate externalities

# Robustness checks

- Identical results when we focus on firms for which we know the **holdings** of the two investors from SEC Filings 13F – 6,037 resolutions voted by both investors in 548 firms
- Identical results when focusing on **climate change** issues – Clearly an externality
- Identical results when focusing on **active equity portfolio** of BlackRock – 8,782 resolutions voted by both investors in 658 firms
- Identical results **with and without country fixed effects**, and with a **bivariate** analysis



# Conclusion

- Engagement of corporations by institutional investors in line with the **delegated philanthropy** logic, less with the universal ownership logic
- Our study **questions the objective of the firm** and decision-making tools such as NPV used by corporations
- See the theoretical analysis of Magill, Quinzii and Rochet, 2015 on the stakeholder corporation

# What we plan to do next

- Study more recent time periods
- Study other institutional investors
  - Responsible investors which are not universal owners, e.g., Calvert
  - Traditional investors which are not universal owners, e.g. small asset management companies
  - Study other universal owners, responsible (e.g., CalPERS and TIAA-CREF) and standard (e.g., Vanguard and State Street)

**THANKS FOR YOUR ATTENTION!**

**COMMENTS ARE WELCOME**