# Mutual Fund Disagreement and Firm Value: Passive vs. Active Voice *

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**Abstract**

We develop a novel measure for disagreement in voice between active and passive mutual funds using their proxy votes that capture shareholder conflicts in public firms. We show that the disagreements between these two types of funds reduce firm value. This loss is likely attributed to the conflicting incentives between the two groups. Our research contributes to understanding shareholder conflicts and emphasizes the importance of considering conflicting incentives within the shareholder landscape.

Keywords: Corporate governance, Voting, Disagreement

JEL Classification: G14, G23, G34

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# 1 Introduction

While prior work shows that there are differences in preferences and beliefs among institutional investors such as mutual funds, which creates opportunities for conflicts of interest among important shareholders in most public firms, the implications of such conflicts are not well understood.[1] In this paper, we construct a measure of conflicts among shareholders of public firms using disagreement in mutual funds' proxy votes and examine the consequences of the disagreement for firm value.

The rise of index fund ownership is transforming the corporate governance of public firms. In 2019, more than half of the equity in mutual funds was held by index funds[2] This shift raises questions about the ways in which passive asset managers monitor and engage with their portfolio companies. There is ongoing research and debate about how the governance practices of passive funds differ from those of active mutual funds. [3] Index funds are often criticized for lacking incentives to monitor (Bebchuk and Hirst (2019)), and some propose that "lawmakers consider restricting passive funds from voting at shareholder meetings" (Lund (2017)). On the other hand, since passive managers have to hold their shares, they engage with portfolio companies via voice. Active managers can simply sell off shares if they disagree with company policies. The differences between active and passive funds can thus be a source of conflicts that affect the governance of most public firms.

Anecdotal evidence shows that major index fund managers often have conflicting views with active managers regarding the corporate policies of companies they invest in. At the same time, the most prominent active managers disagree with the passive managers and are explicitly referring to proxy votes.[4] A notable example of disagreement between the two groups of mutual funds is

[1] See Hayden and Bodie (2008) for a comprehensive overview of different sources of shareholder heterogeneity. For example, shareholders may have different tax considerations (Desai and Jin (2011)), business ties (Cvijanovic et al. (2016)), time horizons (Bushee (1998); Gaspar et al. (2005)), special interests (Agrawal (2012); Mullins and Schoar (2016)), or social, political or environmental views (Bubb and Catan (2022); Bolton et al. (2020)). Li et al. (2022) show that shareholders may interpret the same information differently.

[2] https://www.wsj.com/articles/index-funds-are-the-new-kings-of-wall-street-11568799004.

[3] For example, Fisch et al. (2019), and Kahan and Rock (2020). See the SEC chairman Jay Clayton's statement and the 2018 SEC Roundtable on index funds' approach to engaging with companies (https://www.sec.gov/news/public-statement/statement-claytoniac-091318 and https://www.sec.gov/files/proxy-round-tabletranscript-111518.pdf, respectively).

[4] Larry Fink, CEO of BlackRock, in his letter to public company CEOs from 2015 states: "*It is critical, however, to understand that corporate leaders' duty of care and loyalty is not to every investor or trader who owns their companies' shares at any moment in time, but to the company and its long-term owners. Successfully fulfilling that duty requires that corporate leaders ...resist the pressure of short-term shareholders ...and most importantly that they articulate their strategy for sustainable long-term growth.*"

Environmental, Social, and Governance (ESG) issues. The 2021 proxy season marked a high point in shareholder proposals related to ESG, reflecting its growing importance in the investment world (Smith (2021)). BlackRock, the world's largest passive asset manager, is viewed as one the biggest proponents of ESG investing.[5] On the other hand, Warren Buffett and Charlie Munger, stewards of Berkshire Hathaway, are not leading the charge on ESG investing and argue that "*companies shouldn't assign investors' cash to social causes*" (Winck (2020)). A possible reason driving these opposite views is that "green" assets have lower expected returns because of investors' tastes for "green" assets (Pástor et al. (2021); Pástor et al. (2022)). In this case, active asset managers, whose aim is superior financial performance, would disagree with passive managers on ESG matters due to their inherently different objectives. The consequences of such disagreements in voice for mutual funds' portfolio companies are not well understood.

This paper investigates whether the conflicts between passive and active mutual funds measured by their disagreement in voice affect the market value of a firm's equity. Recent theories show that the lack of homogeneity and cohesiveness in decision-making by groups leads to inefficiencies, suggesting that disagreement and conflicts among shareholders might be detrimental to firms' valuations (Garlappi et al. (2017); Donaldson et al. (2020)). On the other hand, shareholder diversity may be beneficial if decision-makers have complementary skills or information (Jehn et al. (1999); Erhardt et al. (2003); Hamilton et al. (2012)). We find evidence consistent with disagreement between passive and active mutual funds being value destroying.

For our analyses, we develop a novel measure that captures the conflicts between active and passive mutual funds using the disagreement in their voting decisions on 330 thousand unique proposals during 2003-2018. Corporate voting is an important way in which shareholders voice their opinions and exert influence over the decisions of a firm's management (McCahery et al. (2016); Edmans and Holderness (2017)). Specifically, we rely on mutual funds' voting decisions to capture the difference between which passive and active funds, as two separate groups, vote in

Jack Bogle, Vanguard founder, in an interview, said: "*Traditional index funds are the last, best hope for corporate governance because they're the only true, long-term investors. Corporate governance should be based on long-term factors affecting the corporation, not a bunch of traders who want you to report higher earnings, gonna try and get on your board for a minute, and in a moment, I don't know how they're this smart to do it, but realign the entire company and then all will be well. It just doesn't happen. In fact, the reverse is more likely to happen.*" Charlie Munger, the vice chairman of Berkshire Hathaway Inc. said at the annual meeting of Daily Journal Corp., "*We've had this enormous transfer of voting power to these passive index funds. That is going to change the world I don't know what the consequences are gonna be, but I predict it will not be good.*"

[5] See, for example, https://www.institutionalinvestor.com/article/b1tkr826880fy2/The-Trillion-Dollar-Fantasy.

accordance with management's preference over every voting item. The difference in the approval rates of management between the passive and active funds is a measure of conflicts between the two fund groups. The disagreement is high when most passive funds vote with management while most active funds vote against management and vice versa. In addition, we follow Cookson and Niessner (2020) and construct a continuous measure of cross-group disagreement in voice between passive and active funds by computing the weighted standard deviation of the average approval rate of management across the two groups.

To assess the value impact of active vs. passive funds conflicts, we analyze the cumulative abnormal returns associated with disagreements in voice around shareholder meeting outcome disclosure dates. Valuation effects may have been incorporated in prices before the meeting if the overall vote support is anticipated (Cuñat et al. (2012)). Therefore, we mainly focus on viable proposals, that is when the vote outcome is not perfectly anticipated. We call a proposal to be viable if the overall vote support is between 45% and 55%. We find that, when proposals are viable, the disagreement in voice between passive and active funds is value-destroying to the market value of a firm's equity. Relative to proposals with equal approval rates of management by active and passive mutual funds, the presence of disagreement decreases the market value of a firm's equity by about 2.2%. The value loss we document does not differ depending on whether the unequal approval of management comes from the stronger support from passive or active mutual funds. We further confirm this result using the continuous cross-group disagreement measure and show that the magnitude of the value loss is larger when cross-group disagreement is greater. These findings are robust to using regression specifications with different sets of fixed effects and control variables.

The value-destroying effect of disagreement between passive and active funds we find may also arise from the differences in opinions about the quality of a proposal between the two fund groups, rather than their differences due to conflicting incentives. However, it is challenging to disentangle the two sources of disagreement because there is no holistic ex-ante measure of the quality of a particular proposal from a firm's perspective. To address this, we investigate the relationship between disagreement and the market value of a firm's equity in a setting that isolates incentive-based differences. We include the within-passive fund group disagreement measure in the baseline model to account for the disagreement about the proposal quality. The assumption is that disagreement among passive funds mostly captures the differences in opinions about the quality

of a proposal since these funds have similar incentives. We find that cross-group disagreement, rather than within-passive fund group disagreement, affects the market value of a firm's equity, suggesting that differences in opinions about the quality of a proposal are unlikely to drive our results.

We refine this approach by constructing a measure of disagreement within passive funds that track the S&P 500 index. These funds have very homogenous incentives. This measure thus captures the differences in opinions about the quality of a proposal within the group of S&P 500 index funds. Cross-group disagreement continues to hurt the market value of the firm's equity while the coefficient of disagreement among S&P 500 index funds is small and statistically insignificant. Our analyses provide suggestive evidence that conflicts arising from differences in incentives between passive and active mutual funds, rather than differences in opinions, drive the value-destroying effect we document.

For our next analyses, we split the sample of viable proposals into management-sponsored and shareholder-sponsored. Shareholder-sponsored proposals do not have to be implemented after passing, while most management-sponsored proposals that pass are binding. We find that, after a management-sponsored proposal is passed with a small margin in the presence of unequal approval of the proposal by the two groups of mutual funds, the increase in market value of a firm's equity is smaller by 1.5 percentage points relative to 2.3% increase for proposals that pass with a similarly small margin while receiving an equal approval by mutual funds. This large relative value loss due to disagreement obtains if the unequal approval comes from either passive or active funds being more supportive of the management. Similarly, we show that relative to small cross-group disagreement between passive and active mutual funds, the presence of large cross-group disagreement decreases the value by 1.1 percentage points, after a management-sponsored proposal is passed with a small margin. None of these effects are present in the subsample of shareholder-sponsored proposals.

Despite controlling for several proposal- and firm-level characteristics, and various sets of fixed effects, there is a potential for endogeneity due to selection and the presence of omitted variables. Most importantly, a shareholder are more likely to engage by voting against management if such dissent would lead to firm value creation by better-aligning management's actions with shareholders' objectives. To mitigate these concerns, we use Federal Open Market Committee (FOMC) announcements with press conferences as events that generate information shocks that affect most firms in the economy. These announcements are pre-scheduled and are among the most important

public news communications aimed at financial market participants. These announcements convey complex information that financial market participants react strongly to while often disagreeing about their interpretation (Boguth et al. (2019)). For these reasons, we use proxy votes that take place shortly after FOMC announcements with press conferences as events that are influenced by arguably exogenous shocks to the shareholders' information environment thereby creating scope for shareholders to interpret the impact of the news differently for individual firms.

To isolate the component of conflicts that stems from shocks to the financial market participants' information environment induced by FOMC announcements with press conferences, we estimate predicted fund votes and use these predicted votes to re-construct the continuous cross-group disagreement measure. To construct predicted fund votes, we regress individual fund votes at the proposal level on an indicator variable that is equal to one for the fund vote that takes place just after FOMC events with press conferences interacted with the fund fixed effects as the independent variables. We show that the cross-group disagreement constructed using the predicted fund votes is negatively related to the market value of a firm's equity, and the magnitude of the negative effect is about one-third greater compared to the OLS estimate.

We also analyze the consequences of conflicts and disagreement between passive and active funds in cases when the vote outcome of the proposal is highly anticipated — non-viable — which we define as proposals with overall vote support below 30% or above 70%. We find that the presence of disagreement in voice increases the market value of a firm's equity by economically much smaller, but still statistically significant, 0.08%. We interpret this result as the disagreement between the two fund groups being a sign of a shareholder monitoring effort that challenges the status quo of the firm and is being positively perceived by informed investors. We support this interpretation by examining the heterogeneous effects of disagreement with different levels of institutional monitoring. We find a positive and economically significant effect of disagreement on firm value when institutional monitoring is low while there is no significant effect with high institutional monitoring. This result confirms the importance of differentiating between the exogenously generated disagreement leading to value losses, a prediction suggested by recent theories (Garlappi et al. (2017); Donaldson et al. (2020)), from an endogenously driven dissent that creates firm value by disrupting the status quo in the firm by challenging the management.

In additional tests, we show that our main results are robust to using mutual fund holdings instead of fund counts to construct the disagreement measure. We also confirm our results using

alternative thresholds to define samples and by including proposal-by-year fixed effects, as well as when we conduct the analysis at the individual meeting level.

In summary, we develop a novel measure of disagreement between active and passive mutual funds using their voting decisions that capture shareholder conflicts in public firms. By focusing on the disagreement in voice, we study a dimension of shareholder disagreement that is economically important but not well understood as the existing literature mainly focuses on trading disagreement. We find evidence consistent with disagreement in voice between passive and active mutual funds being value-destroying. The results also suggest that the firm value loss is due to conflicting incentives between these two groups of mutual funds. Furthermore, we show that this value loss cannot be conflated with the notion of shareholder monitoring that challenges the management of the firm and creates firm value.

The paper is organized as follows. Section 2 reviews the literature and develops the main hypothesis. Section 3 describes the data and construction of our disagreement in voice measure, and provides summary statistics. Section 4 presents evidence of the value destruction associated with disagreement between passive and active mutual funds. Section 5 examines the consequences of disagreement between passive and active funds for firm value when proposals are not viable. Section 6 concludes.

# 2 Related literature and hypothesis development

## 2.1 Literature

Our paper contributes to the literature on shareholder voting. Most existing studies analyze determinants of shareholder voting behavior, and how voting affects corporate governance. Yermack (2010) reviews the role shareholder voting plays in corporate governance. Very few studies address conflicts and disagreements among shareholders of public firms. Li et al. (2022) find that funds reduce their holdings after the shareholder meeting when they observe that they disagree with the majority of other shareholders. They also document abnormal volume and volatility around shareholder meetings. Schwartz-Ziv and Volkova (2021) show that firms with heterogenous blockholders perform worse than firms with homogeneous blockholders due to increased conflicts associated with blockholder diversity. Adding to this literature, we develop a novel measure of shareholder conflicts using disagreement in voice specifically between passive and active mutual funds, and examine the

value implications of this disagreement for firms. The prior literature finds mixed results when analyzing value implications around shareholder meeting dates. For example, Cuñat et al. (2012) shows that passing a shareholder proposal creates firm value while Gillan and Starks (2000) finds that shareholder proposals are not associated with any significant stock market reactions. Our results suggest that such mixed results may partly be due to the role played by the disagreement among investors in how the narrow majority was formed.

Our paper mainly contributes to the debate about the differential engagement of active and passive institutional investors in corporate governance. Prior work shows that passive and active funds vote systematically differently. Brav et al. (2020) examine how proxy contests are impacted by firm and fund characteristics. They find that active funds are more likely to vote against management in proxy contests. Heath et al. (2022) show that index funds are more likely to cede power to firm managers in general, not just in proxy contests. The existing empirical evidence of the governance role of passive funds is mixed. Appel et al. (2016) find that passive mutual funds improve firms' governance choices through their large voting power. Schmidt and Fahlenbrach (2017), however, find that increases in passive ownership lead to increases in CEO power and fewer new independent director appointments. We extend this literature by focusing on the conflicts between passive and active mutual funds and analyzing the implications of such conflicts for firm value.

Our paper also contributes to the broader disagreement literature in finance. Investor disagreement has long been considered central to trading in financial markets. This strand of literature has typically linked disagreement to trading volume and dynamics of asset prices (see Harris and Raviv (1993); Kandel and Pearson (1995); Scheinkman and Xiong (2003); Banerjee and Kremer (2010); Carlin et al., among others, and see Hong and Stein (2007) for a survey). Prior literature has used, for example, analysts' forecasts or investor sentiment from social media to measure disagreement among investors (e.g., Kandel and Pearson (1995); Diether et al. (2002); Giannini et al. (2019); Cookson and Niessner (2020); Cookson et al. (2021)). By contrast to measures of trading disagreement among shareholders, we contribute to this literature by providing a novel measure of disagreement in voice by using mutual fund voting decisions that reveal conflicting views funds held in the context of shareholder meetings.

### 2.2 Hypothesis development

Different types of shareholders may govern firms using different mechanisms and have different views on how to govern. Disagreement among shareholders may affect firm value in two opposite directions. On the one hand, shareholder disagreement may enhance firm performance because different groups of shareholders complement each other in decision-making which ultimately leads to better corporate policies adopted by firms. Edmans and Manso (2011) show that multiple blockholders monitor effectively because they compete to collect information. Dhillon and Rossetto (2015) show that block diversity improves firm value when different groups of blockholders cross-monitor each other.

On the other hand, following arguments in the theoretical literature that the lack of homogeneity and cohesiveness in decision-making by groups leads to inefficiencies and thereby value destruction (Garlappi et al. (2017); Donaldson et al. (2020)), different types of shareholders may disagree on what goals firms should achieve and how to achieve those goals. As a result, shareholders might fail to reach a consensus, and firm value suffers consequently due to, for example, pursuing an inefficient investment policy. Adams et al. (2018) show that boards with more diverse skill sets do not perform better. Schwartz-Ziv and Volkova (2021) show that firms owned by heterogenous blockholders perform worse than those owned by homogeneous blockholders.

In summary, disagreement among shareholders may entail both costs and benefits, and whether shareholder disagreement increases or decreases firm value is an empirical question that cannot be answered a priori by theoretical arguments alone. To examine the relation between shareholder disagreement and firm value, we use voting decisions of passive and active mutual funds to directly measure the disagreement between the two groups of funds.

## 3 Empirical methodology

### 3.1 Data sources and sample construction

Our primary data source is the ISS Voting Analytics database, which provides voting records ("For", "Against", or "Abstain") by individual mutual funds based on filings that mutual fund companies are required to file via N-PX. Following Iliev and Lowry (2015), we define mutual fund support as voting "for" the management and define all alternative actions as opposition. This

dataset also includes recommendations from the largest proxy advisor – Institutional Shareholders Services Inc. (henceforth, ISS) and management recommendations. We follow Appel et al. (2016) to classify funds as passive vs. active mutual funds based on fund names.

We obtain shareholder meeting dates from ISS Voting Analytics. We collect the dates on which voting outcomes are filed through SEC filings by matching the voting records data with EDGAR. Following Li et al. (2022), we search within 8-K, 10-K, and 10-Q filings for the phrases "vote for", "votes for", or "voted for", or for tables that include the words "against" and "abstain", "against" and "withheld", or "against" and "broker". For each of these filings, we record the exact time the form was filed. For the meetings that we are unable to match, we follow prior literature and use the meeting dates as the event dates.

For each proposal, we calculate the overall vote support of management (the percentage of votes for the management) based on a firm's own voting rule. To determine whether a given proposal passes, we compare the vote support with the vote requirement and assign "Pass" to those proposals with a support percentage above the vote requirement, and "Fail" otherwise. We remove a small number of proposals that do not have the majority threshold rule. We manually correct cases in which the recorded outcome in ISS Voting Analytics contradicts our calculation.

We obtain stock price information from CRSP and use the cumulative abnormal returns around shareholder meeting outcome disclosure dates to assess the value impact of disagreement. With incomplete or imperfectly competitive markets, shareholders will generally disagree on the optimal production decisions of the firm and the objective of the firm thus becomes undefined. We acknowledge that, for this reason, using stock price reactions to voting outcomes may be problematic as a proxy for welfare when the shareholder unanimity assumption is relaxed. Specifically, Levit et al. (2019) show that changes in the governance environment of the firm can affect prices and shareholder welfare in opposite directions. Nevertheless, in our analyses, we rely on firm stock price reactions to be consistent and comparable with the prior literature because the stock market value impact of disagreement among shareholders is of practical interest to affected firms, as well as to other market participants.

We obtain accounting variables from Compustat, governance data from ISS Governance and ISS Directors databases, and ownership information from the Thomson Reuters Institutional Holdings and Mutual Fund Holdings database. We merge ISS Voting Analytics dataset with CRSP and Compustat to create a sample of 327,073 proposals for 6,113 unique U.S. firms in 2003-2018.

### 3.2 Measure of disagreement in voice between passive and active mutual funds

We use voting decisions to measure the disagreement in voice between passive and active mutual funds. In our main analyses, each fund is treated as having a single vote, that is, votes are not weighted by the number of shares owned. Our main results are robust to using mutual fund holdings instead of fund counts to construct the disagreement between passive and active funds.

We capture the disagreement between passive and active funds by investigating whether a proposal receives unequal approval for management from the two groups of funds. For each proposal $p$ in a shareholder meeting $m$ of a company $c$, we calculate: (i) the fraction of the number of passive funds supporting the management, and (ii) the fraction of active funds supporting the management. When constructing the measure, we require that at least ten mutual funds and two passive funds voted on a proposal.[6] The disagreement between passive and active funds is then calculated as the difference between these two fractions:

$$Approval\ Diff_{p,m,c} = \%Passive\ Approval\ of\ MNG - \%Active\ Approval\ of\ MNG \tag{1}$$

In all our analyses, the benchmark for comparisons are cases when there is an equal approval of management between two groups of funds, i.e., $Approval\ Diff_{p,m,c} = 0$. We construct several dummy variables to capture the existence of any unequal approval of management between passive and active fund groups. Our main independent variable is an indicator variable "Unequal approval of MNG by MF" that is equal to one when the approval rate differs between the two groups of funds, i.e., $Approval\ Diff_{p,m,c} \neq 0$, and zero otherwise. We also create an indicator variable "Stronger approval of MNG by passive funds" that is equal to one when passive funds more than active funds support management, i.e., $Approval\ Diff_{p,m,c} > 0$, and an indicator variable "Stronger approval of MNG by active funds" that is equal to one when active funds more than passive funds support management, i.e., $Approval\ Diff_{p,m,c} < 0$.

Following Cookson and Niessner (2020), we also construct a continuous measure of disagreement across the group of passive and active mutual funds by computing the weighted standard deviation of the average approval votes between the two groups. We first recode each fund vote as –1 if the fund votes against the management and as 1 if the fund votes for the management. We then

[6] Our results are robust to using alternative thresholds.

compute the arithmetic average of these votes, $Avg\ Approval_{p,m,c}$. This disagreement measure is then calculated as:

$$Cross-MF\ group\ disagreement_{p,m,c} = \sqrt{\frac{N_{passive}(Avg\ Approval_{passive} - Avg\ Approval_{p,m,c})^2 + N_{active}(Avg\ Approval_{active} - Avg\ Approval_{p,m,c})^2}{\frac{1}{2}(N_{passive}+N_{active})}} \tag{2}$$

where, for each proposal $p$ in a shareholder meeting $m$ of a company $c$, $N_{passive}$ is the number of passive funds voted, $N_{active}$ is the number of active funds voted. $Avg\ Approval_{p,m,c}$ is the average approval of management from all mutual funds voted. $Avg\ Approval_{passive}$, is the average approval of management from passive mutual funds while $Avg\ Approval_{active}$, is the average approval of management from active mutual funds. We use *Cross-MF group disagreement* to capture the magnitudes of the disagreement between passive and active funds.

### 3.3 Descriptive statistics

Table 2 presents the overview of our sample by year. On average, about 18% of all proposals receive equal approval from management by passive and active mutual funds. More than 47% of proposals receive stronger approval of management by passive mutual funds while about 34% of proposals receive stronger approval of management by active funds. In most years, we observe a greater proportion of proposals that receive stronger approval from management by passive compared to active funds. This is consistent with passive funds being more pro-management than active funds for reasons such as resource constraints, and their business ties with the portfolio companies (Cvijanovic et al. (2016); Boone et al. (2020)). The year 2003 was the first year in which SEC required mutual funds to disclose their voting records. In 2018, we observe a smaller fraction of proposals receiving stronger approval from management by passive funds. This may reflect the recently increased activism by passive funds. Our results are robust to excluding the observations in 2003 and 2018 from our sample.

Figure 1a shows the histograms of the disagreement between active and passive mutual funds, *Approval Diff.* The values of the disagreement measure are concentrated at exactly zero, as well as at positive and negative values close to zero. An equal approval of management by the two groups is a common outcome, which is driven by 100% of both passive and active funds that often support the management. The distribution of the disagreement measure is right skewed, and

disagreement is positive on average. In other words, the distribution shows, on average, a higher approval of management by passive than active mutual funds. Figure 1b shows the histogram of the absolute value of disagreement between active and passive funds, $|Approval\ Diff|$. Figure 1c shows the histogram of *Cross-MF group disagreement* between active and passive groups. This continuous measure captures the magnitude of the disagreement between the two groups. In our analyses, we study the consequences of the existence of any disagreement as well as whether the sign of the disagreement matters.

Figure 2a compares the histograms of cross-group disagreement between passive and active funds using subsamples of management-sponsored and shareholder-sponsored proposals. The figure shows that our disagreement measure is substantially larger in shareholder-sponsored proposals. This is consistent with prior work that shows that, compared to management-sponsored proposals, shareholder-sponsored proposals are more contentious and pursue agendas that focus more on social and governance issues. Figure 2b compares the histograms of cross-group disagreement between passive and active funds using subsamples of proposals when ISS supports the management vs. when ISS recommends voting against the management. ISS recommends voting against the management when it considers the proposal not to be beneficial to shareholders. Prior research documents a significant positive association between ISS recommendations and overall vote support on various voting issues. For example, Malenko and Shen (2016) find that, relative to a positive recommendation, a negative ISS recommendation on a say-on-pay proposal leads to a 25-percentage points reduction in say-on-pay voting support. Consistent with this evidence, Figure 2b shows that our shareholder disagreement measure is substantially larger in the sub-sample where ISS recommends investors vote against the management.

For our analysis, we classify all proposals by agenda into six broad categories: Board, ESG, Share-issuance, Say-on-pay, Other-compensation, and Other. Board proposals are mostly for the election of directors, and other board matters, such as board size and director tenure. ESG proposals are environmental, social, and governance proposals. Share-issuance proposals cover the approval of the issuance of common or preferred stock and all other share-related proposals. Say-on-pay proposals ask for shareholder approval of executive compensation. Other compensation proposals are compensation-related proposals other than say on pay, for example, proposals that ask for approval for performance metrics of executive compensation plans. Figure 3 compares histograms of cross-group disagreement of different proposal categories relative to the full sample.

The histogram of cross-group disagreement in the sample of board proposals, displayed in Panel (a), overlaps with the histogram for the full sample since more than 70% of all proposals are director elections. Panels (b) and (c) show that the cross-group disagreement measure is greater for ESG proposals and say-on-pay proposals, respectively, compared to the full sample. This evidence is consistent with Bolton et al. (2020) which shows that two sources of disagreement between shareholders' voting behaviors are related to social and governance issues. ESG proposals and say-on-pay proposals also draw much attention from the public and policymakers. Finally, Panel (d) shows that there is a very large disagreement between active and passive mutual funds on proposals related to share issuance.

Figure 4 shows the box plot of the absolute value of disagreement and *Cross-MF group disagreement* between passive and active funds by the level of overall vote support split into deciles. Both the absolute value of disagreement and the *Cross-MF group disagreement* have an inverse U-shaped pattern with the greatest values just above the majority threshold. Except for the extreme deciles, our disagreement measures exhibit large variation in each level of vote support category, for example, both disagreement measures can be zero around the majority threshold, as well as in cases when the vote support is very high or low.

Table 3 presents summary statistics of *Cross-MF group disagreement* between passive and active funds over time. The mean is 0.067 and the standard deviation is about twice as big as the mean. The 25th percentile is close to zero, and the 75th percentile is about as big as the mean. The distribution of the Cross-MF group disagreement is stable across the years.

Table 4 presents summary statistics for our sample. Out of 327,073 proposals in our sample, ISS recommends supporting the management 89% of the time. The average support rate for management is high, at 93%. On average, 141 active and 77 passive mutual funds voted on a proposal in our sample. In Table 5, we present summary statistics separately for the subsamples of viable and non-viable proposals. The average vote support for management is 51% in the viable sample and 95% in the non-viable sample. ISS recommends supporting management only 16% of the time in the viable sample, indicating that these proposals are contentious. When there is no approval difference between passive and active funds, the average approval for management is 90% in the viable sample with a large standard deviation of 29% while it is 100% in the non-viable sample with a 5% standard deviation. Statistics of the firm-level variables are similar across the two subsamples. Firms are larger in the viable sample than in the non-viable sample.

# 4 Disagreement in voice between passive and active mutual funds and firm value: Viable proposals

To examine the relation between shareholder disagreement and firm value, we study the firm's three-day CAR during the window centered around the vote outcome disclosure date (-1, +1).[7] Valuation effects may have been incorporated in prices before the meeting if the overall vote support is anticipated (Cuñat et al. (2012)). For this reason, we begin the analysis with a focus on proposals in which vote support is not perfectly anticipated. We call a proposal to be viable if the overall vote support for the proposal is between 45% and 55%.

## 4.1 Baseline results

In the baseline model, the main variable of interest is an indicator variable, *Unequal approval of MNG by MF*, that captures any unequal approval of management between passive and active mutual funds as revealed by funds' voting decisions. Our regression specification controls for unobserved firm heterogeneity, differences across proposal types, and time trends by including firm, proposal type, and year-fixed effects. We also include management-sponsored proposal fixed effect to capture any unobserved heterogeneity between management-sponsored and shareholder-sponsored proposals. In all tests, we control for overall mutual fund support for management, and the number of mutual funds voted.

Tables 6 report the results of the baseline analysis. In Column (1), the coefficient of *Unequal approval of MNG by MF*indicates that relative to those with equal approval of management by mutual funds, the presence of unequal approval, that is, disagreement, decreases the firm value by 2.19%. This estimate is statistically significant at the 5% level. Column (2) includes three additional control variables: institutional ownership, the overall vote support for the proposal, and ISS recommendation. The coefficient of *Unequal approval of MNG by MF* remains unchanged. Column (3) includes alternative firm-level control variables: total assets and book-to-market ratio. The coefficient decreases only slightly to -1.99% in this specification. Column (4) includes firm-by-year fixed effects which control for any time-varying firm heterogeneity and proposal-level control variables. In this comprehensive specification, the coefficient of *Unequal approval of MNG by*

[7]We report results based on the Fama-French three-factor model, although we obtain similar results using other standard market adjustment procedures.

*MF* decreases to -1.31% and remains statistically significant at the ten percent level. In columns (5) and (6), we repeat the analysis from columns (1) and (2) while including analyst forecast dispersion (Diether et al. (2002)) as an additional control variable. Analyst forecast dispersion, which is the most prominent measure of investor disagreement, captures the dispersion of the stated opinions of analysts about firms' future fundamentals. Our disagreement measure, in contrast, captures disagreement in voice specifically between passive and active mutual funds about currently considered proxy statements. Columns (5) and (6) show that relative to those with equal approval of management by mutual funds, voice disagreement captured by the presence of unequal approval decreases the firm value by 2.88% and 2.72%, respectively. Overall, we find that when proposals are viable, the market reaction associated with non-zero disagreement is negative, statistically significant, and economically large.

In the Appendix Table **??**, we repeat the analysis from Columns (1) – (4) in 6 while including another investor disagreement measure constructed using data from a social media investing platform StockTwits by Cookson and Niessner (2020).Cookson and Niessner (2020)'s disagreement measure captures disagreement in investors' statements about the prospects of a stock. Specifically, we calculate the average three-day investor disagreement from social media before the vote outcome disclosure date [-3, -1]. We show that the results are qualitatively similar to those in Table 6.

In addition to the indicator variable that captures any unequal approval of management between passive and active funds, we are also interested in whether value implication differs depending on whether there is a stronger approval of management by passive vs. active funds. To this end, in Table 7 we repeat specifications from Panel A, except that we include two indicators as main independent variables instead of *Unequal approval of MNG by MF*. We include *Stronger approval of MNG by passive (active)* that takes the value of one if passive (active) mutual funds' approval of management is greater than that by active (passive) funds. These two indicator variables provide a breakdown of *Unequal approval of MNG by MF* into two mutually exclusive indicators.

The results from Table 7 show that there is no difference depending on whether the unequal approval for management comes from the stronger support from passive or active mutual funds. In all cases we consider, we show that the market reaction associated with these forms of disagreement is negative and ranges from -1.27% to -2.26% depending on the specifications.

In the Appendix Table **??**, we show that the results are robust if we change the definition of

viable proposals to be those with vote outcomes between 48% and 52%. In the Appendix Table **??**, we include proposal-by-year fixed effects which account for time-varying heterogeneity by proposal groups. Our main findings are robust across periods and different types of proposals. In the Appendix Table **??**, we show that our results are robust to using mutual fund holdings instead of counts to construct the disagreement between passive and active funds. In the Appendix Table **??** and **??**, we conduct the analysis at the individual meeting level. In the Appendix Table **??**, for each shareholder meeting, we only keep the proposal that has the greatest absolute value of *Approval Diff*. In the Appendix Table **??**, for each shareholder meeting, we calculate the average *Approval Diff* of proposals in the meeting. The results are robust to analysis at the meeting level.

To visualize the effect of disagreement between passive and active funds on firm value, we plot the CAAR of meetings with equal and unequal approval of management by mutual fund groups before and after the vote outcome disclosure date in Appendix Figure **??**. We classify a meeting into one with unequal approval of management by mutual funds if at least one of the proposals voted on in that meeting received an unequal approval of management between passive and active mutual funds. We observe that relative to those with equal approval of management by mutual funds, the presence of disagreement between passive and active funds decreases firm value, which is consistent with our results in Table 6.

In Table 8 we report results using a continuous measure of disagreement between passive and active mutual funds, normalized *Cross-MF group disagreement*, as the main explanatory variable, where we standardize *Cross-MF group disagreement* defined in Section 3.2 to have mean zero and standard deviation one. In Column (1) of 8, the coefficient of *Cross-MF group disagreement* suggests that a one-standard-deviation increase in *Cross-MF group disagreement* is associated with a decrease in the firm value by 0.39%. This estimate is statistically significant at the 5% level. In Column (2), we include institutional ownership, the influence of ISS recommendations, and overall vote support. Controlling for these additional variables, the coefficient of *Cross-MF group disagreement* remains statistically significant. The result is also robust to include alternative firm-level control variables total assets and book-to-market ratio in Column (3). Last, Column (4) shows that *Cross-MF group disagreement* continues to be negatively associated with firm value even when we control for time-varying firm heterogeneity by including firm-by-year fixed effects. Taken together, the results in Table 6, 7 and 8 suggest that disagreement between passive and active mutual funds destroys firm value.

## 4.2 Sources of disagreement

The disagreement in voice between passive and active mutual funds we capture from their voting decisions could also arise due to differences in opinions between passive and active mutual funds about the quality of a proposal, rather than their conflicting incentives. Differences-of-opinion models assume agents have heterogeneous beliefs even though they are equally informed (Harris and Raviv (1993); Kandel and Pearson (1995)). In our setting, given the complexity of many proposals, passive and active managers may interpret the proxy information differently and reach different conclusions about the quality of a proposal. In contrast to differences in opinions, disagreement due to differences in incentives between passive and active funds would exist even if investors had the same information and agreed on the quality of a proposal.

It is challenging to directly disentangle the two sources of disagreement because there is no holistic ex-ante measure of the quality of a particular proposal from a firm's perspective. For example, one cannot rely on proposal types, as even the same proposal might have different implications for different firms, in other words, no single proposal can fit all firms. We thus attempt to rule out the differences-in-opinions story by investigating the relationship between disagreement and firm value in a setting where we could control for disagreement that likely arises due to differences in opinions.

Our first attempt is to include a within-passive fund group disagreement measure that could likely capture the differences in opinions about the proposal quality as additional controls in our baseline model. Following Cookson and Niessner (2020), we construct *Within-passive MF disagreement* as the standard deviation of the average approval rate of management within all passive mutual funds. This test is based on the assumption that passive mutual funds have similar incentives within their own fund group and any within-passive fund group disagreement thus captures mostly differences in opinions about the quality of a proposal.

Table 9 reports the results. In Column (1), the coefficient of *Cross-MF group disagreement* shows that a one standard deviation increase in *Cross-MF group disagreement* is associated with a decrease in the firm value by 0.36% and it is statistically significant when we include *Within-passive MF disagreement* as an additional control variable. The coefficients of *Within-passive MF disagreement* are close to zero and statistically insignificant. In Column (2), we include three additional control variables: institutional ownership, the overall vote support for the proposal, and ISS recommendation. The coefficient of *Cross-MF group disagreement* remains unchanged. Taken

together, results in Columns (1) and (2) show that *Cross-MF group disagreement*, rather than *Within-passive MF disagreement*, affects firm value, suggesting that differences in opinions about the quality of a proposal unlikely drive the results.

The above tests assume that *Within-passive MF disagreement* is more likely than *Cross-MF group disagreement* to capture the differences in opinions about the quality of a proposal. Arguably, even within the set of passive mutual funds, there may be heterogeneity in objectives and incentives. To further control for such heterogeneity and refine the above approach, we construct a disagreement measure within passive funds that track S&P 500 index. These S&P 500 index funds plausibly have homogeneous incentives. *Within-SP500 disagreement* is calculated as the standard deviation of the approval rate of management for a given proposal within all S&P 500 index funds. This new measure captures predominantly differences in opinions about the quality of a proposal within the group of S&P 500 index funds. We continue to find that *Cross-MF group disagreement* is negatively associated with firm value while the coefficient of *Within-SP500 disagreement* is small and statistically insignificant when we include *Within-SP500 disagreement* in our model as a control variable in Column (3). The results are robust after adding additional control variables as shown in Column (2).

Overall our analysis provides suggestive evidence that conflicts arising from differences in incentives between passive and active mutual funds, rather than differences in opinions, are driving the value-destroying effect for firms when proposals are viable.

### 4.3 Disagreement in voice and value of passing a proposal

In this section, we examine how the presence of disagreement between passive and active funds impacts the value of passing a proposal. Shareholder-sponsored proposals and management-sponsored proposals differ along several dimensions. Shareholder-sponsored proposals do not have to be implemented after passing whereas most management-sponsored proposals that pass are binding (Bach and Metzger (2019); Babenko et al. (2019)). In addition, shareholder-sponsored proposals usually focus on social and governance issues (Bolton et al. (2020)), while management-sponsored proposals pursue a multiplicity of agendas with much less focus on ESG issues. For this reason, we split viable proposals into management-sponsored and shareholder-sponsored proposals subsamples, and examine the impact of disagreement separately on the value of passing a management-sponsored

proposal and a shareholder-sponsored proposal.[8]

The results are reported in Table 10. Columns (1) to (3) report the results of management-sponsored proposals, while Columns (4) to (6) report the results of shareholder-sponsored proposals. We consider regression specifications that include the same set of control variables as in Column (2) from Table 6 and vary the set of conditioning fixed effects.

We interact *Pass/Fail* indicators with our main independent variable to capture how the firm value changes due to passing vs. failing a proposal is affected by the existence of disagreement between passive and active mutual funds. *Pass(Fail)* is an indicator variable that is equal to one when a proposal reaches (fail to reach) 50% of votes and zero otherwise. Column (1) shows that firm value increases by 2.3% when a management-sponsored proposal is passed with a small margin. The coefficient of the interaction variable, *Unequal Approval of MNG by MF* $\times$ *Pass*, is negative at -1.47% and statistically significant at the 5% level. This result indicates that after a management-sponsored proposal is passed with a small margin, relative to those with equal approval of management by mutual funds, the presence of unequal approval decreases proposal value by more than half. Alternative specifications in Columns (2) and (3) confirm this result: Controlling for year trend and, also for heterogeneity across different proposal groups, leads to similar results in terms of economic magnitudes that are also statistically significant. In contrast, the results in Columns (4) to (6) suggest that there is no value loss associated with disagreement among mutual fund groups after a shareholder-sponsored proposal is passed with a small margin. This result is consistent with Li et al. (2022) who argue that management proposals are frequently associated with mutual fund disagreement: funds sell more shares after meetings in which their votes contradicted those of the majority of other shareholders. They show no evidence of such disagreement in a sample of shareholder proposals.

Similarly, in Table 11, we interact *Pass/Fail* with indicators for whether a proposal receives stronger approval of management by passive vs. active mutual funds. We find analogous results to those reported in Panel A irrespective of whether the unequal approval of management comes from passive or active funds being more supportive of the management.

In Table 12, we interact *Pass/Fail* variables with an indicator variable *Large Cross-MF group*

[8] Babenko et al. (2019) argue that managers influence the outcome of close votes of shareholder meetings. We thus examine the density of proposals around the passage threshold of management-sponsored proposals in subsamples with (i) zero approval difference of management by passive and active mutual funds, (ii) stronger approval of management by passive mutual funds, and (iii) stronger approval of management by active mutual funds. Graphical evidence constructed following McCrary (2008) indicates no differences in the density of proposals across the three subsamples (see Appendix Figure **??**).

*disagreement*. *Large Cross-MF group disagreement* takes the value of one if *Cross-MF group disagreement* is at the top three groups when we split this continuous measure of disagreement into quintiles. The interaction term,*Large Cross-MF group disagreement* $\times$ *Pass*, thus captures how the value implication after passing/failing a proposal is impacted by a large disagreement between passive and active funds. In Columns (1) to (3), the coefficient of the interaction term indicates that after a management-sponsored proposal is passed with a small margin, relative to those with zero or small *Cross-MF group disagreement*, the presence of large disagreement decreases value created by the proposal. Taken together, our results are consistent with the view that the value created by the proposal is much smaller in the presence of disagreement between passive and active funds.

## 4.4 Predicted disagreement in voice and firm value

The relationship between disagreement and firm value might be spurious due to selection and the presence of omitted variables. In addition, shareholders' voting decisions might be affected by firm characteristics that also lead to changes in firm value. Most importantly, a shareholder will be more likely to engage by voting against management if such dissenting voice would lead to firm value creation. This reasoning suggests that our OLS estimates of the relationship between disagreement and firm value may be underestimated, that is, the true effect of disagreement on firm value may be more negative compared to the OLS estimates.

To mitigate this concern, we look for news events that affect most public firms while creating additional scope for investors to devote time and resources to evaluate voting items independently, make informed votes, and interpret information differently for individual firms. These news events, therefore arguably could increase disagreement between the passive and active funds to a varying extent across firms. The Federal Open Market Committee (FOMC) announcements create an ideal setting to study this issue. First, they are among the most important public news announcements that convey highly relevant and complex information that investors react strongly to. Second, the news is limited to a few sources of hard information, and it is difficult to interpret the soft information. Even economists and professionals routinely disagree about the interpretation of monetary policy (Boguth et al. (2019)). Third, FOMC announcements are pre-scheduled, and the timing of the arrival of new information is thus predetermined.

In an effort to increase transparency, since April 2011 the chairman of the Federal Reserve Sys-

tem holds a press conference (PC) following half of the announcements.[9] Although not intentional, the market expects more important decisions on days with press conferences. The introduction of PCs separated FOMC announcements into important and lesser ones, and they coordinate investors to pay more attention to FOMC announcements with PCs. In our sample, the policy target rates were consistently stuck at the zero-lower bound after the financial crisis and therefore offered little new information itself. FOMC announcements with PCs provide scope for investors to differ in their interpretation of the news. We take advantage of the unique features of FOMC announcements with PCs and use these events to isolate the component of disagreement that stems from shocks to the financial market participants' information environment.

Specifically, we first recode each fund vote as –1 if the fund votes against the management, and as 1 if the fund votes for the management, same as in Section 3.2. Second, we regress individual fund votes at the proposal level on an indicator variable that takes the value of one if the vote occurs on shareholder meetings that take place between 5 days and 21 days after FOMC events with PCs interacted with fund fixed effects and year fixed effects.[10] We then use the estimates from this regression to construct predicted fund votes, re-compute the cross-group disagreement measure using the predicted votes, *Predicted cross-MF group disagreement*, and repeat the analysis from Table 4 with this new measure. We present the results in Table 7.

Table 13 shows that the coefficient of *Predicted cross-MF group disagreement* is negative and statistically significant in all specifications we consider. In Column (1), the coefficient of *Predicted cross-MF group disagreement* suggests that a one standard deviation increase in *Predicted cross-MF group disagreement* is associated with a decrease in firm value by 0.47%. The magnitude of the effect is about one-third bigger (more negative) than our OLS estimate in Table 4. In Column (2), we include additional control variables including institutional ownership, the overall vote support for the proposal, and ISS recommendation. The coefficient of *Predicted cross-MF group disagreement* remains statistically significant. In Column (3), we include *Predicted within-MF group disagreement* calculated as the standard deviation of average approval for management within all mutual funds using predicted fund votes. *Predicted within-MF group disagreement* captures the residual disagreement that is not captured by the *Predicted cross-MF group disagreement*

[9] See "Transcript of Chairman Bernanke's Press Conference, April 27, 2011." Available at http://www.federalreserve.gov/mediacenter/files/FOMCpresconf20110427.pdf

[10] We remove the five-day period around each FOMC event to allow for the information conveyed during the event to be incorporated in the stock price by market participants. In this way, the effect on the firm value we estimate is likely due to the disagreement in voice as it is revealed on the meeting date through voting, and the exclusion condition of our instrument is satisfied.

measure, and might as well affect firm value. Column (3) shows that *Predicted within-MF group disagreement* continues to be negative and significant while the coefficient of *Predicted within-MF group disagreement* is statistically insignificant. Last, in Column (4), the coefficient remains unchanged when we include other firm-level control variables. In summary, our analysis using predicted votes confirms that the exogenously generated disagreement in voice between passive and active mutual funds results in declines in firm value.

# 5 Disagreement in voice between passive and active mutual funds and firm value: Non-viable proposals

In this section, we investigate the effect of disagreement in voice on firm value when the overall vote support for a proposal is highly anticipated—when the proposal is non-viable. We call a proposal to be non-viable if the overall vote support is below 30% or above 70%. Table 14 reports the results of non-viable proposals. The regression specifications mimic those introduced in Table 3.

Results in Table 14 show that relative to those with equal approval of management by mutual funds, the presence of unequal approval increases firm value by 0.08%. This result is unchanged when we add institutional ownership, ISS recommendation, and the overall vote support as additional control variables in Column (2), or when we alternatively add firm-level control variables in Column (3). The coefficient of *Unequal approval of MNG by MF* becomes close to zero and insignificant in the specification with firm-by-year fixed effects in Column (4). In Columns (5) and (6), similar to Table 6, we control for analyst forecast dispersion and find that relative to those with equal approval of management by mutual funds, voice disagreement increases firm value by 0.10%. Appendix Table **??** shows that our results are robust to different thresholds to define non-viable proposals.

We hypothesize that the evidence on value gains presented in Table 14 could be driven by shareholder engagement by disagreeing and thereby challenging the status quo of the firm. Such a positive effect of engagement can be especially relevant either when there is a lack of direct shareholder monitoring or in the presence of low product market competition pressure and thus low market monitoring.

To support the monitoring-by-disagreeing interpretation, we examine the heterogeneous effect

of disagreement on firm value in the presence of different levels of ownership by institutions and blockholders. Prior literature shows that institutional investors are active in improving corporate governance practices through monitoring efforts (see Yermack (2010)). Institutional investors have the expertise and resources to monitor effectively with due diligence. Blockholders hold large stakes in firms which provide them with incentives to monitor the firms and intervene in corporate decisions (see for example, Edmans (2014); Edmans and Holderness (2017)). We expect that the positive value impact of disagreement in the non-viable proposals would be concentrated among firms with a small presence of institutional investors or blockholders, because a limited presence of such shareholders in a firm creates scope for disagreement to challenge the firm's status quo and thereby function as a monitoring tool.

Prior studies show that market monitoring can either complement or substitute for shareholder monitoring (Karuna (2008); Giroud and Mueller (2011)). The lack of pressure from the product market competition may thus also create scope for disagreement to function as a monitoring tool. To investigate this possibility, we examine the heterogeneous effect of disagreement on firm value in the presence of different levels of product market competition. We expect that the positive value impact of disagreement in the non-viable proposals will be concentrated among firms that operate in a low product-market competition environment.

Table 15 presents the evidence. We interact the independent variable *Unequal approval of MNG by MF* with indicator variables that take the value of one in the presence of high/low institutional, blockholder, or market monitoring. Column (1) presents the results when we use the extent of institutional ownership to measure the degree of institutional monitoring. Column (2) presents the results when we use the number of blockholders to proxy for monitoring. Column (3) presents the results when we use product-market competition (TNIC HHI by Hoberg and Phillips (2016)) to measure market monitoring. The indicator variable *High monitoring* equals one if the institutional, blockholder, or market monitoring measure is above the sample median and *Low monitoring* equals one if the institutional, blockholder, or market monitoring measure is below the sample median. We find a positive and economically significant effect of disagreement on firm value when monitoring is low while there is no significant effect for high monitoring. The results in Table 9 are consistent with our interpretation that shareholder disagreement is a form of engagement that is interpreted positively by the financial market participants.

# 6 Conclusion

In this paper, we study whether disagreement in voice between passive and active mutual funds, as two distinct groups, bears any consequence for firm value. We find that disagreement in voice between passive and active mutual funds is associated with a decrease in firm value. We also provide suggestive evidence that the firm value loss is due to conflicting incentives between the two groups of mutual funds, rather than their differences in opinions about the quality of a proposal. Overall, our findings suggest that conflicts among shareholders play an important role in widely-held firms.

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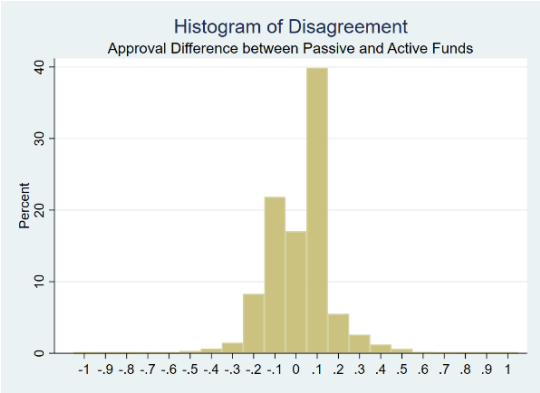
# Appendices

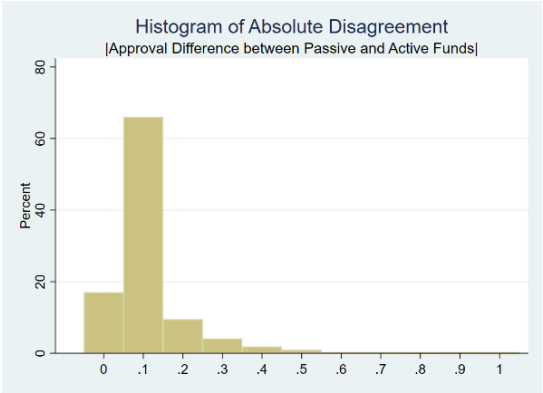
## Appendix A. Variable definitions

| Variable | Definition |
|---|---|
| Stronger approval of MNG by passive | An indicator variable that takes the value of one if the fraction of the number of passive funds supporting the management is greater than the fraction of active funds supporting the management, *Approval Diff* $> 0$. |
| Stronger approval of MNG by active | An indicator variable that takes the value of one if the fraction of active funds supporting the management is greater than the fraction of the number of passive funds supporting the management, *Approval Diff* $< 0$. |
| Unequal approval of MNG by MF | An indicator variable that takes the value of one if a proposal receives unequal approval of management from the passive and active mutual funds, *Approval Diff* $\neq 0$. |
| Absolute disagreement | The absolute value of *Approval Diff*. |
| Cross-MF group disagreement | The weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. It is normalized to have mean zero and standard deviation one in regressions. |
| Large Cross-MF group disagreement | An indicator variable that takes the value of one if *Cross-MF group disagreement* is at the top 3 groups when we split the continuous measure into quintiles. |
| Within-passive MF disagreement | Standard deviation of average approval for management within all passive mutual funds, normalized to have mean zero and standard deviation one. |
| Within-SP500 MF disagreement | Standard deviation of average approval for management within all S&P500 index funds, normalized to have mean zero and standard deviation one. |
| Predicted cross-MF group disagreement | Cross-MF group disagreement were calculated using predicted fund votes. We first estimate OLS regressions of fund votes at the vote level on FOMC announcements with PCs instrument interacted with identify of the fund to estimate coefficients. We then re-calculate Cross-MF group disagreement using the predicted fund votes as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. |
| Predicted within-MF group disagreement | Standard deviation of average approval for management within all mutual funds using predicted fund votes. |
| Analyst dispersion | Standard deviation of analyst earnings forecasts scaled by the absolute value of the mean earnings forecast at the month before the shareholder meeting takes place (Diether et al. (2002)). |

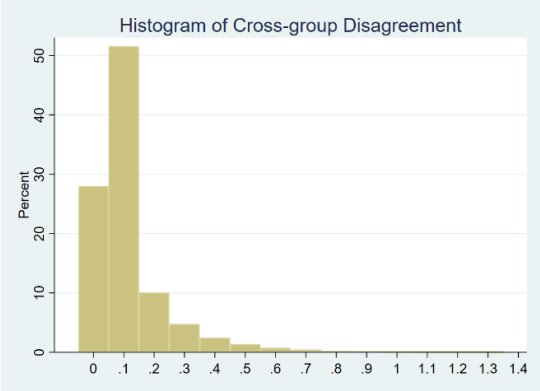
| | |
|---|---|
| Investor disagreement from social media | Average three-day investor disagreement constructed from StockTwits (data from Cookson and Niessner (2020)) before the vote outcome disclosure date [-3,0]. We require firms to have at least one non-missing investor disagreement from social media to be included in the sample. |
| Pass | An indicator variable that takes the value of one when a proposal reaches the majority threshold. |
| Fail | An indicator variable that takes the value of one when a proposal fails to reach the majority threshold. |
| ISS rec. | An indicator variable that takes the value of one if ISS recommends investors voting for the management. |
| Vote support | Percentage of votes in favor of management in a proposal. |
| MF approval | Fraction of mutual funds supporting the management in a proposal. |
| # mutual funds voted | Total number of mutual funds voted in a proposal. |
| Number of proposals | Total number of proposals in a shareholder meeting. |
| Passive fund | An indicator variable that takes the value of one for passive passive mutual funds. We follow Appel et al. (2016) to classify funds as passive vs. active mutual funds. |
| Institutional ownership | Institutional ownership reported in 13F, measured at the most recent quarter-end prior to the shareholder meeting. |
| Low monitoring | An indicator variable that takes the value of one if the institutional, blockholder, and product market monitoring measure is below the sample median. |
| High monitoring | An indicator variable that takes the value of one if the institutional, blockholder, and product market monitoring measure is above the sample median. |
| TNIC HHI | 10-K text-based Network (TNIC) Herfindahl-Hirschman Index (HHI) from Hoberg and Phillips (2016). |
| CAR [-1,1] | Cumulative abnormal return in a 3-day window surrounding the meeting disclosure date obtained using the Fama-French three-factor model. |
| B/M | Book-to-market in June of the year, measured at the most recent year-end prior to the shareholder meeting. |
| Assets | Total assets from Compustat in millions. |
| ROA | Net income divided by the book value of assets, measured at the most recent year-end prior to the shareholder meeting. |




(a) Approval Diff



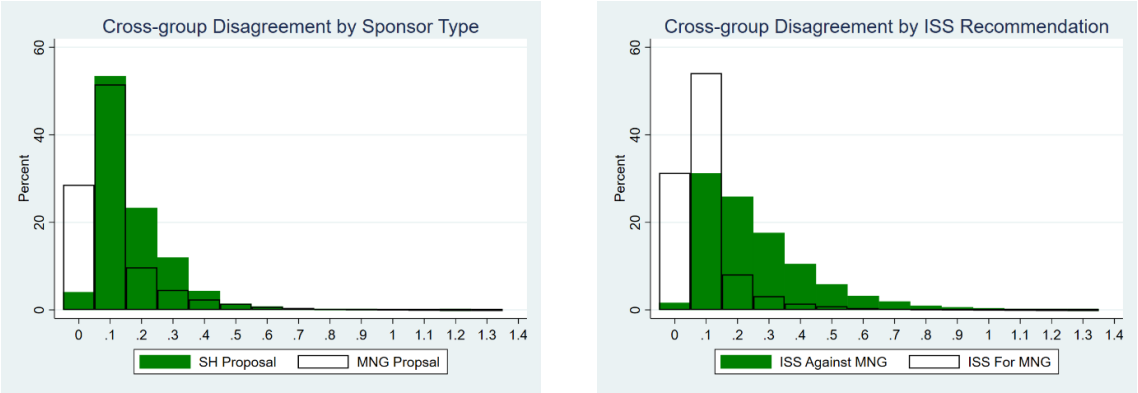

(b) |Approval Diff|




(c) Cross-group disagreement

Figure 1: Histograms of disagreement in voice between passive and active mutual funds

This figure presents histograms of the measures of disagreement in voice between passive and active funds. The disagreement measure in Panel (a), *Approval Diff* is calculated as the difference between the fraction of the number of passive funds supporting the management and the fraction of active funds supporting the management, where each fund is treated as having a single vote in each respective group. Panel (b) is based on the absolute value of disagreement in voice between passive and active funds, |*Approval Diff*|. Panel (c) is based on the continuous cross-group disagreement measure, *Cross-MF group disagreement*.




(a) (b)

Figure 2: Histograms of cross-group disagreement between passive and active mutual funds by proposal sponsor type and by ISS vote recommendations

This figure presents the histogram of the cross-group disagreement between passive and active funds, *Cross-MF group disagreement*, in sub-sample for different sponsor types and ISS recommendations. Panel (a) presents the histogram of *Cross-MF group disagreement* for the sub-sample of management-sponsored proposals (MNG Proposal) and shareholder-sponsored proposals (SH Proposal). Panel (b) presents the histogram of *Cross-MF group disagreement* for the sub-samples where ISS recommends voting with management (ISS for MNG) and where ISS recommends voting against management (ISS against MNG).

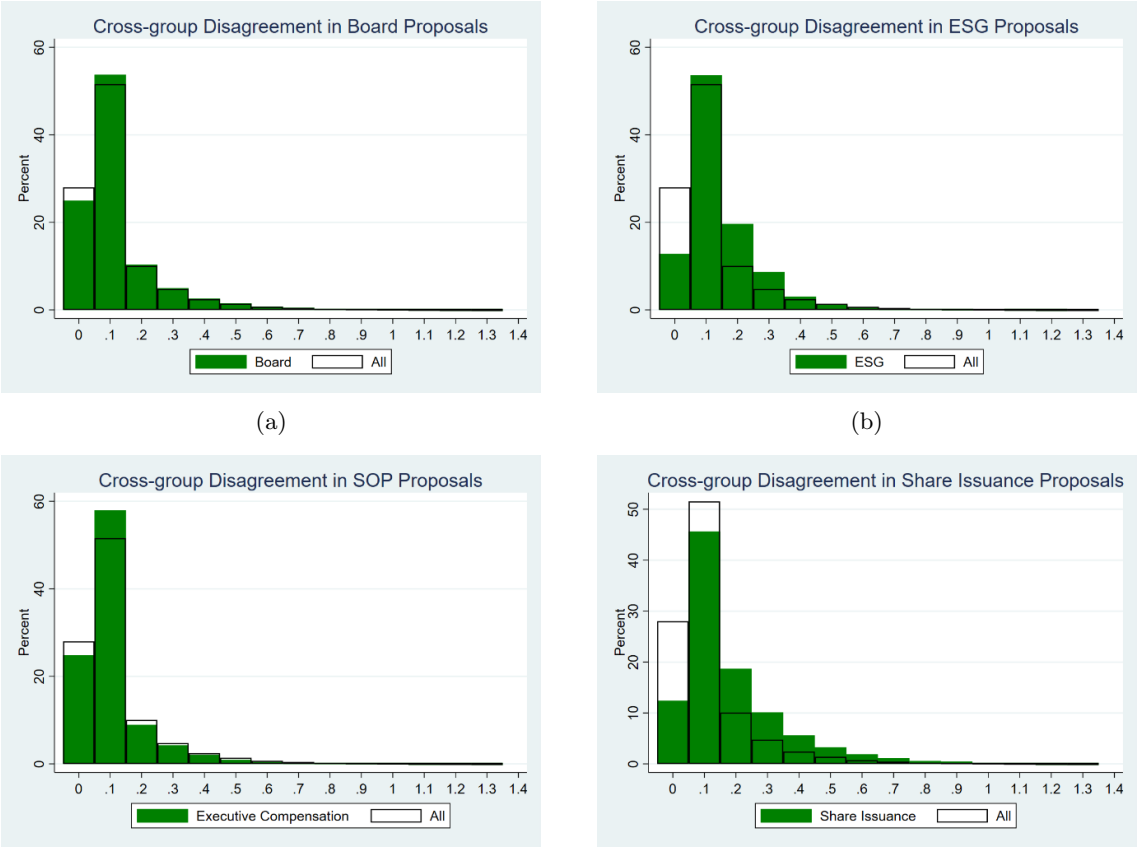
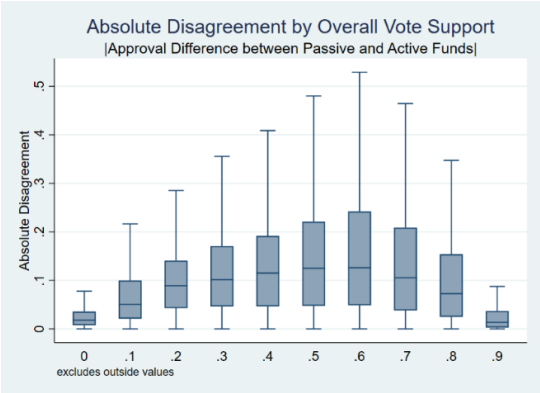
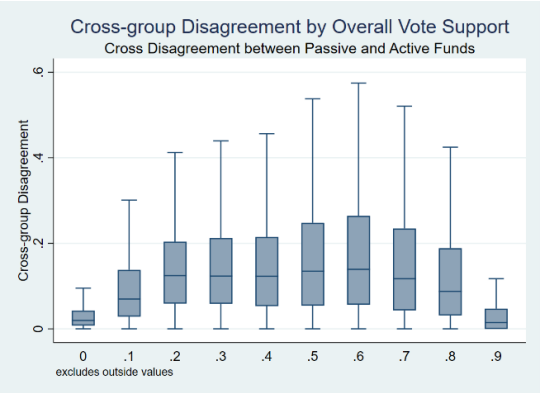



Figure 3: Histograms of cross-group disagreement between passive and active mutual funds by proposal categories

This figure presents the histogram of cross-group disagreement between passive and active funds, *Cross-MF group disagreement*, in sub-samples constructed for different proposal categories: Board, ESG, Share-issuance, and Say-on-pay.




(a)




(b)

Figure 4: Box plots of absolute value of disagreement and cross-group disagreement between passive and active mutual funds by the overall level of vote support

This figure presents the box plot of the absolute value of disagreement between passive and active funds, $|Approval\ Diff|$, and *Cross-MF group disagreement* by the level of overall vote support.

| Year | N | Equal approval of MNG by MF | Stronger approval of MNG by passive | Stronger approval of MNG by active |
|---|---|---|---|---|
| 2003 | 910 | 19.9% | 23.7% | 56.4% |
| 2004 | 13,026 | 28.4% | 31.0% | 40.6% |
| 2005 | 14,851 | 35.3% | 36.2% | 28.6% |
| 2006 | 16,937 | 19.8% | 51.0% | 29.2% |
| 2007 | 16,170 | 13.1% | 59.8% | 27.0% |
| 2008 | 17,062 | 22.5% | 54.8% | 22.7% |
| 2009 | 19,141 | 12.4% | 51.0% | 36.6% |
| 2010 | 20,324 | 12.8% | 49.0% | 38.2% |
| 2011 | 23,585 | 17.3% | 48.4% | 34.3% |
| 2012 | 24,619 | 15.3% | 58.2% | 26.5% |
| 2013 | 25,555 | 17.9% | 48.2% | 33.9% |
| 2014 | 27,145 | 18.1% | 56.6% | 25.4% |
| 2015 | 28,091 | 17.1% | 56.7% | 26.2% |
| 2016 | 27,746 | 16.4% | 53.9% | 29.8% |
| 2017 | 28,976 | 14.6% | 47.5% | 38.0% |
| 2018 | 22,935 | 6.2% | 39.9% | 54.0% |

Table 2: Sample composition over time

The sample consists of 327,073 proposals for 6,113 firms over the period 2003-2018 from the ISS Voting Analytics database. When constructing the sample, we require that at least ten mutual funds and two passive funds voted on a proposal. Appendix A defines the variables.

| Year | Mean | STD | P25 | Median | P75 |
|---|---|---|---|---|---|
| 2003 | 0.178 | 0.200 | 0.000 | 0.122 | 0.289 |
| 2004 | 0.146 | 0.195 | 0.000 | 0.060 | 0.235 |
| 2005 | 0.121 | 0.191 | 0.000 | 0.014 | 0.175 |
| 2006 | 0.090 | 0.133 | 0.000 | 0.039 | 0.114 |
| 2007 | 0.082 | 0.120 | 0.005 | 0.035 | 0.104 |
| 2008 | 0.064 | 0.105 | 0.000 | 0.023 | 0.078 |
| 2009 | 0.082 | 0.124 | 0.003 | 0.032 | 0.101 |
| 2010 | 0.072 | 0.117 | 0.000 | 0.023 | 0.086 |
| 2011 | 0.063 | 0.100 | 0.000 | 0.026 | 0.075 |
| 2012 | 0.063 | 0.107 | 0.000 | 0.022 | 0.066 |
| 2013 | 0.055 | 0.098 | 0.000 | 0.018 | 0.059 |
| 2014 | 0.047 | 0.087 | 0.000 | 0.015 | 0.049 |
| 2015 | 0.049 | 0.096 | 0.000 | 0.014 | 0.050 |
| 2016 | 0.055 | 0.112 | 0.000 | 0.015 | 0.054 |
| 2017 | 0.055 | 0.099 | 0.000 | 0.019 | 0.063 |
| 2018 | 0.052 | 0.101 | 0.002 | 0.020 | 0.050 |

Table 3: Cross-MF group disagreement over time

This table presents the summary statistics of *Cross-MF group disagreement* between passive and active mutual funds over time. Appendix A defines the variables.

| **Proposal-level** | N | Mean | STD | P1 | Median | P99 |
|---|---|---|---|---|---|---|
| ISS rec. | 327,073 | 89% | 32% | 0% | 100% | 100% |
| Vote support | 327,073 | 93% | 13% | 25% | 98% | 100% |
| Mutual funds (MF) approval | 327,073 | 90% | 18% | 18% | 98% | 100% |
| Number of active MF voted | 327,073 | 141 | 160 | 3 | 92 | 804 |
| Number of passive MF voted | 327,073 | 77 | 53 | 4 | 65 | 211 |
| \|MF Approval Diff\| | 327,073 | 0.055 | 0.095 | 0.000 | 0.018 | 0.455 |
| Cross-MF group disagreement | 327,073 | 0.067 | 0.118 | 0.000 | 0.021 | 0.573 |
| **Firm-level** | | | | | | |
| CAR[-1,1] | 327,073 | 0.0% | 3.7% | -11.9% | -0.1% | 13.5% |
| ROA | 297,733 | 8.7% | 16.6% | -69.5% | 10.4% | 43.4% |
| Institutional ownership | 327,073 | 68% | 26% | 0.4% | 75% | 100% |
| Assets (in millions) | 298,857 | 15,058 | 46,737 | 31 | 1,769 | 346,288 |
| B/M | 298,857 | 0.57 | 0.45 | -0.43 | 0.48 | 2.32 |
| Leverage | 297,655 | 0.22 | 0.23 | 0.00 | 0.18 | 0.94 |

Table 4: Descriptive statistics

This table provides the summary statistics for the full sample. Appendix A defines the variables.

| | Viable sample (N=2,485) | | Non-viable sample (N=313,316) | |
|---|---|---|---|---|
| **Proposal-level** | Mean | STD | Mean | STD |
| ISS rec. | 16% | 36% | 92% | 27% |
| Vote support | 51% | 3% | 95% | 11% |
| Mutual funds (MF) approval | 42% | 24% | 92% | 15% |
| Number of active MF voted | 160 | 187 | 141 | 158 |
| Number of passive MF voted | 81 | 54 | 77 | 53 |
| \|MF Approval Diff\| | 0.149 | 0.135 | 0.051 | 0.090 |
| MF Approval Diff =0 | 90% | 29% | 100% | 5% |
| Cross-MF group disagreement | 0.168 | 0.152 | 0.063 | 0.114 |
| **Firm-level** | | | | |
| CAR[-1,1] | 0.2% | 4.1% | 0.0% | 3.7% |
| ROA | 8.1% | 17.9% | 8.7% | 16.6% |
| Institutional ownership | 70% | 24% | 68% | 26% |
| Assets (in millions) | 17,486 | 51,346 | 14,861 | 46,212 |
| B/M | 0.60 | 0.50 | 0.56 | 0.45 |
| Leverage | 0.24 | 0.26 | 0.23 | 0.23 |

Table 5: Summary statistics on subsamples of viable and non-viable proposals

This table provides the summary statistics for the viable sample and the non-viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. Appendix A defines the variables.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0219** | -0.0217** | -0.0199* | -0.0131* | -0.0288*** | -0.272** |
| | (0.009) | (0.009) | (0.012) | (0.008) | (0.010) | (0.011) |
| MF approval | -0.0134 | -0.0130 | -0.0165 | 0.0065 | -0.0068 | -0.0080 |
| | (0.010) | (0.012) | (0.012) | (0.005) | (0.006) | (0.007) |
| Log (# MF voted) | 0.0040 | 0.0055 | 0.0008 | 0.0118 | 0.0059 | 0.0067 |
| | (0.004) | (0.004) | (0.005) | (0.012) | (0.004) | (0.004) |
| Institutional ownership | | -0.0215 | | | | -0.0149 |
| | | (0.015) | | | | (0.015) |
| ISS rec. | | -0.0001 | | -0.0048 | | 0.0049 |
| | | (0.007) | | (0.005) | | (0.007) |
| Vote support | | -0.0438 | | 0.0057 | | -0.0545 |
| | | (0.042) | | (0.013) | | (0.044) |
| Log (Assets) | | | 0.0008 | | | |
| | | | (0.005) | | | |
| B/M | | | -0.0017 | | | |
| | | | (0.009) | | | |
| Analyst dispersion | | | | | -0.0025 | -0.0026 |
| | | | | | (0.004) | (0.004) |
| Observations | 1,656 | 1,656 | 1,453 | 791 | 1,428 | 1,428 |
| Adj. $R^2$ | 0.438 | 0.440 | 0.429 | 0.973 | 0.434 | 0.435 |
| Year FE, Firm FE | Yes | Yes | Yes | No | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm × Year FE | No | No | No | Yes | No | No |

Table 6: Disagreement in voice between passive and active mutual funds and firm value when a proposal is viable: Unequal approval of MNG by mutual funds

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is the indicator variable, *Unequal approval of MNG by MF*, which takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Stronger approval of MNG by passive | -0.0226** | -0.0227** | -0.0203* | -0.0127 | -0.0293*** | -0.0278*** |
| | (0.010) | (0.010) | (0.012) | (0.008) | (0.010) | (0.011) |
| Stronger approval of MNG by active | -0.0206** | -0.0204** | -0.0193 | -0.0136* | -0.0270** | -0.0254** |
| | (0.010) | (0.009) | (0.012) | (0.008) | (0.010) | (0.011) |
| MF approval | -0.0128 | -0.0119 | -0.0162 | 0.0060 | -0.0063 | -0.0074 |
| | (0.011) | (0.013) | (0.012) | (0.005) | (0.006) | (0.007) |
| Log (# MF voted) | 0.0041 | 0.0056 | 0.0009 | 0.0117 | 0.0060 | 0.0069 |
| | (0.004) | (0.004) | (0.005) | (0.011) | (0.004) | (0.004) |
| Institutional ownership | | -0.0218 | | | | -0.0151 |
| | | (0.015) | | | | (0.015) |
| ISS rec. | | -0.0005 | | -0.0048 | | 0.0046 |
| | | (0.007) | | (0.005) | | (0.007) |
| Vote support | | -0.0453 | | 0.0064 | | -0.0563 |
| | | (0.042) | | (0.013) | | (0.044) |
| Log (Assets) | | | 0.0008 | | | |
| | | | (0.005) | | | |
| B/M | | | -0.0016 | | | |
| | | | (0.009) | | | |
| Analyst dispersion | | | | | -0.0025 | -0.0025 |
| | | | | | (0.004) | (0.004) |
| Observations | 1,656 | 1,656 | 1,453 | 791 | 1,428 | 1,428 |
| Adj. $R^2$ | 0.438 | 0.440 | 0.429 | 0.973 | 0.434 | 0.435 |
| Year FE, Firm FE | Yes | Yes | Yes | No | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm × Year FE | No | No | No | Yes | No | No |

Table 7: Disagreement in voice between passive and active mutual funds and firm value when a proposal is viable: Stronger approval of MNG by passive/active funds

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variables of interest are the indicator variables, *Stronger approval of MNG by passive* and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. All variables are defined in **??**. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Cross-MF group disagreement | -0.0036** | -0.0035** | -0.0030* | -0.0026* |
| | (0.002) | (0.002) | (0.002) | (0.001) |
| MF approval | -0.0035 | -0.0034 | -0.0054 | 0.0042 |
| | (0.005) | (0.006) | (0.006) | (0.003) |
| Log (# MF voted) | 0.0018 | 0.0032 | -0.0010 | 0.0104 |
| | (0.004) | (0.004) | (0.006) | (0.011) |
| Institutional ownership | | -0.0201 | | |
| | | (0.015) | | |
| ISS rec. | | 0.0002 | | -0.0018 |
| | | (0.007) | | (0.003) |
| Vote support | | -0.0427 | | 0.0120 |
| | | (0.042) | | (0.012) |
| Log (Assets) | | | 0.0012 | |
| | | | (0.005) | |
| B/M | | | -0.0022 | |
| | | | (0.009) | |
| Observations | 1,656 | 1,656 | 1,453 | 791 |
| Adj. $R^2$ | 0.438 | 0.439 | 0.429 | 0.972 |
| Year FE, Firm FE | Yes | Yes | Yes | No |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |
| Firm × Year FE | No | No | No | Yes |

Table 8: Cross-MF group disagreement between passive and active mutual funds and firm value when a proposal is viable

This table examines the relationship between cross-group disagreement between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in **??**. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Cross-MF group disagreement | -0.0036** | -0.0035** | -0.0054** | -0.0054** |
| | (0.002) | (0.002) | (0.002) | (0.002) |
| Within-passive MF disagreement | 0.0001 | 0.0002 | | |
| | (0.002) | (0.002) | | |
| Within-SP500 MF disagreement | | | 0.0012 | 0.0011 |
| | | | (0.002) | (0.002) |
| Observations | 1,656 | 1,656 | 946 | 946 |
| Adj. $R^2$ | 0.439 | 0.440 | 0.424 | 0.428 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |

Table 9: Sources of disagreement and firm value when a proposal is viable

This table examines the sources of disagreement and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is the *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. *Within-passive MF disagreement* is calculated as the standard deviation of the average approval rate of management within all passive mutual funds. *Within-SP500 MF disagreement* is calculated as the standard deviation of the approval rate of management for a given proposal computed within all S&P 500 index funds. All variables are defined in **??**. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | MNG-sponsored | | | SH-sponsored | | |
| Unequal approval of MNG by MF × Pass | -0.0147** | -0.0153** | -0.0166** | 0.0069 | 0.0004 | 0.0002 |
| | (0.006) | (0.006) | (0.007) | (0.026) | (0.023) | (0.023) |
| Unequal approval of MNG by MF × Fail | 0.0070 | 0.0077 | 0.0071 | 0.0260 | 0.0193 | 0.0193 |
| | (0.007) | (0.008) | (0.008) | (0.043) | (0.038) | (0.038) |
| Pass | 0.0230*** | 0.0288*** | 0.0294*** | 0.0178 | 0.0177 | 0.0175 |
| | (0.007) | (0.009) | (0.009) | (0.051) | (0.045) | (0.046) |
| Observations | 1,813 | 1,813 | 1,813 | 672 | 672 | 672 |
| Adj. $R^2$ | 0.006 | 0.012 | 0.012 | -0.001 | 0.012 | 0.012 |
| Controls | No | Yes | Yes | No | Yes | Yes |
| Year FE | No | Yes | Yes | No | Yes | Ye |
| Proposal type FE | No | No | Yes | No | No | Yes |

Table 10: Unequal approval of MNG by mutual funds and the value of passing a proposal

This table compares the effect of disagreement in voice between passive and active mutual funds in management-sponsored and shareholder-sponsored proposals in the viable sample. It presents the regression results when we interact the indicator variable, *Unequal approval of MNG by MF* with *Pass/Fail*. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. *Pass/Fail* is an indicator variable that takes the value of one when a proposal reaches (fails to reach) the majority threshold. *Unequal approval of MNG by MF* is an indicator variable that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Column (1)-(3) examine management-sponsored proposals in the viable sample. Column (4)-(6) examine shareholder-sponsored proposals in the viable sample. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | | MNG-sponsored | | | SH-sponsored | |
| Stronger approval of MNG by passive × Pass | -0.0149** | -0.0161** | -0.0174*** | 0.0048 | -0.0009 | -0.0012 |
| | (0.006) | (0.006) | (0.007) | (0.026) | (0.023) | (0.024) |
| Stronger approval of MNG by passive × Fail | 0.0081 | 0.0084 | 0.0077 | 0.0247 | 0.0184 | 0.0182 |
| | (0.007) | (0.008) | (0.008) | (0.043) | (0.038) | (0.038) |
| Stronger approval of MNG by active × Pass | -0.0152** | -0.0141** | -0.0152** | 0.0088 | 0.0011 | 0.0009 |
| | (0.007) | (0.007) | (0.007) | (0.026) | (0.023) | (0.023) |
| Stronger approval of MNG by active × Fail | 0.0019 | 0.0042 | 0.0038 | 0.0270 | 0.0205 | 0.0207 |
| | (0.008) | (0.009) | (0.009) | (0.043) | (0.038) | (0.038) |
| Pass | 0.0230*** | 0.0289*** | 0.0294*** | 0.0180 | 0.0180 | 0.0177 |
| | (0.007) | (0.009) | (0.009) | (0.050) | (0.045) | (0.046) |
| Observations | 1,813 | 1,813 | 1,813 | 672 | 672 | 672 |
| Adj. $R^2$ | 0.006 | 0.012 | 0.012 | -0.003 | 0.010 | 0.009 |
| Controls | No | Yes | Yes | No | Yes | Yes |
| Year FE | No | Yes | Yes | No | Yes | Yes |
| Proposal type FE | No | No | Yes | No | No | Yes |

Table 11: Stronger approval of MNG by passive/active mutual funds and the value of passing a proposal

This table compares the effect of disagreement in voice between passive and active mutual funds in management-sponsored and shareholder-sponsored proposals in the viable sample. It presents the regression results when we interact the indicator variables, *Stronger approval of MNG by passive(active)* with *Pass/Fail*. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. *Pass(Fail)* is an indicator variable that takes the value of one when a proposal reaches (fails to reach) the majority threshold. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. Column (1)-(3) examine management-sponsored proposals in the viable sample. Column (4)-(6) examines shareholder-sponsored proposals in the viable sample. All variables are defined in Appendix A. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | MNG-sponsored | | | SH-sponsored | | |
| Large Cross-MF group disagreement × Pass | -0.0101** | -0.0113** | -0.0123** | 0.0069 | 0.0038 | 0.0034 |
| | (0.005) | (0.005) | (0.005) | (0.012) | (0.011) | (0.011) |
| Large Cross-MF group disagreement × Fail | 0.0011 | 0.0014 | 0.0007 | 0.0027 | 0.0026 | 0.0019 |
| | (0.008) | (0.008) | (0.008) | (0.006) | (0.006) | (0.007) |
| Pass | 0.0124 | 0.0185* | 0.0187* | -0.0052 | -0.0021 | -0.0027 |
| | (0.009) | (0.010) | (0.010) | (0.014) | (0.014) | (0.014) |
| Observations | 1,813 | 1,813 | 1,813 | 672 | 672 | 672 |
| Adj. $R^2$ | 0.005 | 0.011 | 0.011 | -0.003 | 0.012 | 0.011 |
| Controls | No | Yes | Yes | No | Yes | Yes |
| Year FE | No | Yes | Yes | No | Yes | Yes |
| Proposal type FE | No | No | Yes | No | No | Yes |

Table 12: Large Cross-MF group disagreement and the value of passing a proposal

This table compares the effect of disagreement in voice between passive and active mutual funds in management-sponsored and shareholder-sponsored proposals in the viable sample. It presents the regression results when we interact the indicator variable, *Large Cross-MF group disagreement* with *Pass/Fail*. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. *Pass(Fail)* is an indicator variable that takes the value of one when a proposal reaches (fails to reach) the majority threshold. *Large Cross-MF group disagreement* takes the value of one if *Cross-MF group disagreement* is at the top 3 groups when we split the continuous measure into quintiles. Column (1)-(3) examine management-sponsored proposals in the viable sample. Column (4)-(6) examines shareholder-sponsored proposals in the viable sample. All variables are defined in **??**. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Predicted cross-MF group disagreement | -0.0047** | -0.0048** | -0.0048** | -0.0051* |
| | (0.002) | (0.002) | (0.002) | (0.003) |
| Predicted within-MF group disagreement | | | -0.0012 | |
| | | | (0.005) | |
| Observations | 1,231 | 1,231 | 1,206 | 1,057 |
| Adj. $R^2$ | 0.447 | 0.453 | 0.458 | 0.433 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | Yes | No |
| Assets, B/M | No | No | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |

Table 13: Predicted cross-MF group disagreement and firm value when a proposal is viable

This table examines the relations between the predicted shareholder disagreement between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is *Predicted cross-MF group disagreement*. We first estimate OLS regressions of fund votes at the vote level on FOMC announcements with PCs instrument interacted with the identity of the fund to estimate coefficients. We then re-calculate *Cross-MF group disagreement* using the predicted fund votes as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Predicted cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in **??**. We adjust for the estimation error using clustered bootstrapping. Specifically, we resample the data, estimate the regressions, and calculate standard errors based on the standard deviation of the coefficient estimates. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Unequal approval of MNG by MF | 0.0008** | 0.0008** | 0.0009** | -0.0001 | 0.0010** | 0.0010** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Observations | | | | | | |
| Adj. $R^2$ | | | | | | |
| MF approval, # MF voted | Yes | Yes | Yes | Yes | Yes | Yes |
| Ownership | No | Yes | No | No | No | Yes |
| ISS rec., Vote support | No | Yes | No | Yes | No | Yes |
| Assets, B/M | No | No | Yes | No | No | No |
| Analyst dispersion | No | No | No | No | Yes | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | No | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm × Year FE | No | No | No | Yes | No | No |

Table 14: Disagreement in voice between passive and active mutual funds and firm value when a proposal is non-viable: Unequal approval of MNG by mutual funds

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the non-viable sample. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. The dependent variable is CAR around the meeting outcome disclosure date. The variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. All variables are defined in **??**. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) Institutional ownership | (2) # blockholders | (3) TNIC HHI |
|---|---|---|---|
| Unequal approval of MNG by MF × Low monitoring | 0.0012** | 0.0012* | 0.0010* |
| | (0.001) | (0.001) | (0.001) |
| Unequal approval of MNG by MF × High monitoring | 0.0004 | 0.0006 | 0.0006 |
| | (0.001) | (0.000) | (0.000) |
| Low monitoring | 0.0000 | -0.0025*** | -0.0012*** |
| | (0.001) | (0.001) | (0.001) |
| Observations | 313,240 | 313,240 | 313,240 |
| Adj. $R^2$ | 0.149 | 0.149 | 0.149 |
| Controls | Yes | Yes | Yes |
| Year FE, Firm FE | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes |

Table 15: Institutional monitoring and disagreement in voice between passive and active mutual funds when a proposal is non-viable

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date with different levels of institutional monitoring in the non-viable sample. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. The dependent variable is CAR around the meeting outcome disclosure date. We interact the main independent variable *Unequal approval of MNG by MF* with indicator variables that take the value of one if it is high/low institutional monitoring. Column (1) presents regression results when institutional ownership is used to measure the degree of institutional monitoring. Column (2) presents regression results when the number of blockholders is used to construct the monitoring measure. Column (3) presents regression results when product-market competition proxied by TNIC HHI (Hoberg and Phillips (2016)) is used to measure the degree of market monitoring. *High(Low) monitoring* takes the value of one if the institutional, blockholder, or market monitoring measure is above(below) the sample median. *Unequal approval of MNG by MF* takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. All variables are defined in **??**. Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

# Internet Appendix for: "Mutual Fund Disagreement and Firm Value: Passive vs. Active Voice"

Jan Bena
Iris Wang

March, 2022

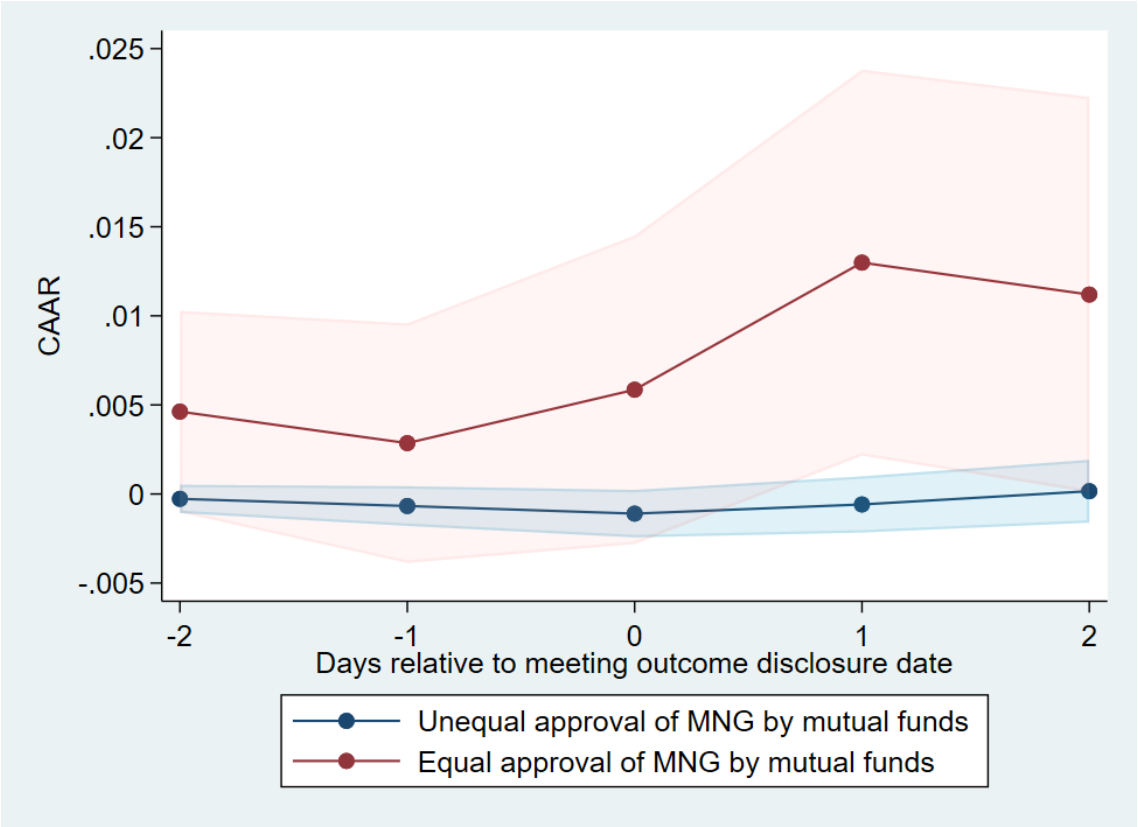
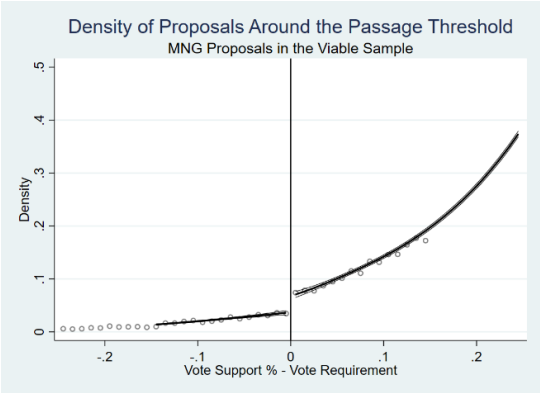
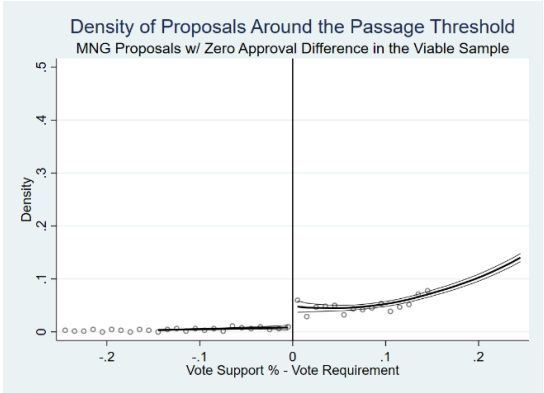



Figure 1: CAAR of firm meetings with equal and unequal approval of management between passive and active mutual funds

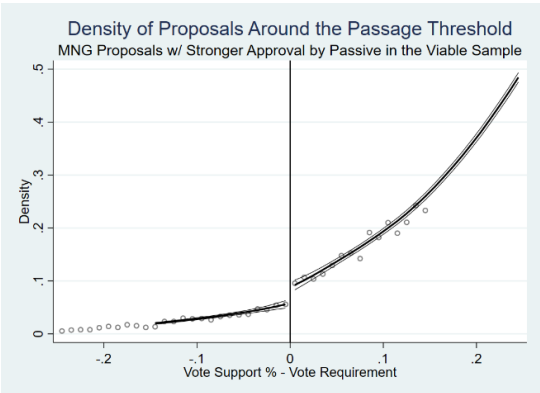
This figure presents the pre- and post-meeting cumulative average abnormal returns (CAAR) of firm meetings with equal and unequal approval of management between passive and active mutual funds in a sample of viable proposals. A proposal is viable if the overall vote support is within the range of 45% and 55%. We classify a meeting into a one with unequal approval of MNG by mutual funds if at least one of the proposals voted on in that meeting received an unequal approval of management between passive and active mutual funds. The shaded areas represent the 90% confidence intervals.



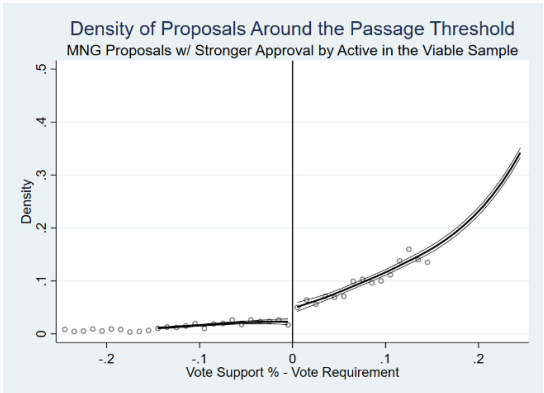

(a)




(b)




(c)




(d)

Figure 2: Density of management proposals around the majority threshold in the viable sample

This figure presents the density of management proposals around the majority passage threshold in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0427*** | -0.0391*** | | |
| | (0.013) | (0.014) | | |
| Cross-MF group disagreement | | | -0.0054* | -0.0055* |
| | | | (0.003) | (0.003) |
| Investor disagreement from social media | -0.0045 | -0.0070 | -0.0043 | -0.0067 |
| | (0.009) | (0.009) | (0.009) | (0.009) |
| Observations | 452 | 452 | 452 | 452 |
| Adj. $R^2$ | 0.199 | 0.218 | 0.202 | 0.224 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |

Table 1: Disagreement in voice between passive and active mutual funds and firm value: Additional control variables capturing disagreement among other types of investors

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample, when we include disagreement measure constructed from StockTwits (**?**). We compute the average three-day investor disagreement from social media before the vote outcome disclosure date [-3,0]. We require firms to have at least one non-missing investor disagreement from social media to be included in the sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. *Unequal approval of MNG by MF* takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. *Cross-MF group disagreement* is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0271** | -0.0211* | | | | |
| | (0.012) | (0.012) | | | | |
| Stronger approval of MNG by passive | | | -0.0282** | -0.0223* | | |
| | | | (0.013) | (0.013) | | |
| Stronger approval of MNG by active | | | -0.0249** | -0.0191 | | |
| | | | (0.012) | (0.013) | | |
| Cross-MF group disagreement | | | | | -0.0045* | -0.0039 |
| | | | | | (0.002) | (0.002) |
| Observations | 464 | 464 | 464 | 464 | 464 | 464 |
| Adj. $R^2$ | 0.605 | 0.603 | 0.604 | 0.602 | 0.603 | 0.603 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |

Table 2: Disagreement in voice between passive and active mutual funds and firm value: Alternative thresholds to define viable samples

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date using alternative thresholds to define viable proposals. A proposal is viable if the overall vote support is within the range of 48% and 52%. The dependent variable is CAR around the meeting outcome disclosure date. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive*and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. In Column (5)-(6), the variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Unequal approval of MNG by MF | 0.0008** | 0.0008** | | | | |
| | (0.000) | (0.000) | | | | |
| Stronger approval of MNG by passive | | | 0.0008* | 0.0007* | | |
| | | | (0.000) | (0.000) | | |
| Stronger approval of MNG by active | | | 0.0010** | 0.0010** | | |
| | | | (0.000) | (0.000) | | |
| Cross-MF group disagreement | | | | | 0.0004** | 0.0004** |
| | | | | | (0.000) | (0.000) |
| Observations | 299,388 | 299,388 | 299,388 | 299,388 | 299,137 | 299,137 |
| Adj. $R^2$ | 0.151 | 0.152 | 0.151 | 0.152 | 0.151 | 0.151 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |

Table 3: Disagreement in voice between passive and active mutual funds and firm value: Alternative thresholds to define non-viable samples

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date using alternative thresholds to define non-viable proposals. A proposal is included in the non-viable sample if the overall vote support is outside the range of 20% to 80%. The dependent variable is CAR around the meeting outcome disclosure date. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive*and *Stronger approval of MNG by active. Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. In Column (5)-(6), the variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0204* | -0.0183* | | | | |
| | (0.009) | (0.009) | | | | |
| Stronger approval of MNG by passive | | | -0.0213** | -0.0195** | | |
| | | | (0.009) | (0.010) | | |
| Stronger approval of MNG by active | | | -0.0186** | -0.0167* | | |
| | | | (0.009) | (0.010) | | |
| Cross-MF group disagreement | | | | | -0.0034** | -0.0030* |
| | | | | | (0.002) | (0.002) |
| Observations | 1,643 | 1,643 | 1,643 | 1,643 | 1,643 | 1,643 |
| Adj. $R^2$ | 0.450 | 0.453 | 0.450 | 0.453 | 0.451 | 0.454 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes | No | Yes |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Proposal type × Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |

Table 4: Disagreement in voice between passive and active mutual funds and firm value with alternative specification: Viable sample

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date using alternative specifications by including proposal-by-year fixed effects in the viable sample. A proposal is viable if the overall vote support is within the range of 45% and 55%. The dependent variable is CAR around the meeting outcome disclosure date. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive*and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. In Column (5)-(6), the variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Unequal approval of MNG by MF | 0.0008** | 0.0008** | | | | |
| | (0.000) | (0.000) | | | | |
| Stronger approval of MNG by passive | | | 0.0008* | 0.0007* | | |
| | (0.000) | (0.000) | | | | |
| Stronger approval of MNG by active | | | 0.0010** | 0.0010** | | |
| | (0.000) | (0.000) | | | | |
| Cross-MF group disagreement | | | | | 0.0004** | 0.0004** |
| | (0.000) | (0.000) | | | | |
| Observations | 313,240 | 313,240 | 313,240 | 313,240 | 312,981 | 312,981 |
| Adj. $R^2$ | 0.149 | 0.149 | 0.149 | 0.149 | 0.149 | 0.149 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes | No | Yes |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Proposal type × Year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| MNG proposal FE | Yes | Yes | Yes | Yes | Yes | Yes |

Table 5: Disagreement in voice between passive and active mutual funds and firm value with alternative specification: Non-viable sample

This table examines the relations between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date using alternative specifications by including proposal-by-year fixed effects in the non-viable sample. A proposal is included in the non-viable sample if the overall vote support is outside the range of 30% to 70%. The dependent variable is CAR around the meeting outcome disclosure date. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive*and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. In Column (5)-(6), the variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0295*** | -0.0313*** | | |
| | (0.010) | (0.010) | | |
| Stronger approval of MNG by passive | | | -0.0276*** | -0.0295*** |
| | | | (0.009) | (0.010) |
| Stronger approval of MNG by active | | | -0.0241** | -0.0248** |
| | | | (0.009) | (0.010) |
| Observations | 558 | 558 | 581 | 581 |
| Adj. $R^2$ | 0.510 | 0.510 | 0.520 | 0.521 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |

Table 6: Disagreement in voice between passive and active mutual funds and firm value in the viable sample: Weighting votes by mutual funds' holdings

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample when holding is used to measure disagreement. The dependent variable is CAR around the meeting outcome disclosure date. The disagreement is measured using mutual fund holdings from Thomson Reuters. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. Specifically, for each proposal in a shareholder meeting of a company, we calculate (1) the fraction of passive funds holdings supporting the management; and (2) the fraction of active funds holdings supporting the management. *Unequal approval of MNG by MF* is one if there is a difference between the two fractions. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive* and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of passive(active) funds holdings supporting the management is greater than the fraction of active(passive) funds holdings supporting the management. A proposal is viable if the overall vote support is within the range of 45% and 55%. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0378*** | -0.0351*** | | |
| | (0.013) | (0.010) | | |
| Stronger approval of MNG by passive | | | -0.0325** | -0.0281** |
| | | | (0.015) | (0.013) |
| Stronger approval of MNG by active | | | -0.0377*** | -0.0350*** |
| | | | (0.014) | (0.012) |
| Number of proposals | 0.0001 | -0.0000 | 0.0000 | -0.0001 |
| | (0.001) | (0.001) | (0.001) | (0.001) |
| Observations | 391 | 391 | 391 | 391 |
| Adj. $R^2$ | 0.156 | 0.158 | 0.154 | 0.158 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |

Table 7: Disagreement in voice between passive and active mutual funds and firm value in the viable sample: Meeting level analysis with maximum absolute disagreement of all proposals in a shareholder meeting

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample when the analysis is at the individual meeting level. A proposal is viable if the overall vote support is within the range of 45% and 55%. In each specification, we also include the number of proposals as an additional control variable. For each shareholder meeting, we only keep the proposal that has the greatest absolute value of *MF Approval Diff*. The dependent variable is CAR around the meeting outcome disclosure date. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive* and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. In Column (5)-(6), the variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.

| **Dependent variable: CAR[-1,1]** | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Unequal approval of MNG by MF | -0.0378*** | -0.0351*** | | |
| | (0.013) | (0.010) | | |
| Stronger approval of MNG by passive | | | -0.0377*** | -0.0330*** |
| | | | (0.014) | (0.012) |
| Stronger approval of MNG by active | | | -0.0378*** | -0.0354*** |
| | | | (0.013) | (0.011) |
| Number of proposals | 0.0001 | -0.0000 | 0.0001 | -0.0001 |
| | (0.001) | (0.001) | (0.001) | (0.001) |
| Observations | 391 | 391 | 391 | 391 |
| Adj. $R^2$ | 0.156 | 0.158 | 0.152 | 0.155 |
| MF approval, # MF voted | Yes | Yes | Yes | Yes |
| Ownership, ISS rec., Vote support | No | Yes | No | Yes |
| Year FE, Firm FE | Yes | Yes | Yes | Yes |
| Proposal type FE, MNG proposal FE | Yes | Yes | Yes | Yes |

Table 8: Disagreement in voice between passive and active mutual funds and firm value in the viable sample: Meeting level analysis with average disagreement of all proposals in a shareholder meeting

This table examines the relationship between disagreement in voice between passive and active mutual funds, and CAR around shareholder meeting outcome disclosure date in the viable sample when the analysis is at the individual meeting level. A proposal is viable if the overall vote support is within the range of 45% and 55%. In each specification, we also include Number of proposals as an additional control variable. For each shareholder meeting, we calculate the average *Approval Diff*. The dependent variable is CAR around the meeting outcome disclosure date. In Column (1)-(2), the variable of interest is the indicator variable, *Unequal approval of MNG by MF*, that takes the value of one if a proposal receives unequal approval for management from the passive and active mutual funds. In Column (3)-(4), the variables of interest are the indicator variables, *Stronger approval of MNG by passive*and *Stronger approval of MNG by active*. *Stronger approval of MNG by passive(active)* takes the value of one if the fraction of the number of passive(active) funds supporting the management is greater than the fraction of active(passive) funds supporting the management. In Column (5)-(6), the variable of interest is *Cross-MF group disagreement*, which is calculated as the weighted standard deviation of average approval votes between passive and active mutual fund groups, where average approval votes are the arithmetic average of funds votes in each group. We then normalized *Cross-MF group disagreement* to have mean zero and standard deviation one in all regression analyses. All variables are defined in . Standard errors are clustered at the firm level. ***, **, * correspond to statistical significance at the 1, 5, and 10 percent levels, respectively.