(Black)Rock the Vote: Index Funds and Opposition to Management

Joseph D. Farizo*

Gatton College of Business and Economics, University of Kentucky

Abstract

The rapid rise in indexed investing has led to fears that these "passive" funds will refrain from meaningful governance of their portfolio companies. However, I find index funds do participate in monitoring by voting their proxy shares against management as much as, and frequently more than, actively managed funds. To rule out the possibility that index funds blindly follow the voting behavior of active fund managers or proxy advisors, I examine how index funds vote *within* proposals at companies their fund family does not hold in its active funds. I find that index funds are more likely to oppose management on these "index-only" shares. Further, I demonstrate that index fund opposition has an incremental effect on whether a proposal passes. These collective findings are consistent with index funds fulfilling their fiduciary duty to their investors, in part alleviating concerns that the growth of indexed investing is necessarily bad for corporate governance.

August 29, 2019

1. Introduction

Increasingly, investors favor indexed investing over traditional active management. In 2017 alone, equity index funds realized a net inflow of \$220 billion while active funds suffered \$207 billion in withdrawals.[1] This shift to indexing has resulted in substantial changes to the ownership makeup of the U.S. equity markets, as highlighted in Figure 1. At the end of 2017, 17.1% of the stock market was held by index funds, a nearly 533% increase since 2000. Over this same period, active funds saw their ownership share fall nearly 40% to 12.3% of the market value of listed equities.

With their increased ownership share, index funds have gained sizable voting power at their portfolio firms' shareholder meetings. Such influence has led to concerns that management of these firms would be unchecked, as "passive" index funds adopt a hands-off approach to governance. An op-ed in *The Wall Street Journal* argues:

> *No passive investor cares much about governance of a particular company. The impact on an index when a single company underperforms is usually either slight or offset by gains from its competitors. It may be rational for index funds to ignore governance, since the money they spend on improving [a portfolio firm] benefits not just them but also rival funds that invest in the same stocks.*[2]

Concerns regarding the growth of indexing are driven in part by an apparent lack of incentives for these funds to engage in governance. Monitoring activities are costly (Iliev and Lowry, 2014; Black, 1998), and index fund management fees as a percentage of total assets are low relative to actively-manged funds. Further, since an index fund that engages in governance will earn the return of its underlying benchmark, its competitors that track the same benchmark can free-ride, benefiting from any value enhancements to their portfolio that the engaged fund worked to achieve.

---

[1]*Morningstar Direct* U.S. Asset Flows Commentary, December 2017.
[2]"Index Funds Are Great for Investors, Risky for Corporate Governance." M. Todd Henderson and Dorothy Shapiro Lund. *The Wall Street Journal*. June 22, 2017.

However, there are a number of reasons why an index fund might participate in active governance of its portfolio firms.[3] First, monitoring activities have been linked to an increase in firm value, and firm value enhancements have been tied to higher cash flows for institutional investors. Cuñat, Gine, and Guadalupe (2012) show that the adoption of one governance proposal increases shareholder value at the firm by 2.8%, while Lewellen and Lewellen (2018) estimate that the average institution earns nearly $150,000 in additional annual cash flow through management fees if the value of its portfolio rises 1%. Second, governance can be used by index funds to compete against actively-managed funds that enjoy the discretion to buy and sell securities in an attempt to outperform a benchmark. Fisch, Hamdani, and Davidoff Solomon (2018) show that while index funds are indeed locked into their positions, the investors in these funds are not; therefore, index funds use their voting power in an attempt to enhance the value of their portfolio firms to compete with alpha-generating active funds and prevent asset outflows. Dimmock, Gerken, Ivković, and Weisbenner (2018) present evidence consistent with investors favoring governance, as actively-managed funds that more frequently oppose management on contentious management sponsored director elections enjoy significantly higher asset inflows. Further, Riedl and Smeets (2017) show that investors in socially-responsible mutual funds are willing to pay more for under-performing funds that align with their social preferences. Finally, index funds do not have the discretion to sell out of positions when they disagree with management and may be more inclined to exercise their "voice" by voting, since "voting with their feet" through divesting shares is not possible.

The conflicting theories regarding incentives for index funds to be involved owners pose a simple question: Do index funds engage in governance? In this paper, I address this topic by examining fund voting behavior. I find that on average index funds do monitor their

---

[3]In this paper, *active governance* refers to participation in governance by either actively-managed funds or indexed funds. *Passive governance* refers to limited participation by either actively-managed funds or index funds in monitoring activities. The terms *active funds* and *actively-managed funds* are used interchangeably and describe any fund that has discretion over buying and selling decisions of their portfolio assets.

portfolio firms through voting in opposition to management at levels similar to, and in several cases more than, that of active funds. To identify that index funds are voting their shares independently of the influence of active funds in the same fund family, I exploit variation in the cross-holdings of active and indexed mutual funds within a family voting on the same proposal at the same time. I find that index funds are approximately 6.4% *more* likely to oppose management on shares that are held only within index funds (*Index Only* shares) relative to shares that are held both in index and active funds when voting on contentious management sponsored proposals. Further, I find evidence that index fund opposition to a proposal has an incremental effect on whether that proposal passes: as the difference between indexed and active opposition widens, the proposal becomes more likely to fail.

This paper is, to the best of my knowledge, the first in the index-governance literature to identify and isolate the monitoring behaviors of index funds net of any influence of active funds. Other studies have used stock assignments to the Russell 1000 and 2000 indexes to examine the effects of institutional and indexed ownership on the firm (Appel, Gormley, and Keim, 2016, 2018), but there is considerable debate regarding the reliability and biases of these estimates (Wei and Young, 2000; Heath, Macciocchi, Michaely, and Ringgenberg, 2018). Further, some papers show that there is also an increase in actively-managed fund ownership around this Russell 1000/2000 cutoff (Boone and White, 2015), obscuring the effects of index fund ownership. My identification strategy does not rely on this methodology and instead directly measures index fund involvement in monitoring activities.

This paper also contributes to the growing institutional governance literature that examines the determinants of proxy voting decisions. Firm characteristics (Cai, Garner, and Walkling, 2009), fund characteristics (Dimmock, Gerken, Ivković, and Weisbenner, 2018; Iliev and Lowry, 2014), and the relationship between the institution and firm (Davis and Kim, 2007; Cvijanović, Dasgupta, and Zachariadis, 2016) have all been tied to how the institutional investor votes on an issue. Positive past performance, higher net benefits of

voting, and business ties between the institution and firm all increase the level of support among institutional shareholders. In this study, I show that an additional institution-firm characteristic, whether a share is held only in indexed funds within a family, is an additional determinant of the voting decision.

Finally, this paper contributes to the literature on the effects of institutional governance. Gillan and Starks (2000) show that shareholder proposals sponsored by institutions are significantly more likely to pass, while Morgan, Poulsen, Wolf, and Yang (2011) find that high mutual fund approval rates substantially increase the probability that a proposal passes, controlling for the mechanical relationship between support and outcome. In this paper, I show that index fund support on a proposal is important for a proposal to pass. Opposition to a proposal by index funds increases the probability that a proposal fails, controlling for the quality of the proposal and actively-managed fund support.

The remainder of this paper proceeds as follows. In Section 2, I discuss the research setting, explain why shareholder voting is a particularly useful area for examining index fund governance activities, and provide an overview of the ISS Voting Analytics database and sample. Section 3 presents the main results, comparing active and indexed opposition rates and showing that index funds are more likely to oppose management if they are voting on shares held only by index funds within their fund-family. I show that index fund opposition has an incremental effect in the failure rates of proposals in Section 4, and Section 5 concludes.

2. Data & Sample Description

2.1. Proxy voting as a governance research setting

Fund voting records are a useful setting for examining governance activities of institutional investors for several reasons. First, investment companies have a fiduciary obligation to their clients when voting proxies. As per SEC Rule 206(4)-6, investment advisers and funds owe a "duty of care" that "requires an adviser with proxy voting authority to monitor

4

corporate events and to vote the proxies." Second, SEC Rule 30b1-4 requires that institutional investors and fund advisers disclose policies and procedures relating to how they vote on their portfolio securities. Finally, SEC Rule 30b1-4 further requires that institutional investors and fund advisors make public their complete proxy voting record each year on an SEC filing, the Form N-PX, which reveals their actual behavior.

The requirements that funds vote in the best interest of shareholders, reveal their voting guidelines and procedures, and disclose all proxy voting activities implies that voting behavior as a matter of law represents governance behavior for funds and advisors. Additionally, these rules were adopted by the SEC in part because "This enormous voting power gives advisers significant ability collectively, and in many cases individually, to affect the outcome of shareholder votes and influence the governance of corporations. Advisers are thus in a position to significantly affect the future of corporations and, as a result, the future value of corporate securities held by their clients."[4]

Institutional investors have frequently used the recommendation of proxy advisory services such as Institutional Shareholder Services (hereafter, ISS) and Glass, Lewis & Co. when contemplating their voting decisions. ISS's standing as the largest global proxy advisory firm has attracted attention from researchers interested in determining if their recommendations have real effects on passage and implementation of proposals. Alexander, Chen, Seppi, and Spatt (2010) show that ISS recommendations indeed predict vote outcomes and signal proposal quality as cumulative abnormal returns increase around the arrival of pro-dissident recommendations. Morgan, Poulsen, Wolf, and Yang (2011) find that an ISS recommendation in favor of a proposal increases the probability a fund will vote in favor of that proposal by 43.6%. Malenko and Shen (2016) find that a negative recommendation by ISS leads to a 25-percentage point reduction in support on say-on-pay proposals. Because

---

[4]SEC Release No. IA-2106; File No. S7-38-02. Available at https://www.sec.gov/rules/final/ia-2106.htm.

there is substantial evidence that these recommendations have economic significance, they have often been used to identify proposal quality (Iliev and Lowry, 2014; Dimmock, Gerken, Ivković, and Weisbenner, 2018; Cotter, Palmiter, and Thomas, 2010; Bethel and Gillan, 2002; Morgan, Poulsen, and Wolf, 2006; Cotter, Palmiter, and Thomas, 2010; Cai, Garner, and Walkling, 2009). Similarly, ISS's recommendation will be used in this study to identify potentially value-enhancing proposals as described in the next subsection.

2.2. ISS Voting Analytics Database

The data for this study comes from the ISS Voting Analytics database which compiles the data on SEC Form N-PX filings. The SEC Form N-PX satisfies the requirements of SEC Rule 30b1-4 that all mutual funds and registered management investment companies report how they vote their proxies on equity shares held in the prior year. Each fund must file this form by the end of each August, covering all votes submitted in the previous N-PX reporting year, from July 1st through June 30th. The data in this study includes eleven N-PX reporting years, from the year ending June 30, 2006 to the year ending June 30, 2016.

An observation consists of the fund family or institution, fund, a description of the proposal up for a vote, the firm management's recommendation, the proposal sponsor, how the fund voted, and the outcome of the vote. For example, the data shows that Vanguard's S&P 500 index fund voted its shares in favor of Robert A. Iger of the Walt Disney Company to retain his position as a member of the Board of Directors on March 3, 2016. Further, this proposal was sponsored by the issuer (The Walt Disney Company), Disney management recommended a vote in favor of this proposal, and this proposal passed. Additional observations show that the Vanguard U.S. Growth Fund and the Fidelity Contrafund also voted for this executive.

The Voting Analytics database also includes ISS's recommendation for how shareholders should vote on each proposal on the ballot of all Russell 3000 companies. These recommendations are provided to each of ISS's institutional clients. Proposals where ISS disagrees with

management will be referred to as *contentious* for the remainder of this paper. The term *contentious* is used here to stress that ISS is opposing firm management and not the proposal itself. A proposal that ISS is against is not contentious if management is also against that proposal, which often arises when shareholders a ballot item.

2.3. Sample Description

Similar to Morgan, Poulsen, Wolf, and Yang (2011), I sort proposals into broad categories to use in conjunction with ISS's recommendation to control for proposal quality. All management sponsored proposals to elect executives to the corporate board (72.8% of the proposals) make up the *Director Elections* category. *Compensation* proposals include items where shareholders vote to approve executive pay, such as incentive bonus plans and stock option plans. *Accounting* proposals include ratifying the external auditor of the financial statements. *Board* proposals consist of all proposal relating to the board, but exclude the recurring annual director elections (i.e., approve change in the size of the board, fix the number of directors, and elect supervisory board members.) *Payout* proposals include items pertaining to the allocation of dividends and authorization of share repurchase programs. Finally, *General* proposals are all other general business items, such as approving reverse stock splits and calling for the adjournment of the annual meeting.

The ISS Voting Analytics database does not identify whether a fund is active or indexed. I identify active and indexed funds in the ISS sample based on their names, using the set of keywords and strings in Appel, Gormley, and Keim (2016). The final sample includes 8,980 actively-managed and 1,783 indexed funds from 2006 to 2016, voting on 288,561 unique proposals, for a total of 49,347,960 fund-proposal pairs. Each fund-proposal pair consists of the fund's voting opinion for that proposal. It does not represent the number of votes that a fund submits based on the number of shares it holds. For the purposes of this study, a fund's *vote* represents how that fund voted for all the shares it holds of a company on a given

proposal. The median active (index) fund votes on 11 (12) management-sponsored proposals per company meeting. ISS submits a recommendation in opposition to management's recommendation on 7.8% of all proposals in the sample. 5,451 firms and 33,702 annual meetings are covered by this data.

3. Fund Voting Decisions

3.1. Differences in Active and Indexed Fund Opposition to Management

There is significant evidence that voting decisions are made at the fund, rather than fund-family, level. Rothberg and Lilien (2006) examine SEC proxy disclosures for institutional investors and find that the largest 10 institutional families generally appointed senior fund-family company executives to establish guidelines and oversee voting. This is consistent with the Black (1990) economies of scale argument that governance costs per proposal fall when similar monitoring issues are present across multiple holdings. However, Morgan, Poulsen, Wolf, and Yang (2011) show that 45 of the 94 institutional fund families in their sample exhibit some form of vote "dispersion" whereby different funds within the same family submit votes in opposition to one another. Fisch, Hamdani, and Davidoff Solomon (2018) cite BlackRock and T. Rowe Price's proxy voting guidelines that explicitly state that the fund manager ultimately has discretion over the voting decision.

As a baseline test for the engagement in governance by index funds, I compare their voting activity to that of actively-managed funds. Such a direct comparison is useful for many reasons. First, Iliev and Lowry (2014) and Matvos and Ostrovsky (2010) show that actively-managed funds engage in active governance, particularly for funds that posses greater net benefits for voting and when peer funds also engage with management. Second, McCahery, Sautner, and Starks (2016) indicate that governance by institutional investors is not limited to voting: survey responses indicate that behind-the-scenes discussions with firm management, in addition to the traditional tools of voting and exit, are frequently used by

institutional investors. Finally, the link established by Lewellen and Lewellen (2018) between governance and institutional cash flows is evidence of an incentive for active funds to care about governance.

Panel A of Table 2 presents the differences in average oppose ratios for active and indexed funds overall and across the six proposal categories defined in the previous section for the full ISS sample. *Oppose Overall* is the number of votes submitted by funds in opposition to a proposal divided by the total number of votes submitted by all funds, assuming each fund has one vote. *Active (Index) Oppose* is the number of votes submitted by active (indexed) funds in opposition to a proposal divided by the total number of votes submitted by all active (indexed) funds, assuming each fund has one vote. Together, active and indexed funds oppose these proposals 7.1% of the time. Of note, 7.3% of votes submitted by indexed funds were in opposition to management while only 6.9% of the votes submitted by active funds were against management's recommendation. This 0.4% difference is statistically-significant at the 99% level.

Overlapping holdings among indexed and actively-managed mutual funds within the same institutional family, however, can blur the true level of engagement by indexed fund managers. The proposed merger of Towers Watson & Co. and Willis Group Holdings PLC provides an example of this. Proxy advisors ISS and Glass, Lewis & Co. each recommended that shareholders vote against this $18 billion merger between the two risk management and insurance firms, expressing concerns about the negotiated price. Amid opposition from large shareholders, including BlackRock and Driehaus Capital Management, Willis and Towers Watson renegotiated the deal. BlackRock's index fund managers were leaning toward voting against the revised merger plan, but managers of BlackRock's active funds persuaded the indexed funds to vote in favor of the merger.[5] The vote ultimately passed in December of

---

[5] "Meet the New Corporate Governance Power Brokers: Passive Investors." Sarah Krouse, David Benoit, and Tom McGinty. *The Wall Street Journal.* October 24, 2016.

2015, and the deal was completed in January of 2016. In this case, votes by index funds did not necessarily represent governance by index funds. Active managers, perhaps in an attempt to outperform their benchmark, used the substantial voting power of within-family index funds to potentially sway a vote. Focusing on shares held only by index funds within a family eliminates the possibility that governance activity by these funds is on behalf of actively-managed funds within the same family.

To cleanly identify the governance behavior of index funds specifically, I focus the analysis on *Index Only* shares. Consider as an example the proposal to elect Matthew Levatich to the board of directors of Harley-Davidson in 2016. The ISS data has a record of 314 funds submitting votes on this proposal. 148 of these funds were indexed while 166 were actively-managed. These funds represent 65 unique fund families or institutions, and 29 of these families held Harley-Davidson only in their indexed funds. The average level of *Index Only* for Harley-Davidson is therefore $29 \div 148 = 19.59\%$, indicating that nearly one-fifth of the index funds voting on this proposal were members of institutions where Harley was not held by actively-managed funds. A specific case is Calvert Research and Management, an institutional fund family with approximately \$11.7 billion in total net assets across 21 active and 9 indexed funds. Two indexed funds in this family submitted votes on Harley shares and voted in favor of Mr. Levatich. Calvert did not concurrently submit votes on Harley shares in any of its 21 active funds at the time, therefore, each of these proposal-fund observations were coded as *Index Only* $= 1$. In contrast, Voya Investment Management (spun-off from ING Group in 2013) had three funds vote in favor of Mr. Levatich for this position, but one of these was the actively-managed Diversified Mid Cap Growth Portfolio. Therefore, each of these three proposal-fund combinations were coded as *Index Only* $= 0$. The indicator *Index Only* can vary through time as active funds enter and exit positions held by indexed funds within their family.

Table 1 shows, for each of the largest index funds benchmarked to the S&P 500 for

which voting data is available in the ISS database, the average quarterly oppose ratios for *all* management-sponsored proposals and for *Index Only* proposals. Overall, this small sample of S&P 500 funds vote against management 5.9% of the time. On the subset of shares that each fund holds while no active fund within their family concurrently holds, they vote against management 9.0% of the time. The difference of 3.1% between the opposition rate on *Index Only* shares and on all proposals is statistically significant at the 5% level. Only two of the 25 funds in this sample (Columbia and Federated) have a negative difference between their *Index Only* and *Overall* oppose ratios.

Revisiting Panel A of Table 2, oppose ratios are calculated as the number of opposing votes submitted by index funds on shares not held in actively-managed funds within its fund-family, divided by the total number of votes submitted by index funds on shares not held within active funds in the same fund-family. The *index only* opposition rate is 10%, a statistically-significant 3.1 percentage points higher than the rate at which active funds oppose management.

Examining the oppose ratios across proposal categories in Panel A of Table 2 shows that the opposition rates for *Director Elections* largely drives the overall negative difference between active and indexed oppose ratios. The difference is also negative and statistically-significant for *General* proposals, but either positive or not different from zero in other proposal categories. The difference in oppose ratios for active funds and index only shares, however, is negative and strongly statistically-significant for all proposals except *Accounting* as shown in the right-most column of the table.

While the differences in active and indexed opposition rates are indeed statistically-significant, the magnitude of these differences is quite small; however, an important conclusion can be reached from these results. Index funds on average are engaging in governance through actively voting their shares at least as much, and if not more so, than actively-managed funds. Further, index funds also oppose management recommendations on shares that their

11

institutional fund-families hold *only* in index funds. This identifies that the index fund alone, and not other actively-managed funds within the index fund's family, are voting their shares on their behalf. These findings in part help to alleviate some concerns that the growth of indexing is bad for corporate governance.

Panel B of Table 2 limits the sample to contentious proposals where ISS and firm management disagree. For these proposals, actively-managed funds appear to oppose management more frequently than indexed funds: the oppose ratio for active funds is 58.1%, 8.1 percentage points greater than the oppose ratio for indexed funds and 4.5 percentage points greater than the index only oppose ratio. The rate at which all funds oppose management is predictably higher, as opposing management on contentious proposals has the potential to increase the value of the firm (Dimmock, Gerken, Ivković, and Weisbenner, 2018; McCahery, Sautner, and Starks, 2016; Alexander, Chen, Seppi, and Spatt, 2010). Again, the magnitude of the differences between active and indexed opposition rates is small, showing that index funds still vote their shares at levels similar to actively-managed funds.

3.2. Index Ownership and Fund Voting Decisions

In this subsection, I test whether *Index Only* ownership has an effect on the fund's voting decision. Focusing on how index funds vote on shares that aren't also held in an active fund helps to cleanly identify the voting activism behavior that index funds engage in and removes the possibility that active funds within a fund-family are directing index fund voting behavior. To examine how *Index Only* ownership affects voting and governance choices, I estimate the following regression:

$$Pr(Oppose\ Management_{f,c,v,t}) = \beta_1(Index\ Only_{c,t}) + \delta_{c,v} + \theta_{f,t} + \epsilon \qquad (1)$$

The dependent variable equals one if fund f opposes management at company c on proposal v in year t. *Index Only* is equal to one if the index fund is voting on a share that is not voted

on by an actively-managed fund within the fund-family at the same time. $\delta_{c,v}$ are proposal fixed effects while $\theta_{f,t}$ are fund-year fixed effects. Standard errors are clustered by fund-year. In this setting, a "year" is a Form N-PX reporting period that runs from July 1st to June 30th. This model is separately estimated for the full sample of proposals, for contentious proposals, and across proposal categories to separately determine the marginal effects in each case.

Identifying the relationship between a fund's propensity to oppose management and the *Index Only* status of the share is achieved mainly through the use of proposal fixed effects. Dimmock, Gerken, Ivković, and Weisbenner (2018) first incorporated these fixed effects in their models that relate a fund's decision to oppose management rather than sell out of a position to its capital gain on a holding, particularly if the fund has tax-sensitive clientèle. Proposal fixed effects eliminate the impact that a number of factors other than *Index Only* have on a fund's voting decision. For example, Iliev and Lowry (2014) find that a company's past returns, ROA, and book to market ratio, as well as a number of other governance characteristics have an incremental effect on how a fund votes. All of these characteristics do not vary within a proposal at a firm and thus are absorbed by this fixed effect. Similarly, the recommendation of ISS or any proxy advisory service does not vary within a given proposal; its direct effect is therefore subsumed. The fund-year fixed effects are included to control for a fund's voting tendencies, performance, or flow. Table 3 presents the results of Equation 1. Columns (1) and (2) present the results for all management sponsored proposals that index funds vote on in the sample, while Columns (3) and (4) limit the sample to only contentious proposals.

The positive and significant coefficients on *Index Only* in each of the specifications of Table 3 suggest that an index fund is more likely to oppose management on proposals if the company it is voting on are held only in index funds within a fund family, relative to those shares held in both active and index funds. The results of Column (1) show that with the inclusion of proposal fixed effects, and index fund is 2.0% more likely to oppose management

on index only shares. The model that includes fund-year fixed effects in Column (2) shows a positive and significant coefficient on *Index Only*, indicating that the relationship holds while controlling for fund-year characteristics. On contentious proposals, an indexed fund is 6.4% more likely to oppose management on contentious items if voting on *Index Only* shares (Column 3) or 0.04% more likely to oppose management when including fund-year fixed effects (Column 4).

To further examine the positive and significant effect that index only ownership has on an index fund's propensity to oppose management, I split the sample into the six proposal categories described in the previous section and present the results in Table 4. With the exception of Board and Payout proposals after the inclusion of fund and year fixed effects, the relationship between *Index Only* and a fund's propensity to oppose management is positive and significant across all proposal types. The negative coefficient on *Index Only* for Director Elections in Column (2) is only marginally statistically significant (t-stat = -1.656).

The proposal fixed effects rely on the variation of *Index Only* within each proposal. To explore this level of variation, I calculate the average level of *Index Only* within a proposal by summing the number of funds with *Index Only* = 1 and dividing by the total number of index funds that vote on that proposal. For example, recall that this value for Matthew Levatich's election to the board of Harley-Davidson was $29 \div 148 = 19.59\%$. In Figure 2, I plot these values for each of the proposals in the sample. The top panel includes all proposals while the bottom panel presents the distribution for contentious proposals. For both proposals overall and the subset of proposals where management and ISS disagree, there is significant variation in *Index Only* which allows for inclusion of the proposal fixed effects.

If an indexed fund is more likely to oppose management on a share held only by index funds within its family, one might expect that the rate at which these funds oppose management increases as the average *Index Only* for a proposal increases. To test this, I calculate the average rate of opposition by indexed funds within quintiles of the *Index Only*

14

distribution described in the previous paragraph (and presented in Figure 2). These results are presented in Table 5 for each of the 6 proposal categories. Generally, the greater the proportion that a proposal is voted on only by index funds within a family, the higher the average rate of opposition to that proposal. The differencing column indicates that the average rate of opposition between the 5th and 1st quintile is statistically significant for most proposal categories. I repeat for contentious proposals and find similar results.

The results of Tables 3 through 5, combined with the summary findings of Table 2 present evidence that index funds, on average, do engage in active voting governance by opposing management as much as, and in some cases more than, actively-managed funds. These findings are consistent with the Fisch, Hamdani, and Davidoff Solomon (2018) theory that index funds use governance as a tool to compete with actively-managed funds. Because index funds are effectively "locked-in" to their positions, they may be more inclined to rely on one of their strongest remaining governance tools. Regardless of the motivations for index funds to be engaged owners, it would appear as if some of the concerns about the rise of indexed ownership relative to active ownership may be misplaced.

4. The Effects of Indexed Fund Governance on Vote Outcomes

In this section, I test whether index fund opposition to a proposal increases the likelihood that a proposal fails. To overcome the mechanical relationship between the number of votes submitted against a proposal and the probability that the vote fails, I follow Morgan, Poulsen, Wolf, and Yang (2011) and consider the *difference* between index and active opposition. Specifically, I estimate a linear probability model that relates an indicator variable *Fail* (set to one if the proposal fails at the shareholder meeting, and zero otherwise) to the difference

of index and active fund opposition:

$$Pr(Fail_{c,v}) = \beta_1(Index\ Oppose\ \%_{c,v} - Active\ Oppose\ \%_{c,v}) +$$
$$+ \beta_2(Active\ Oppose\ \%_{c,v}) + \gamma X + \theta_{c,t} + \epsilon \tag{2}$$

Index Oppose $\%_{c,v}$ − *Active Oppose* $\%_{c,v}$ is the difference in opposition rates of index and active funds voting on proposal v at company c. The index (active) fund opposition rate is calculated as the number of votes submitted by index (active) funds against management on a company proposal divided by the total number of votes submitted by index (active) funds on that proposal. Following Morgan, Poulsen, Wolf, and Yang (2011), I include a vector of the proposal categories, X, as defined in the previous section to control for quality of the proposal. $\theta_{c,t}$ are company-year fixed effects.

Descriptive statistics for the dependent and independent variables of this specification are presented in Table 6. 276,979 management-sponsored proposals from 2006 to 2016 are included in the sample, 27,813 of which are contentious. Panel A presents the distribution of the dependent variables. 1.0% of proposals did not gain enough support to pass, while 5.7% of the contentious proposals failed. The summary statistics regarding the independent variables in Panel B show that the average rate at which index funds oppose management on a proposal is 8.2%, 30 basis points less than the active fund opposition rate (t-stat = 6.6243). The average difference between the index oppose and active oppose rate is -0.7% for all proposals, and -9.5% for contentious proposals. Finally, Panel C shows the breakdown of proposals by category. Note that the vast majority of proposals are director elections because most firms have several directors up for election at each annual meeting.

Table 7 presents the results of the model presented in Equation 2 above. Column (1) presents the results for all proposals in the sample, while Column (2) presents the results for the 20,308 contentious proposals. To provide context on the economic magnitudes of the incremental affects of index fund opposition on the failure of a proposal, *β Coefficient* in

each column shows the result of a model where *Index Oppose % − Active Oppose %* and *Active Oppose %* have been standardized to have a mean of zero and standard deviation of one. The *General* category is omitted due to colinearity and treated as the base case.

For both the full sample of proposals and for the subsample of contentious proposals, a proposal is more likely to fail when index funds oppose management in excess of actively-managed funds. From Column (1) of Table 7, a proposal is 12.1% more likely to fail given a 100 basis point increase in the difference between index and active oppose rates. By the *β Coefficient* estimate, a proposal is 1.3% more likely to fail for a one standard deviation increase in *Index Oppose % – Active Oppose %*. The effects are about the same for the sample of contentious proposals: a one standard deviation increase in *Index Oppose % – Active Oppose %* for contentious proposals increases the probability that proposal fails by 1.2%.

After controlling for the behavior of active funds, proposal quality, and company-year characteristics, index fund opposition is shown to have a statistically and economically meaningful effect on whether a proposal fails. These real effects of governance activism by index funds explains in part why these funds frequently devote resources to oppose management in the first place.

5. Conclusion

The unclear incentives for index funds to engage with the management of their portfolio firms has fueled concerns that these funds do not care about corporate governance. Specifically, because they are locked into their position and ultimately earn the benchmark return while competing on cost with other index funds, there appears to be no motive to exert effort in monitoring their holdings. As a matter of law, institutional investors are required to vote in the best interest of their shareholders and must annually disclose these voting records. These requirements provide a useful setting for determining whether index funds engage in meaningful levels of corporate governance by actively voting at the annual meetings of their

portfolio firms.

I find that index funds do engage in corporate governance. These funds oppose management of their portfolio firms at levels similar to, and often higher than, actively-managed funds. On shares that are only held in index funds at the fund family level, index funds are more aggressive to firm management, showing that their voting activities are not necessarily driven by actively-managed fund recommendations. The intensity at which index funds oppose management generally increases as the proportion of a proposal that is held only by index funds within a family rises. By considering separately contentious proposals and proposals of different categories, I control for the quality of the item on the ballot as well as the potential for the proposal to affect shareholder value. The incorporation of proposal-level fixed effects rules out the possibility that other firm-specific characteristics, such as the past performance of a given stock, profitability, leverage, and board structure, are driving the results.

In addition to showing that index funds engage in governance through proxy voting, I find that their voting behavior has real effects. A lack of support by index funds significantly reduces the likelihood a proposal passes. This relationship is not mechanical: a one standard deviation increase in the *difference* between index and active fund support for a proposal increases the probability a contentious management-sponsored proposal fails by 2.3%.

My results contribute to the growing literature in the area of corporate governance by institutional investors by being the first to identify index fund engagement in governance, net of influence by actively-managed funds. These results present some evidence consistent with the Fisch, Hamdani, and Davidoff Solomon (2018) theory that indexed funds have an incentive to engage in corporate governance, perhaps to compete with active funds that have discretion over their holdings. Lewellen and Lewellen (2018) introduce an additional motivation for these funds to engage in governance: performance improvements of portfolio firms through governance can increase an institution's cash flow. Like Appel, Gormley, and

Keim (2016) and Appel, Gormley, and Keim (2018), my results call into question whether passive investors are passive owners.

Although the evidence presented in this paper indicates that indexed investors participate in governance activities, it is important that researchers and regulators monitor the influence of proxy advisors into the future. Recent actions undertaken by the Securities and Exchange Commission have also sought to address the rise of institutional investing and its effects on corporate governance. In September of 2018, the SEC rescinded two letters authored by its staff that suggested mutual fund managers could satisfy their fiduciary duty to vote their shares by outsourcing decisions to proxy advisors. This SEC action has been interpreted as limiting the power that proxy advisory services like ISS, Egan-Jones Rating Company, and Glass, Lewis & Co. exert over the governance process. Additionally, the Chairman and Commissioners of the SEC in November of 2018 hosted a roundtable discussion with academic, government, and industry panelists, with the goal of "review[ing] whether our exisiting rules are achieving their objectives effectively in light of changes in our marketplace."[6] Executives from each of the largest proxy advisory firms were also in attendance to address their influence, as well as potential conflicts of interest that might arise by selling consulting services to firms that they issue voting recommendations on.

In sum, indexed funds demonstrate involvement in governance through actively voting at the shareholder meetings of their portfolio firms, controlling for the quality of the proposal as well as the recommendation of ISS. Further, such involvement in governance has real effects on a proposal's passage and implementation. As indexed investing continues to grow, the relative impact of these funds' governance choices will become increasingly important, and the area will remain ripe for research into index funds' motivations for being engaged owners.

---

[6]SEC Chairman Jay Clayton's *Statement Announcing SEC Staff Roundtable on the Proxy Process*. Available at https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process

References

Alexander, Cindy R, Mark A Chen, Duane J Seppi, Chester S Spatt. 2010. Interim news and the role of proxy voting advice. *The Review of Financial Studies*, **23**(12) 4419–4454.

Appel, Ian R, Todd A Gormley, Donald B Keim. 2016. Passive investors, not passive owners. *Journal of Financial Economics*, **121**(1) 111–141.

Appel, Ian R, Todd A Gormley, Donald B Keim. 2018. Standing on the shoulders of giants: The effect of passive investors on activism. *The Review of Financial Studies*.

Bethel, Jennifer E, Stuart L Gillan. 2002. The impact of the institutional and regulatory environment on shareholder voting. *Financial Management* 29–54.

Black, Bernard S. 1990. Shareholder passivity reexamined. *Michigan Law Review*, **89**(3) 520–608.

Black, Bernard S. 1998. Shareholder activism and corporate governance in the United States. *The New Palgrave Dictionary of Economics and the Law*, **3** 459–465.

Boone, Audra L, Joshua T White. 2015. The effect of institutional ownership on firm transparency and information production. *Journal of Financial Economics*, **117**(3) 508–533.

Cai, Jie, Jacqueline L Garner, Ralph A Walkling. 2009. Electing directors. *The Journal of Finance*, **64**(5) 2389–2421.

Cotter, James, Alan Palmiter, Randall Thomas. 2010. Iss recommendations and mutual fund voting on proxy proposals. *Vill. L. Rev.*, **55** 1.

Cuñat, Vicente, Mireia Gine, Maria Guadalupe. 2012. The vote is cast: The effect of corporate governance on shareholder value. *The Journal of Finance*, **67**(5) 1943–1977.

Cvijanović, Dragana, Amil Dasgupta, Konstantinos E Zachariadis. 2016. Ties that bind: How business connections affect mutual fund activism. *The Journal of Finance*, **71**(6) 2933–2966.

Davis, Gerald F, E Han Kim. 2007. Business ties and proxy voting by mutual funds. *Journal of Financial Economics*, **85**(2) 552–570.

Dimmock, Stephen G, William C Gerken, Zoran Ivković, Scott J Weisbenner. 2018. Capital gains lock-in and governance choices. *Journal of Financial Economics*, **127**(1) 113–135.

Fisch, Jill E, Assaf Hamdani, Steven Davidoff Solomon. 2018. Passive investors. *University of Pennsylvania Institute for Law and Economics Research Paper; UC Berkeley Public Law Reseach Paper; ECGI Law Working Paper*.

Gillan, Stuart L, Laura T Starks. 2000. Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of financial Economics*, **57**(2) 275–305.

Heath, Davidson, Daniele Macciocchi, Roni Michaely, Matthew Ringgenberg. 2018. Passive investors are passive monitors. *Working Paper*.

Iliev, Peter, Michelle Lowry. 2014. Are mutual funds active voters? *The Review of Financial Studies*, **28**(2) 446–485.

Lewellen, Jonathan W, Katharina Lewellen. 2018. Institutional investors and corporate governance: The incentive to be engaged. *Working Paper*.

Malenko, Nadya, Yao Shen. 2016. The role of proxy advisory firms: Evidence from a regression-discontinuity design. *The Review of Financial Studies*, **29**(12) 3394–3427.

Matvos, Gregor, Michael Ostrovsky. 2010. Heterogeneity and peer effects in mutual fund proxy voting. *Journal of Financial Economics*, **98**(1) 90–112.

McCahery, Joseph A, Zacharias Sautner, Laura T Starks. 2016. Behind the scenes: The corporate governance preferences of institutional investors. *The Journal of Finance*, **71**(6) 2905–2932.

Morgan, Angela, Annette Poulsen, Jack Wolf. 2006. The evolution of shareholder voting for executive compensation schemes. *Journal of Corporate Finance*, **12**(4) 715–737.

Morgan, Angela, Annette Poulsen, Jack Wolf, Tina Yang. 2011. Mutual funds as monitors: Evidence from mutual fund voting. *Journal of Corporate Finance*, **17**(4) 914–928.

Riedl, Arno, Paul Smeets. 2017. Why do investors hold socially responsible mutual funds? *The Journal of Finance*, **72**(6) 2505–2550.

Rothberg, Burton, Steven Lilien. 2006. Mutual funds and proxy voting: new evidence on corporate governance. *J. Bus. & Tech. L.*, **1** 157.

Wei, Wei, Alex Young. 2000. Selection bias or treatment effect? A re-examination of Russell 1000/2000 index reconstitution. *Working Paper*.

Fig. 1
The Growth of Index Ownership
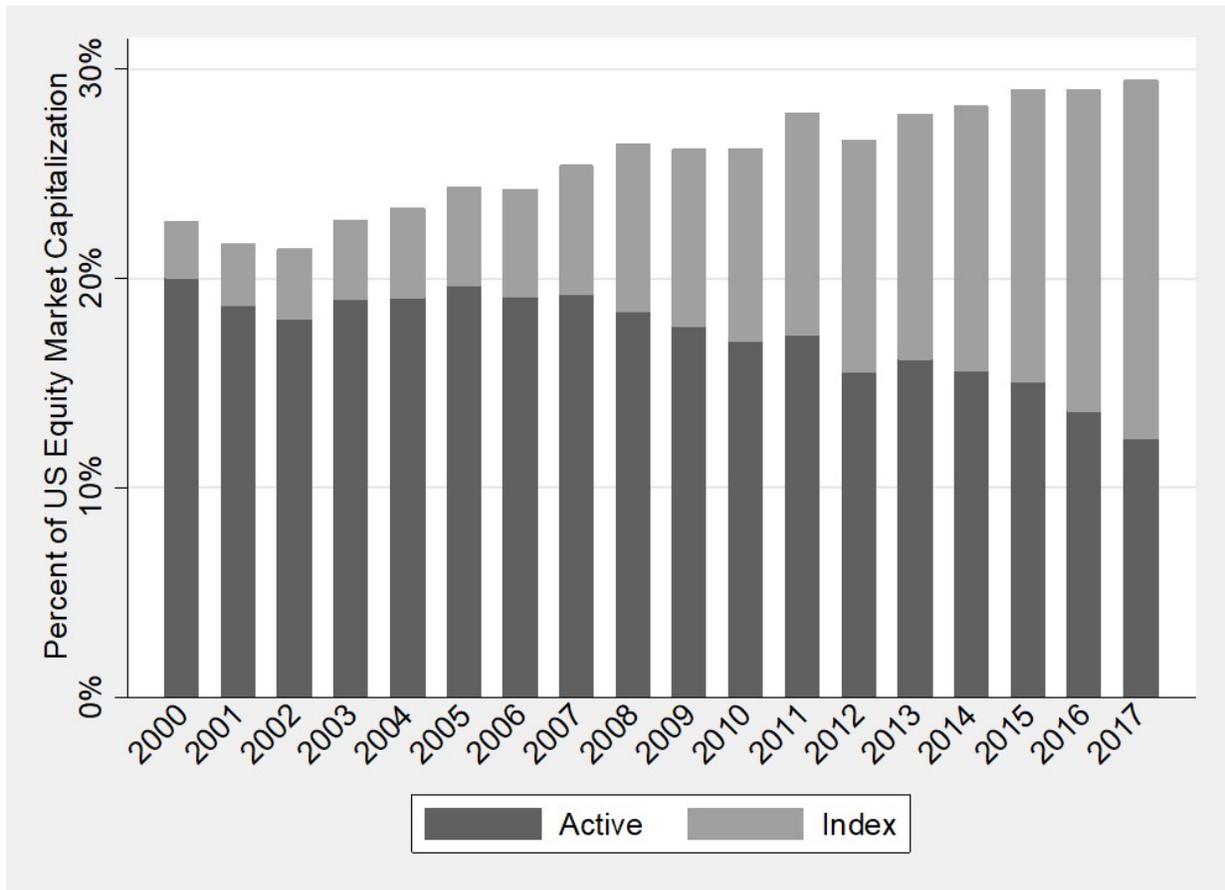
This figure presents U.S. equity mutual and exchange-traded fund assets under management as a percentage of total U.S. equity market capitalization from 2000 to 2017. The data on active and indexed total net assets comes from the Investment Company Institute's 2017 Investment Company Factbook. Total U.S. market capitalization is sourced from World Bank.

Fig. 2
Frequency Distribution of *Index Only*
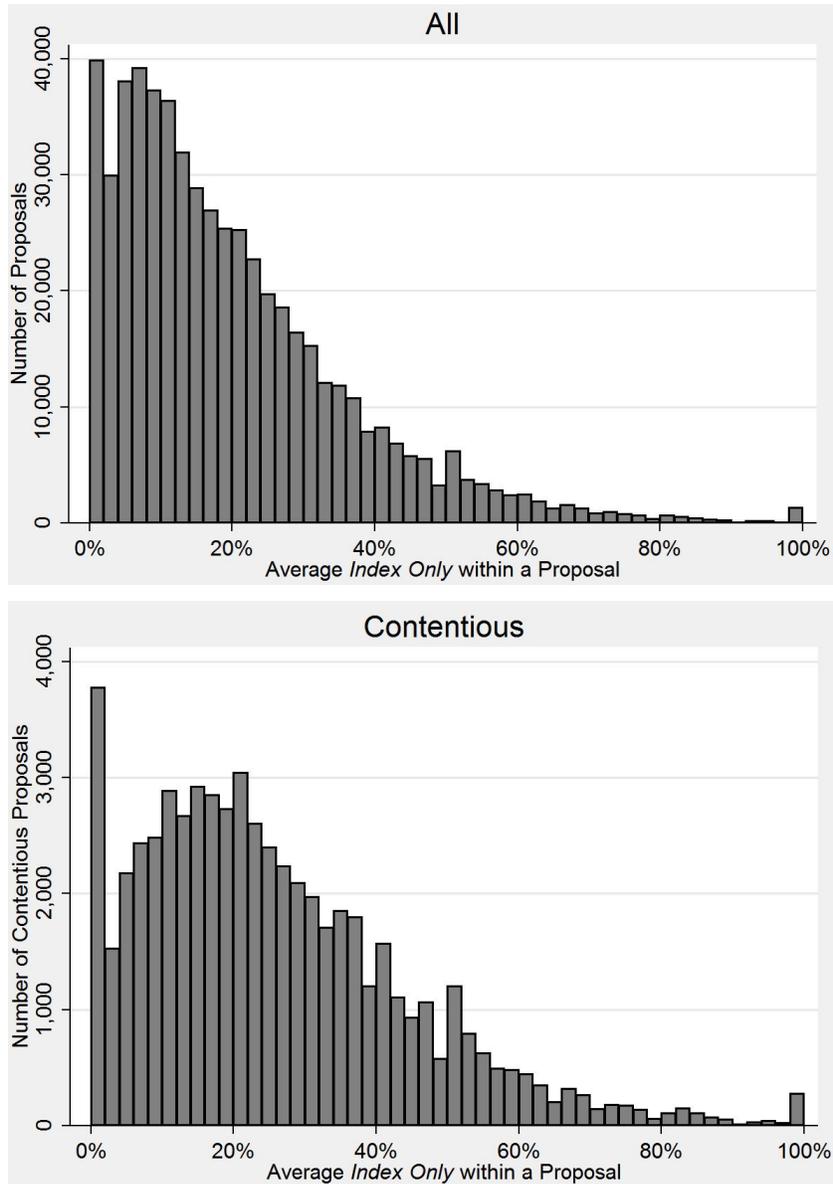
This figure presents the frequency distribution of the average *Index Only* indicator within a proposal. In the top panel, the distribution is presented across all proposals. The bottom panel limits the sample to contentious proposals, where ISS and firm management disagree.

Table 1
Rates of Opposition by S&P 500 Index Funds

This table presents voting data for all S&P 500 indexed mutual funds in the Institutional Shareholder Services data that can be matched to the CRSP Survivor-Bias-Free Mutual Fund database. The data are from 2006 to 2016. The *Overall* column presents the fund's average (across fund quarters) opposition rate on management-sponsored proposals, calculated as the number of times the fund voted against management divided by the total number of management-sponsored proposals the fund voted on. The *Index Only* column presents the average opposition rate on management-sponsored proposals for shares that the fund's institutional family held only in index funds at the time S&P 500 fund voted on the proposal. The *Index Only - Overall* column shows the difference between the *Index Only* and *Overall* columns.

S&P 500 Index Fund	Overall	Index Only	Index Only - Overall
AIM/Invesco	5.9%	6.6%	0.8%
American Century	8.4%	11.3%	2.9%
BlackRock	4.6%	5.0%	0.5%
BNY Mellon	6.1%	7.2%	1.1%
Columbia	6.8%	5.9%	-0.9%
Deutsche	5.6%	6.8%	1.2%
DFA	8.9%	23.5%	14.6%
Federated	7.5%	7.0%	-0.5%
Fidelity	10.6%	14.0%	3.3%
J.P. Morgan	5.4%	6.1%	0.7%
Legg Mason	5.6%	6.3%	0.7%
Morgan Stanley	6.7%	9.3%	2.6%
Northern Trust	2.3%	2.7%	0.4%
NYL MainStay	5.6%	6.1%	0.5%
Principal	4.4%	5.7%	1.3%
Prudential	6.0%	6.6%	0.6%
Charles Schwab	7.4%	22.7%	15.3%
SEI Investments	5.3%	10.1%	4.8%
State Street	7.1%	9.0%	1.9%
TIAA-CREF	2.9%	7.2%	4.3%
T. Rowe Price	5.4%	7.0%	1.6%
UBS	5.8%	6.6%	0.8%
Vanguard	3.7%	21.8%	18.1%
Victory	4.6%	5.3%	0.8%
Wells Fargo	4.2%	5.1%	0.9%
Average	5.9%	9.0%	3.1%

Table 2

Differences in Active and Index Fund Opposition to Management

This table presents the average active and index fund opposition rates for 49,347,960 total (3,670,870 contentious) proposal-fund pairs across 6 proposal categories. The data comes from the ISS Voting Analytics database for the 2006 to 2016 N-PX reporting periods. *n(Prop-Fund)* is the number of proposal-fund pairs. The values in the *Oppose* column are the number of votes submitted by funds in opposition to a proposal divided by the total number of proposals voted on by funds in the sample. The values in the *Active (Index)* column are the number of votes by active (index) funds submitted in opposition to a proposal divided by the total number of proposals voted on by active (index) funds. *Index Only* is the number of votes cast in opposition to a proposal by index funds divided by the total number of votes submitted by index funds on shares that its family does not concurrently hold in active funds. *Active − Index* and *Active − Index Only* present differences between the respective oppose ratios, as well as the t-statistic for differences in the means. Panel A is for all management sponsored proposals while Panel B is for contentious proposals where ISS disagrees with management. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels.

Panel A: All Management Sponsored Proposals

	n(Prop-Fund)	Oppose	Active	Index	Index Only	Active - Index		Active - Index Only	
						Difference	t-stat	Difference	t-stat
Director Elections	35,889,411	6.2%	6.0%	6.4%	9.2%	-0.4%	-53.4***	-3.2%	-255.0***
Compensation	6,097,679	14.5%	14.7%	14.3%	18.5%	0.5%	15.9***	-3.8%	-83.6***
Accounting	5,117,536	1.3%	1.4%	1.1%	1.3%	0.4%	35.4***	0.1%	6.4***
General	1,327,501	18.3%	17.0%	19.9%	24.4%	-2.8%	-42.1***	-7.3%	-76.3***
Board	863,050	10.2%	10.5%	9.8%	12.1%	0.6%	9.8***	-1.7%	-15.2***
Payout	52,783	6.9%	7.0%	6.6%	9.9%	0.4%	1.5	-3.0%	-6.4***
Overall	49,347,960	7.1%	6.9%	7.3%	10.0%	-0.4%	-44.3***	-3.1%	-260.0***

Panel B: Contentious Proposals

	n(Prop-Fund)	Oppose	Active	Index	Index Only	Active - Index		Active - Index Only	
						Difference	t-stat	Difference	t-stat
Director Elections	2,387,513	50.0%	53.5%	45.5%	47.9%	8.1%	124.3***	5.6%	65.1***
Compensation	893,261	61.5%	66.0%	55.5%	61.9%	10.5%	102.0***	4.1%	28.8***
Accounting	31,146	61.6%	63.3%	59.4%	68.3%	3.9%	7.0***	-5.0%	-6.0***
General	249,884	70.0%	69.9%	70.1%	77.6%	-0.2%	-0.9	-7.6%	-31.8***
Board	105,494	60.7%	63.8%	56.7%	65.4%	7.1%	23.5***	-1.6%	-3.4***
Payout	3,572	54.9%	54.0%	56.1%	66.1%	-2.1%	-1.2	-12.0%	-4.6***
Overall	3,670,870	54.5%	58.1%	50.0%	53.6%	8.1%	1.55***	4.5%	64.3***

Table 3

Index Fund Ownership and Opposition to Management

This table presents the regression results relating the probability a fund opposes management to index only ownership. The regression specification is defined in Equation (1) of the text. Columns (1) and (2) present the results for all proposals, while Columns (3) and (4) present the results for contentious proposals where ISS recommends a vote against management. Standard errors are clustered by fund-year. *Index Only* is an indicator equal to 1 if the index fund is voting on a proposal that is not concurrently held by any active funds within the same fund-family at the same time. The dependent variable is equal to 1 if the fund votes against management. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)
	All Proposals		Contentious Proposals	
Index Only	0.020***	0.001***	0.064***	0.004**
	[5.596]	[2.966]	[5.876]	[2.065]
Proposal FE	Yes	Yes	Yes	Yes
Fund × Year FE		Yes		Yes
Observations	20,024,773	20,024,766	1,611,603	1,611,467
Adj. R-squared	0.350	0.410	0.166	0.470

Table 4

Indexed Ownership and Opposition to Management (Contentious by Category)

This table presents the regression results relating the probability a fund opposes management to index only ownership for contentious proposals across proposal categories. The regression specification is defined in Equation 1 of the text. Standard errors are clustered by fund-year. *Index Only* is an indicator equal to 1 if the index fund is voting on a proposal that is not concurrently held by any active funds within the same fund-family at the same time. The dependent variable is equal to 1 if the fund votes against management. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
	Director Elections		Accounting		Board	
Index Only	0.046***	-0.004*	0.125***	0.057***	0.110***	0.019
	[3.905]	[-1.656]	[7.747]	[3.007]	[6.061]	[1.241]
Proposal FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund × Year FE		Yes		Yes		Yes
Observations	1,034,997	1,034,869	8,163	7,431	41,037	40,260
Adj. R-squared	0.114	0.470	0.306	0.511	0.294	0.590

	(7)	(8)	(9)	(10)	(11)	(12)
	Compensation		Payout		General Business	
Index Only	0.096***	0.012***	0.155***	0.063	0.105***	0.015***
	[8.037]	[4.588]	[4.471]	[1.388]	[8.640]	[3.451]
Proposal FE	Yes	Yes	Yes	Yes	Yes	Yes
Fund × Year FE		Yes		Yes		Yes
Observations	293,079	292,824	1,354	1,097	84,114	83,653
Adj. R-squared	0.203	0.559	0.208	0.476	0.250	0.533

Table 5
Opposition Rates Across the *Index Only* Distribution

This table presents the average rate at which index funds oppose management on *Index Only* shares across *Index Only* quintiles. A proposal-fund pair is classified as *Index Only* if the share is held only by indexed funds within a fund-family. Panel A presents the opposition rates for all management sponsored proposals while Panel B presents the opposition rates for contentious proposals where ISS and firm management disagree. The *Differences* columns present the difference in opposition rates between the highest (5th) and lowest (1st) quintiles of *Index Only*, as well as the t-statistic of this difference. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels.

Panel A: All Management Sponsored Proposals

	Quintiles of Index Only					Differences	
	1	2	3	4	5	5th - 1st	t-stat
Director Elections	4.5%	6.2%	7.9%	9.4%	12.9%	8.38%***	72.86
Compensation	11.3%	9.8%	13.2%	15.7%	21.2%	9.98%***	22.27
Accounting	1.0%	0.8%	0.9%	1.0%	1.1%	0.03%	0.24
General	14.1%	15.8%	22.2%	23.3%	28.3%	14.19%***	13.72
Board	8.5%	6.3%	8.7%	10.9%	18.6%	10.10%***	7.91
Payout	6.0%	2.8%	11.8%	9.8%	22.7%	16.74%***	3.15
Overall	5.5%	7.1%	8.7%	10.3%	13.9%	8.34%***	75.86

Panel B: Contentious Proposals

	Quintiles of Index Only					Differences	
	1	2	3	4	5	5th - 1st	t-stat
Director Elections	41.1%	45.4%	45.6%	47.2%	48.1%	7.03%***	13.79
Compensation	50.9%	51.7%	54.8%	55.7%	62.5%	11.62%***	9.51
Accounting	53.2%	48.0%	57.7%	62.2%	63.3%	10.12%	1.17
General	59.4%	65.1%	71.1%	72.1%	73.5%	14.02%***	6.30
Board	53.8%	63.6%	58.4%	65.5%	66.3%	12.47%***	3.24
Payout	42.8%	62.2%	75.3%	48.1%	52.5%	9.67%	0.41
Overall	46.7%	50.0%	50.6%	51.7%	53.9%	7.22%***	15.63

Table 6
Voting Data Summary Statistics

This table presents summary statistics for the 276,979 proposals in the ISS Voting Analytics database from the 2006 to 2016 N-PX reporting periods. Panel A presents summary statistics on the key dependent variable *Fail* for all proposals and contentious proposals when ISS recommends a vote against management. Panel B presents summary statistics for the key continuous independent variables. *Index (Active) Oppose %* is calculated as the number of votes submitted by index (active) funds in opposition to a proposal divided by the total number of votes submitted by index (active) funds. *Index % - Active %* is the difference between Index Oppose and Active Oppose. Panel C presents summary statistics on proposal categories.

Panel A: Dependent Variables							
	Mean	S.D.	1st%	25th%	50th%	75th%	99th%
Fail	1.0%	0.101	0	0	0	0	1
Fail (contentious)	5.7%	0.231	0	0	0	0	1

Panel B: Continuous Independent Variables							
	Mean	S.D.	1st%	25th%	50th%	75th%	99th%
All Proposals							
Index Oppose %	8.2%	0.167	0.0%	0.0%	1.5%	5.7%	80.8%
Active Oppose %	8.5%	0.182	0.0%	0.0%	1.1%	6.1%	84.0%
Index % - Active %	-0.7%	0.102	-36.6%	-1.7%	0.0%	1.3%	29.3%
Contentious Proposals							
Index Oppose %	47.9%	0.226	0.0%	31.3%	45.8%	63.0%	100.0%
Active Oppose %	54.4%	0.240	0.0%	41.9%	56.8%	70.8%	100.0%
Index % - Active %	-9.5%	0.214	-66.7%	-22.3%	-9.4%	2.8%	47.2%

Panel C: Proposal Categories							
	Mean	S.D.	1st%	25th%	50th%	75th%	99th%
Accounting	0.114	0.317	0	0	0	0	1
Board	0.016	0.124	0	0	0	0	1
Compensation	0.113	0.316	0	0	0	0	1
Director Elections	0.728	0.445	0	0	1	1	1
Payout	0.001	0.027	0	0	0	0	0
General Business	0.029	0.168	0	0	0	0	1

Table 7

The Effect of Index Opposition on Election Outcomes

This table presents regression results relating proposal failure to index and active fund voting support. The regression specification is defined in Equation (2) of the text. Column (1) presents the results for all management sponsored proposals in the text while Column (2) presents the results for contentious proposals where ISS recommends a vote against management. Standard errors are clustered by firm and proposal. *Index (Active) Oppose %* is calculated as the number of votes submitted by index (active) funds in opposition to a proposal divided by the total number of votes submitted by index (active) funds. *Index Oppose % - Active Oppose %* is the difference between Index Oppose and Active Oppose. *β Coefficient* is the coefficient estimate in a regression where *Index Oppose% − Active Oppose %* and *Active Oppose %* have been standardized to have a mean of zero and standard deviation of one. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels.

	All Proposals		Contentious	
	(1)		(2)	
	Coefficient	β Coefficient	Coefficient	β Coefficient
Index Oppose % - Active Oppose %	0.121*	0.013	0.113*	0.012
	[1.66]		[1.76]	
Active Oppose %	0.145*	0.028	0.150*	0.029
	[1.87]		[1.72]	
Accounting Proposal	-0.154**		-0.466***	
	[-2.22]		[-4.59]	
Board Proposal	-0.063		-0.194**	
	[-0.91]		[-2.02]	
Compensation Proposal	-0.159**		-0.369***	
	[-2.21]		[-3.48]	
Director Election Proposal	-0.165**		-0.441***	
	[-2.34]		[-4.09]	
Payout Proposal	-0.129**		-0.292***	
	[-1.99]		[-3.14]	
Company × Year FEs	Yes		Yes	
Observations	259,536		20,308	
Adjusted R-squared	0.209		0.437	