

Shareholder Disagreement and Firm Performance: Evidence from ESG Divergence

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Abstract

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The growing importance of environmental, social, and governance (ESG) issues has led to divergent shareholder preferences, resulting in disagreements that challenge Fisher's separation theorem by introducing non-pecuniary considerations into investment decisions. Such disagreements may enhance firm performance by increasing shareholder engagement, which provides managers with more comprehensive information for decision-making and improves monitoring quality. Using proxy voting records from mutual and pension funds, I construct novel measures of fund-level environmental and social (ES) preferences and quantify shareholder disagreement at the firm level. I provide evidence that firm-level shareholder ES disagreement is positively associated with firm performance, particularly among smaller, younger firms and those with below-average profiles. Exploiting fund mergers as exogenous shocks to firm ownership structure, I show that such a value-enhancing effect of ES disagreement is likely causal. I also develop a theoretical model to explain how shareholder disagreement on ES issues influences engagement with firm managers.

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Dedication

To my parents, Xudong and Xia.

1 Introduction

The Fisher separation theorem posits that a firm’s investment decisions should be independent of its owners’ preferences, with the firm’s primary objective being value maximization (Fisher, 1930). However, in practice, shareholders often hold divergent views on corporate goals because of various economic frictions. These divergences may stem from differences in investment horizons, tax considerations, incomplete information, and other factors. In recent years, environmental, social, and governance (ESG) issues have garnered significant attention from shareholders, particularly institutional investors. Within the environmental and social (ES) dimensions, shareholder interests exhibit substantial variation—some prioritize environmental protection, and others focus on social concerns such as human rights. In contrast, traditional investors typically prioritize financial returns over ES considerations (Starks, 2023). These diverging and sometimes conflicting perspectives have become a prominent source of shareholder disagreement, challenging the traditional goal of shareholder-value maximization and raising concerns about potential discord. Because ES issues reflect shareholders’ non-pecuniary preferences and affect firm decisions differently from governance matters, this paper separates ES disagreement from governance disagreement. I examine how ES and governance disagreement among shareholders affects firm performance, emphasizing engagement with managers as the key mechanism through which value is created.

Understanding how institutional investors’ disagreements on ES issues affect firm performance is crucial for several reasons. First, institutional investors, such as mutual and pension funds, hold substantial shares and express their views through voting on ES-related proposals, thereby playing a crucial role in shaping corporate ESG practices (Dyck et al., 2019). Second, institutional investors’ monitoring and engagement can exert substantial influence on managerial decision-making and firm operational efficiency (Fich et al., 2015; Morgan et al., 2011; Brav et al., 2023; Chen et al., 2007). Disagreements among these investors can affect both the frequency and intensity of their engagement with firms. Third, unlike divergences based solely on investment horizons or tax considerations—which are primarily financial in

nature—disagreements on ES issues reflect broader differences in shareholders’ values, encompassing both financial and social dimensions. Moreover, shareholder disagreement on ES issues is observable, providing a natural setting to explore how such disagreements influence engagement and contribute to variations in financial performance.

In this study, I build on the shareholder voting and institutional investors’ ideology literature (e.g., Bolton et al., 2020; Bolton et al., 2023) to capture the fund-level different ES preferences based on their voting histories on ES-related proposals in publicly listed firms. Compared to the literature that takes the fund family as the relevant unit, focusing on individual fund levels can better capture some within-family disagreements (Farroukh et al., 2024; Morgan et al., 2011).

To measure mutual funds and pension funds’ preferences over ES proposals, I compute the fund-year level ES voting score following Farroukh et al. (2024). For each fund in each year, I calculate the difference between the total number of ES proposals it voted for and the total number it voted against, scaled by the total number of votes cast. Consistent with Iliev and Lowry (2015), I treat abstain and withhold votes as votes against when calculating the score. I categorize a fund as ES oriented if its ES voting score is positive. I categorize a fund as a traditional fund if its ES voting score is zero or negative. To mitigate the bias raised by strategic voting incentives (Michaely et al., 2021), I refine a subset of contested ES proposals and controversial Governance proposals to better capture funds’ true preferences. Subsequently, I calculate the firm-level total shares held by ES-oriented funds and total shares held by traditional funds. I define firm-level shareholder ES disagreement, ES_dis1 , as one minus the absolute value of the difference between the weighted ES scores of ES-oriented funds (calculated as the proportion of stock they hold multiplied by their ES score) and the weighted ES scores of traditional funds (calculated as the proportion of stock they hold multiplied by the absolute value of their ES score).¹ ES_dis1 is a continuous variable

¹Alternatively, I define firm-level shareholder disagreement as the reciprocal of the absolute value of the difference between the weighted ES scores of ES-oriented funds (calculated as the proportion of stock they hold multiplied by their ES score) and the weighted ES scores of traditional funds (calculated as the proportion of stock they hold multiplied by the absolute value of their ES score). Both the “one minus”

that captures the tension between the two camps on ES ideology.

This study encounters several empirical challenges. First, unlike mutual funds, public pension funds do not have a centralized database for proxy voting records. This requires a manual search on each public pension fund’s website to explore the fund’s ideology. Second, there may be hidden factors influencing both firm-level disagreement and performance, such as shareholders’ disputes over governance matters. To quantify shareholders’ disagreement on governance proposals, I calculate firm-level governance disagreement by funds voting aligned with or against management recommendations.

To investigate the relation between shareholder disagreement and firm performance (both financial and ESG ratings), I run ordinary least squares (OLS) regressions of shareholder disagreement on firm performance. In the baseline regression, the coefficient on ES disagreement is positive and significant, which indicates that a high level of shareholder ES disagreement is positively associated with firm performance. Specifically, a one-standard-deviation change in ES disagreement is associated with an increase of 0.012 in current return on assets (ROA) and an increase in the ESG ratings. This positive relation can be attributed to increased engagement between shareholders and firm management, as divergent views on ES issues reduce the free-rider problem (Edmans and Manso, 2011). On the other hand, governance disagreement is negatively associated with firm performance, suggesting that divergent views on governance issues may hinder effective shareholder engagement. The results are robust after I control for industry by year fixed effects.

A clear concern is the endogeneity of firm-level disagreement (related to ownership structure) and performance. The corporate form evolved precisely to economize the costs of disagreements among owners (Alchian, 1950; Alchian and Demsetz, 1972). Thus, longer term performance and shareholder disagreement might be correlated instead of causally linked. I use the exogenous shock from cross-family fund mergers as my identification strategy. A

measure (described in the text) and the reciprocal measure (described here) can help interpret the effects of shareholder disagreement intuitively. The higher the value of the shareholder disagreement variable, the higher the level of firm-level disagreement.

fund merger disrupts optimum ownership structures in many firms, including putting together owners who disagree about ES matters. Furthermore, the fund merger is not likely to be driven by any given firm’s performance (Farroukh, 2024).

To further investigate the heterogeneous effects of shareholder ES disagreements on firms, I divide the sample based on the median levels of firm age and size. The findings suggest that smaller and younger firms benefit more from shareholder ES disagreements. Additionally, when the sample is split according to firms’ current ESG ratings, the results indicate that firms with below-median ratings in provisions experience greater improvement in ROA.

One potential concern with this ownership-based disagreement measure is that outliers in the right tail may disproportionately drive the overall level of disagreement. However, because these shareholders typically hold a relatively small percentage of shares, their influence is limited compared to that of major shareholders. To address this issue, I calculate disagreement among the top 10 shareholders and examine its impact on firm performance. Although disagreement among top shareholders is less pronounced compared to the full shareholder base, the effect of their disagreement on firm performance is more substantial.

An alternative approach to addressing this issue is to focus on “monitoring shareholders”—those who allocate a significant portion of their portfolio to a particular firm. Because monitoring firms is costly, institutions are more likely to allocate their monitoring efforts based on the relative importance of a firm’s stock within their portfolio (Fich et al., 2015). Therefore, I anticipate that ES disagreement among monitoring shareholders will have a more pronounced effect on firm performance. Consistent with this hypothesis, I find that motivated monitors’ ES disagreement is positively associated with ROA.

I investigate the mechanisms behind the value-creation effect of shareholder ES disagreements. Theory suggests that a diversified shareholder base can enhance monitoring efficiency and information aggregation (Edmans and Manso, 2011). Consistent with this, I find that shareholder ES disagreements are negatively associated with a firm’s Value at Risk (VaR), supporting the notion that increased shareholder engagement with firm managers helps re-

duce downside risk (Hoepner et al., 2024).

In summary, my reduced-form findings: (1) indicate that shareholder ES disagreement enhances firm value; (2) show that effects for financial improvement are stronger for small and young firms, and firms with lower ratings on current ES provisions; (3) align with the hypothesis that shareholders increase their engagement with firm managers when disagreement is high; and (4) remain robust across various measures of shareholders' ES disagreement.

In the second part of this paper, I develop a theoretical model to explore the effects of shareholder engagement with managers when there is disagreement among shareholders regarding ESG issues. This framework aims to explain why different types of disagreement lead to varying outcomes. My findings indicate that although disagreements on ES issues among shareholders can create value, disagreements on governance are detrimental. Intuitively, when shareholders have identical utility functions, they prefer and advocate for the same project. This situation suffers from the free-rider problem, as demonstrated by Holmstrom (1982). However, when there is dispersion in ES preferences, shareholders advocate for different projects. The greater the ES dispersion, the higher the potential difference in utility to shareholders if their preferred project is chosen by managers. Consequently, shareholders engage to the maximal level. Therefore, higher ES dispersion leads to higher levels of engagement from shareholders. On the other hand, when shareholders have dispersion on governance issues (i.e., monitoring costs), shareholders facing higher monitoring costs have a lower maximal level of engagement. This allows the rival to win the advocacy competition with a lower level of engagement. Hence, governance disagreement is detrimental.

This paper contributes to the literature on shareholder disagreement. Prior studies show that shareholders have conflicts in investment horizons (Bushee, 1998), risk preferences (Dhillon and Rossetto, 2015), business connections (Cvijanović and Dasgupta, 2016; Duan et al., 2021); political agendas (Duan et al., 2021), tax considerations (Desai and Jin, 2011), exit versus voice choices (Bena and Wang, 2021), and how they interpret information (Cookson and Niessner, 2020). Recently, shareholders' conflicts on ESG issues are a

main driver for disagreement. Hirst et al. (2021) report that some ES-oriented investors are willing to forgo financial benefits to promote social interests. Bolton et al. (2020) show that institutional investors have different ESG ideologies, mutual funds are more likely to be money-conscious, and pension funds are more socially responsible. Significant ideological differences reflect an absence of shareholder unanimity. Fund-level voting analyses by Farroukh et al. (2024) and Morgan et al. (2011) reveal substantial within-family divergence on ES proposals.

This study also connects to the broader investor disagreement literature on trading, prices, and firm outcomes (e.g., Hong and Stein, 2007; Chang et al., 2022; Cookson et al., 2022). Disagreement can enhance monitoring (Edmans and Manso, 2011; Dhillon and Rossetto, 2015) but also harm coordination and firm value (Garlappi et al., 2017; Schwartz-Ziv and Volkova, 2023). Divergence often prompts shareholder exit (Li et al., 2022), narrowing the investor base and increasing financing costs and volatility (Rubin and Smith, 2009; Bodnaruk and Östberg, 2013; Jankensgård and Vilhelmsson, 2018; Levit et al., 2022; Kakhbod et al., 2022). I extend this literature by constructing a new measure of ES disagreement using proxy voting data and showing that disagreement can improve firm performance, with effects varying by firm characteristics.

This paper further relates to the literature on corporate ESG and stakeholder capitalism. While the neoclassical view sees ESG as a deviation from profit maximization (Friedman, 1970), others argue that prosocial investors redefine welfare maximization (Hart and Zingales, 2017). Bebchuk et al. (2023) highlight the limits of stakeholder capitalism during COVID-19, and Gurun et al. (2020) show that stakeholder-driven policies rarely benefit all groups. These findings underscore the importance of understanding how heterogeneous shareholder preferences shape firm decisions.

Finally, I contribute to the literature on institutional investor engagement on ESG issues. Institutional ownership generally improves ES performance (Dyck et al., 2019), but investors react differently to firm signals (Cao et al., 2023). Ertimur et al. (2010) find that shareholder

pressure generated from the voting outcome and the influence of the proponent are determinants of the implementation decision. Brav et al. (2021) study mutual fund voting in proxy contests. They find that among contests where voting takes place, passive funds are 10 percentage points less likely than active funds to vote for dissidents. Mutual funds alternate between “voice” and “exit” strategies (Duan and Jiao, 2016), with monitoring strongest among long-horizon or concentrated investors (Chen et al., 2007; Fich et al., 2015). This paper examines how institutional investors interact with firms regarding ES issues amid disagreements within the shareholder base, and identifies which types of shareholders have the most significant effects on firm performance.

The paper is organized as follows. Section 2 develops the hypothesis. Section 3 describes the data and construction of disagreement measures, and provides summary statistics. Section 4 presents evidence on the effects of ES disagreement on firm ROA and ESG ratings. Section 5 establishes the causality. Section 6 reports results from alternative disagreement measures. Section 7 explains the underlying mechanism. Section 8 presents the theoretical model. Section 9 concludes.

2 Hypothesis Development

Existing theories suggest that shareholder disagreement can yield both positive and negative outcomes. On the positive side, divergent views among shareholders regarding project implementation or firm governance increase the likelihood of engagement with firm management, as shareholders with differing perspectives compete to influence decisions (Edmans and Manso, 2011). This competition mitigates the free-rider problem. Additionally, from the perspective of firm managers, shareholder disagreement provides access to a broader range of information, thereby enhancing corporate decision-making.

On the negative side, divergent shareholder opinions may lead to increased time and effort spent on convincing others, potentially resulting in proxy contests and other costly

forms of activism (Bradley et al., 2007; Brav et al., 2021). These efforts can detract from efficient monitoring of management because of the constraints of limited time and resources (Brav et al., 2023). Moreover, when different shareholder groups push managers in conflicting directions, heterogeneous interests can create friction in corporate decision-making. Furthermore, informed investors may avoid holding stocks in firms with high levels of discord, which can narrow the shareholder base. A reduced shareholder base can, in turn, raise external financing costs, decrease liquidity, and exacerbate problems related to information asymmetry (Bodnaruk and Östberg, 2013).

In summary, the impact of shareholder disagreement on firm performance remains an empirical question. Additionally, as firms’ ESG objectives—particularly the ES components—can be motivated by both financial value and ethical values, this challenges the traditional focus on shareholder value maximization. How ES-related disagreement influences firm performance and the channels through which it operates are important topics for further investigation.

3 Data and Sample

3.1 Mutual Fund Vote Records

Since 2003, the U.S. Securities and Exchange Commission (SEC) has required mutual funds to report their votes via the form N-PX. The Institutional Shareholder Services (ISS) Voting Analytics database summarizes mutual fund voting histories and provides fund-proposal level fund identifiers, family identifiers, proposal classification, management recommendations, and fund votes. I classify proposals into ES related or not based on ISS classification codes.

3.2 Public Pension Fund Vote Records

According to the state public records laws, all 50 states in the U.S. allow members of the public, including non-residents, to obtain public records from state and local government agencies. I submitted requests to the top 30 (by asset under management) pension funds and received voting records from major pension fund agencies, including CalPERS and New York State Common Retirement Fund. The data include fund-proposal-level identifiers, family identifiers, proposal classifications, management recommendations, and fund votes, consistent with the ISS mutual fund voting records database.

There are three types of pension fund voting information that can be used to study their ideology: (1) pension funds voting records, offered on request (e.g., CalPERS); (2) proxy voting guidelines, provided on the official website (e.g., North Carolina Department of State Treasurer); and (3) voting summary, provided on the official website (e.g., Florida State Board of Administration).

3.3 Ownership

I obtain data on quarterly mutual fund holdings from the Center for Research in Security Prices (CRSP) Mutual Fund database and calculate firm-level total institutional ownership and blockholder ownership based on the Thomson Reuters Institutional Holdings 13-F database.² The 13 F database contains ownership information by institutional managers with greater than \$100 million of equity securities under discretionary management, and common stock positions greater than 10,000 shares or those valued at \$200,000 or more.

3.4 Fund Mergers

Jayaraman et al. (2002) document three types of fund mergers. The first is the most common type, within-family mutual fund mergers. These mergers are motivated by the need to

²Note that there is no common fund identifier between ISS voting data and the CRSP Mutual fund data. The linking file is created by Farroukh et al. (2024). I thank the authors for sharing the linking file with me

disguise poor fund performance and eliminate funds with high-cost structures. The second type is across-family mutual fund mergers. They are more likely to be driven by strategic reasons, for instance, to achieve economies of scale in fund operations. The third type is within-class mutual fund mergers, which are the combination of different classes of shares of a single fund. They are driven by different underlying fee structures (Zhao, 2005).

Cross-family mutual fund mergers can provide plausible exogenous shocks to firm-level ownership structures and shareholder disagreements. More importantly, fund mergers are not likely to be driven by any given firm’s performance.

3.5 Other Data

ESG ratings are from the MSCI and S&P Global. Stock return and accounting data are from the CRSP and Compustat, respectively. I exclude financial firms and regulated utilities. All accounting variables are winsorized at the 1st and 99th percentiles. Detailed variable definitions are presented in Table 1. The sample period spans 2015Q1 - 2021Q4.

3.6 Variable Construction

3.6.1 Fund Level ES Voting Score

I compute the fund-year level ES voting score following Farroukh et al. (2024). Specifically, for each fund in each year, I calculate the difference between the total number of ES proposals it voted for and the total number it voted against, scaled by the total number of votes cast.³

$$\text{es_voting_score}_{i,t} = \frac{\text{total votes for} - \text{total votes against}}{\text{total votes for} + \text{total votes against}} \quad (1)$$

³The reason I do not follow Bolton et al., (2020) and use the W-NOMINATE method is that, I focus on fund-level ideology. However, although fund families often have disagreement on ES proposals within fund families, there is still some spillover effect. Thus, using funds as the unit of analysis violates the independent and identically distributed assumption on errors in both Heckman-Snyder and W-NOMINATE.

I consider abstain and withhold votes as against. This is consistent with Iliev and Lowry (2015) and Farroukh et al. (2024). For counter ES proposals, I convert the sign of fund votes when measuring ES preferences.

Michael et al. (2021) document that fund managers are more likely to support ES proposals that are unlikely to pass but oppose them when their vote could be decisive. This is aligned with the green-washing criticism. To address the concern of strategic voting behavior that biases the measure of funds' ES preference, I measure ES preference based on ES proposals that receive 40% to 60% of the support rate. Fund advisors are more likely to reveal their true preference when they face close votes. I define `support_rate` as

$$\text{support_rate} = \frac{\text{\#shares for}}{\text{\#shares for} + \text{\#shares against} + \text{\#shares abstain} + \text{\#shares withheld}} \quad (2)$$

Figure 1 shows the time-series trend of the average support rate. Figure 2 shows the histogram of the support rate.

3.6.2 Disagreement in ES Proposals

First, I define a binary version of firm-level `ES_disagreement` as:

$$\text{ES_dis_binary} = 1 - |\%positive_ES - \%negative_ES|, \quad (3)$$

where `%positive_ES` represents a firm's stock that is held by funds with positive ES voting scores, and `%negative_ES` represents a firm's stock that is held by funds with negative or zero ES voting scores. Note that, *es_dis1* in the baseline regression is measured by contested proposals only.

However, using a binary ES-type measure may overlook the heterogeneity of preference. Thus, I further incorporate the ES voting score into the firm-level disagreement measure and define it as:

$$ES_dis_1 = 1 - \left| \sum_{jt} (\%pos. \text{ own}_{ES} \times ES\text{-score}) - \sum_{jt} (\%neg. \text{ own}_{ES} \times |ES\text{-score}|) \right|. \quad (4)$$

The alternative Firm-level ES_disagreement is defined as

$$ES_dis_2 = \log \left(\frac{1}{\left| \sum_{jt} (\%pos. \text{ own}_{ES} \times ES\text{-score}) - \sum_{jt} (\%neg. \text{ own}_{ES} \times |ES\text{-score}|) \right|} \right). \quad (5)$$

I take the natural log to eliminate the influence of right skewness.

3.6.3 Disagreement in Governance Proposals

ES proposals are only a subset of the matters over which shareholders disagree. Bubb and Catan (2022) show how funds' votes differ along two dimensions that include but are not limited to ES matters. If funds' disagreement over ES matters correlates with their disagreements over other matters, the estimates of the impact of ES disagreement will be biased. For example, performance differences may reflect disagreements over governance matters.

To account for this possibility, I create a dummy variable for funds' attitudes toward management. Specifically, the dummy Votes against MGMT equals 1 if the fund's vote opposes management and 0 if it aligns with management.⁴ Subsequently, I construct a fund-year level governance voting score to capture the fund's overall stance toward management:

$$\text{Governance voting score} = \frac{\# \text{ Votes against MGMT} - \# \text{ Votes in favor of MGMT}}{\# \text{ Votes against MGMT} + \# \text{ Votes in favor of MGMT}} \quad (6)$$

Intuitively, a governance voting score of 1 indicates that the fund consistently votes against management's recommendations, and a score of -1 indicates consistent support for management.

Fund managers have incentives to pay more attention to relatively more important and controversial issues. Thus, I select a subset of governance proposals by their level of contro-

⁴Because, in most cases, voting for an ES proposal opposes management's recommendation, I ensure consistency between ES and governance proposals.

versy to identify their governance-by-voting type. The governance proposals included in the measure are listed in Appendix Table A1. Firm-level Governance_disagreement is defined as

$$\text{Governance_disagreement_1} = 1 - \left| \sum_{jt} (\% \text{pos. own}_G \times \text{G-score}) - \sum_{jt} (\% \text{neg. own}_G \times |\text{G-score}|) \right|, \quad (7)$$

where $\% \text{pos.own}_G$ represents the ownership of stocks that are held by funds with positive Governance voting scores and $\% \text{neg.own}_G$ represents the ownership of stocks that are held by funds with negative governance voting scores. Note that, g_dis1 in the baseline regression is measured by controversial governance proposals only.

The alternative firm-level governance disagreement is defined as:

$$\text{Governance_disagreement_2} = \log \left(\frac{1}{\left| \sum_{jt} (\% \text{pos. own}_G \times \text{G-score}) - \sum_{jt} (\% \text{neg. own}_G \times |\text{G-score}|) \right|} \right). \quad (8)$$

I also take the natural log to eliminate the influence of right skewness.

Table 2 reports the summary statistics. I winsorize all continuous variables at the 1st and 99th percentiles. Control variable' statistics are similar to those in other studies. Notably, only 10.8% of firms have more ES-oriented shareholders than financially oriented shareholders. Panel D in Table 2 shows the correlation between all disagreement measures. Notably, firm-level ES disagreements (es_dis1: contested proposals) are positively correlated with governance disagreements (g_dis1: a subset of more controversial proposals), with a correlation of 0.525, significant at the 0.05 level.

4 Empirical Analysis

4.1 Model Specification

The following equation represents my baseline regressions:

$$Y_{it} = \alpha + \beta_1 \times \text{ES-disagreement}_{it} + \beta_2 \times \text{Governance-disagreement}_{it} + \gamma \mathbf{X}_{it} + \eta + \epsilon_{it}, \quad (9)$$

where Y represents a list of firm-year level outcome variables, including the ROA_t and ROA_{t+1} . ES-disagreement is firm-level shareholders' disagreement on ES issues. $\mathbf{X}_{it}$ is a vector of control variables, including governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. η represents industry by year fixed effects, and ϵ_{it} is the error term.

4.2 Baseline Regressions

I begin the empirical analysis by estimating OLS regressions. Table 3 presents the regressions of firm performance (ROA_t and ROA_{t+1}) on shareholder' disagreement. To mitigate potential biases arising from fund managers' strategic voting behavior, I measure shareholder ES preferences based on contested proposals and governance preferences using controversial proposals. I then incorporate the voting score into the ownership measure to calculate firm-level disagreement, which remains the primary measure throughout the subsequent analyses unless otherwise specified.⁵

The positive and significant coefficients on ES-disagreement suggest that greater shareholder disagreement on ES issues is associated with higher firm performance in both current and subsequent periods. Specifically, a one-standard-deviation increase in ES-disagreement corresponds to a 0.012 increase in ROA_t (0.244×0.049), with the effect being stronger in the

⁵Regressions using binary shareholder disagreement measures are reported in Appendix Table A2, yielding consistent results.

current period than in the next. In contrast, Governance-disagreement exhibits negative coefficients, highlighting the distinct effects of shareholder dispersion on ES versus governance issues.

Moreover, the coefficient on the indicator for a more ES-oriented investor base is positive and significant, suggesting that firms with greater ES-oriented ownership tend to perform better, though the economic magnitude of this effect is modest. These results remain robust after controlling for industry by year fixed effects, with standard errors clustered at the firm level.

Table 4 presents the OLS regressions of ESG ratings in current and subsequent periods on shareholder disagreement. Higher ES-disagreement is positively associated with overall ESG ratings as well as ratings in the ES subcategories, whereas Governance-disagreement is negatively associated with ESG ratings. This negative association may reflect a reverse causality, where firms with weaker governance structures experience greater governance-related disagreement.

Columns (1) and (2) in Table 4 use data from MSCI, whereas Columns (3) and (4) use data from S&P Global. Although the coefficient signs remain consistent across datasets, their statistical significance varies, likely because of ESG rating divergence, as documented by Berg et al. (2022). Given these discrepancies, the subsequent analysis in this paper focuses on firms' financial performance.

5 Identification: Fund Mergers

The corporate structure has developed precisely to economize the costs of disputes among owners (Alchian and Demsetz, 1972). Shareholder disagreement (reflected in the ownership structure) and firm performance share a mutual influence, shaping and being shaped by each other. Thus, to establish causality, I exploit fund mergers as plausibly exogenous shocks to firm-level ownership structure.

Following Zhao (2005), Sirri and Tufano (1998), and Farroukh (2024), I obtain mutual funds data from the CRSP. The CRSP Fund Summary table provides information about which funds were delisted because of fund mergers.

However, CRSP does not report the exact date of fund mergers. I use the last net asset value (NAV) report date of the target fund to approximate the merger date. According to Lou (2012), this simple method produces many obvious mismatches. To improve this procedure, I match a target to its acquirer from $t - 1$ to $t + 5$, where t is the target’s last report month, and then I consider the month in which the acquirer experiences the largest flow as the merger month. To calculate the acquirer’s flow, I download data from the CRSP Mutual Funds–Monthly Returns and Net Asset Values table. Following Sirri and Tufano (1998), the flow is calculated as

$$\frac{\text{TNA}_{i,t} - \text{TNA}_{i,t-1} \times (1 + R_{i,t})}{\text{TNA}_{i,t-1}}.$$

I define the merger as a within-family merger if the delisting fund and its merge fund have the same management company ID. Otherwise, I define it as cross-family merger. I exploit across-family fund acquisitions as plausibly exogenous shocks to firm-level disagreements.

I require the target fund to have an ES voting score, and to include at least one firm from my sample. Table A5 reports the number of across-family fund merger events used in the sample.

Because quarterly mutual fund holding data can better capture ownership changes after fund mergers, I update the holding data and accounting data to a quarterly frequency.⁶

A potential concern with using mutual fund mergers as exogenous shocks is that fund mergers are not the only events that can lead to changes in firm-level disagreement. Shareholders may also buy or sell shares for endogenous reasons, which can similarly affect disagreement levels. To distinguish between exogenous and endogenous changes, I conduct a

⁶Table A4 reports the baseline results with quarterly data. The coefficient on ES disagreement is positive and statistically significant, which is consistent with firm-year level data in Table A3.

more granular analysis of the merger events. Specifically, I link the ES voting scores of both acquiring and target funds to the firms in which they hold shares and define firm-level merger exposure as:

$$\text{merger_exposure} = \text{target prior ownership} \times |\text{target prior vote score} - \text{acquiror post vote score}|. \quad (10)$$

Intuitively, firms experience greater merger exposure when there is a larger disparity between the target and acquirer funds in terms of voting scores and a higher level of ownership involvement in the merger.

Finally, to isolate the causal impact of fund mergers on firm-level disagreement, I implement a triple-difference strategy, as represented in the following equation:

Triple diff specification:

$$\begin{aligned} Y_{it} = & \beta_0 + \beta_1 \text{merger_exposure}_i + \beta_2 \text{post}_t + \beta_3 \text{high_esdis1}_i \\ & + \beta_4 (\text{merger_exposure}_i \times \text{post}_t) + \beta_5 (\text{merger_exposure}_i \times \text{high_esdis1}_i) \\ & + \beta_6 (\text{high_esdis1}_i \times \text{post}_t) + \beta_7 (\text{merger_exposure}_i \times \text{high_esdis1}_i \times \text{post}_t) \\ & + \mathbf{X}_{it} \gamma + \epsilon_{it}. \end{aligned} \quad (11)$$

Specifically, the variable `high_esdis1` is a binary indicator equal to 1 if a firm experiences a substantial increase in ES disagreement following a fund merger. The coefficient β_6 on the interaction term `high_esdis1i × postt` captures the endogenous effect of changes in ES disagreement that are unrelated to merger exposure. In contrast, the coefficient β_7 on the triple interaction term `merger_exposurei × high_esdis1i × postt` identifies the causal effect of exogenous, merger-induced shifts in shareholder disagreement on firm outcomes. This design isolates firms exposed to both substantial merger-related shocks and large increases in firm-level disagreement, thereby strengthening causal inference. The results from the triple-

difference regressions, reported in Table 5, are consistent with the baseline OLS estimates and further support the identification strategy.

In Equation (10), the coefficient β_7 captures the effect of exogenous fund merger shocks, and β_6 accounts for the endogenous component.

Table 5 presents the regression results. The coefficient β_7 on the triple interaction term (`merger_exposure` $\times$ `high_dis1` $\times$ `post`) is positive and significant, consistent with the earlier OLS findings. In terms of economic magnitude, a one-standard-deviation increase in exogenous ES disagreement is associated with a 0.0046 increase in ROA (0.019×0.24). Meanwhile, β_6 is negative and significant, further distinguishing the effects of exogenous and endogenous components.

It is important to note that not all target and acquirer funds cast votes around the merger event. As a result, requiring both parties to have ES voting scores reduces the sample size to 27 merger events out of 113. To address this issue, I replace those missing ES voting scores with the average ES voting score of the respective fund family. Although some heterogeneity exists within fund families, the variation in ES preferences is relatively small. This approach mitigates potential measurement errors and alleviates the sample-size constraint.

6 Additional Tests

6.1 Split-Sample Analysis

Firms of varying sizes, ages, and ESG profiles may respond differently to shareholder disagreement on ES issues because of differences in their information-gathering methods, shareholder communications, and decision-making processes. Therefore, it is essential to examine the heterogeneous effects of such disagreements. In this subsection, I divide the sample by the median values of firm age, firm size, and ESG ratings.

Table 6 presents the results of split-sample regressions by firm size, age, and ESG ratings. The coefficients obtained from both sub samples are positive and statistically significant, but

the coefficient magnitudes suggest that small and young firms derive greater benefits from the ES disagreement. The coefficient for small firms is more than 3 times bigger than the coefficient for large firms. The difference is statistically significant ($t = 2.14$). Similarly, the coefficient for young firms is more than 1.6 times bigger than the coefficient for mature firms (insignificant). Columns (5) and (6) present the results of another set of split-sample regressions, segmented by the firm’s ESG rating and scores from three sub categories. The positive impacts of ES disagreement on ROA are more pronounced in firms with relatively low ES scores.

6.2 Alternative measures

6.2.1 Costlier Proposals

Not all ES proposals are the same. Some proposals are costlier than others for firms. Moreover, it is probably true that the intensity of shareholders’ disagreement is not the same over all types of proposals. In particular, proposals related to privacy, board, human rights, climate, and pay (linked to ESG) experience the highest ES disagreement. These proposals are costlier than those related to ESG reporting (Farroukh et al., 2024). Consequently, it is important to measure fund preferences on these costlier proposals and examine their effects.

Evaluating funds’ ES preferences through the lens of costlier proposals presents a trade-off. On the upside, this approach more accurately captures a fund’s stance on ES matters, as engaging with or supporting costlier activities often signals a stronger commitment to these issues. On the downside, not every fund encounters a costly proposal within a given year. This absence can lead to data loss, potentially introducing noise into the measurement.

I calculate an alternative ES disagreement measure that focuses exclusively on fund votes concerning costly ES proposals. Note that because not every shareholder has a chance to vote on a costlier ES proposal, the data loss might also explain the lower coefficient. In addition, disagreement over immaterial issues may be informative as well. Thus, I make a trade-off between a better signal of preference and power. Table 7 reports the regression

results. The coefficient on ES disagreement is positive and significant for ROA_t , yet the economic magnitude is smaller than the baseline measure. One standard deviation increase in the `es_cost_dis1` measure is associated with an increase in ROA_t of 0.016 (0.202×0.081).

6.2.2 Top Shareholders

Managers have incentives to allocate more time and effort to manage their relationships and communicate with their top shareholders. To investigate the influence of top shareholders' ES disagreement on firm performance, I compute the top 10 shareholders' disagreement for each firm. Table 8 presents the regression results on ROA_t and ROA_{t+1} . Overall, the top 10 shareholders' disagreement has positive and significant effects. A one-standard-deviation increase in disagreement is associated with an increase in ROA_t of 0.014, (0.336×0.042).

6.2.3 Motivated Monitors

Another useful test is to measure disagreement among “motivated monitors”. Institutional investors may have incentives to monitor certain portfolio positions more closely than others. For example, they may allocate efforts to gather information, analyze it, act on it, and influence other shareholders based on the relative importance of a firm's stock in their portfolio. Fich et al. (2015) confirm this concern. Therefore, it is worth investigating whether motivated monitors' disagreements affect firm performance more significantly.

Following the related literature, I define motivated monitors as those whose holding value in the firm is in the top 10% of their portfolio. Table 9 reports the results. The coefficient on ES disagreement in the current ROA regression is positive and significant, consistent with previous measures.

These tests also help verify that the effects of ES disagreement in the baseline regressions are not driven by the long tail of the shareholders' disagreement distribution.

7 Mechanism: Shareholder Engagement

One potential channel through which shareholder ES disagreement positively influences firm performance is by prompting increased shareholder engagement when disagreement levels are high. Shareholder engagement typically occurs behind the scenes, such as through private communication. However, evidence suggests that heightened engagement can reduce a firm’s downside risk, as indicated by lower VaR (Hoepner et al., 2024). To explore this relation, I examine the association between firm-level disagreement and downside risk in both the current and subsequent years using the following specifications:

$$Y_{it} = \alpha + \beta_1 \times \text{ES disagreement}_{it} + \beta_2 \times \text{G disagreement}_{it} + \gamma \mathbf{X}_{it} + \eta + \epsilon_{it}, \quad (12)$$

where Y_{it} represents the VaR and conditional VaR. Following Hoepner et al. (2024), $\mathbf{X}_{it}$ includes profit margin (operating income over total sales), log(market value), market-to-book, leverage, investment (capital expenditures over assets), positive and negative ES factors, and governance ownership as control variables.

Table 10 presents OLS regressions of a firm’s downside risk on shareholder disagreement measures.⁷ The coefficient for shareholder ES disagreement is negative, indicating that higher shareholder ES disagreement is associated with lower firm-level downside risk. Conversely, the coefficient for governance disagreement is positive, reflecting higher risk.

⁷Thee regression use firm-quarter level data.

8 Theoretical Model of Shareholder ES and Governance Disagreement

In this section, I develop a theoretical model to explore the effects of shareholder engagement with managers when there is disagreement among shareholders regarding ESG issues. The findings from previous sections indicate that although disagreements on ES issues among shareholders can create value, disagreements on governance are detrimental. This framework aims to explain why different types of disagreement lead to varying outcomes.

The model involves three types of agents: firm manager, ES-oriented shareholder, and money-oriented shareholder. The interactions between shareholders and the manager spans two periods. In the first period, shareholders advocate for their preferred projects to the manager. In the second period, the manager decides which project to invest in. All parties are risk neutral and protected by limited liability, ensuring that no party can incur a negative cash position.

8.1 Common Model Setup

8.1.1 Manager and Investment Projects

The manager, acting on behalf of the firm, must choose between two investment projects: a Green project and a Brown project. The chosen project has a probability p of succeeding and generating a financial return of R_i^{success} , and a probability $1 - p$ of failing, resulting in a financial return of R_i^{fail} , where $i \in \{\text{Green}, \text{Brown}\}$. To generate a meaningful trade-off in the choice of projects, I assume that the Brown project creates higher financial value but that the Green project generates higher (and strictly positive) ES externalities (κ).

Assumption 1. *The Green and the Brown projects' (normalized) financial returns and externalities satisfy:*

$$1. R_B^{\text{success}} > R_G^{\text{success}} \gg R_B^{\text{fail}} = R_G^{\text{fail}} = 0;$$

2. $\kappa_G > \kappa_B = 0$.

8.1.2 Shareholder Utility and Engagement

The ES-oriented shareholder and the money-conscious shareholder own ω_{es} and ω_m shares, respectively. Shareholders derive utility from both financial returns and externalities, represented by $E[U_s] = \alpha \times \kappa_i + (1 - \alpha) \times \omega_s \times E[R_i^j]$, where s denotes the shareholder, i denotes the selected project, j denotes the outcome of production, and the weight shareholder put on the externality part $\alpha \in [0, 1]$.

Shareholders have the option to advocate for their preferred projects to the manager. The level of engagement is denoted by e_{es} for ES-oriented shareholders and e_m for money-conscious shareholders. The cost of engagement is given by $C(e_s) = \frac{1}{2}\beta \cdot e_s^2$, which is strictly increasing, convex, and satisfies $C(0) = 0$. By advocating and engaging with the manager, shareholders can increase the project's probability of success by $\Delta p(e_s) = \psi \cdot e_s$, where $\psi > 0$, which is linear and strictly increasing in e .

Assume that when both shareholders advocate and engage for the same project, $\Delta p(e) = \psi \cdot \max\{e_{es}, e_m\}$.

8.1.3 Sequence of events

The process unfolds in three stages. At $t = 0$, shareholders sequentially present and advocate for their preferred projects to the manager. At $t = 1$, the manager evaluates these proposals and chooses one project to implement. At $t = 2$, the manager works on the chosen project, and the returns are realized. Figure 5 shows the sequence of events on a timeline.

8.2 Homogeneous utility and cost of engagement

Proposition 1. *When shareholders have identical utility functions, in equilibrium, they always advocate for the same project. They both prefer the Green project if $\alpha \times \kappa_G \geq$*

$(1 - \alpha) \times (R_B - R_G)$, and prefer the Brown project if $\alpha \times \kappa_G < (1 - \alpha) \times (R_B - R_G)$. However, the resulting level of engagement tends to be sub-optimal because of the presence of a free-rider problem. The first mover engages $e_1^* = 0$, and the second mover engages $e_2^* = \frac{\psi(\alpha \times \kappa_i + (1 - \alpha) \times R_i)}{\beta}$.

8.3 ES Disagreement: Heterogeneous Preference

Now, assume that the ES-oriented shareholder and the money-conscious shareholder have heterogeneous utility functions:

$$E[U_{es}] = (\alpha + \delta_{es}) \times \kappa_i + (1 - (\alpha + \delta_{es})) \times \omega_{es} \times E[R_i^j], \quad (13)$$

$$E[U_m] = (\alpha - \delta_{es}) \times \kappa_i + (1 - (\alpha - \delta_{es})) \times \omega_m \times E[R_i^j]. \quad (14)$$

The average level of ES preference between these two shareholders is fixed at α , and the dispersion between their ES preferences is captured by δ_{es} . When δ_{es} increases, the ES disagreement between these two shareholders increases.

Proposition 2. *There exists a $\underline{\delta_{es}}$ such that for all $\delta_{es} > \underline{\delta_{es}}$, the ES-oriented shareholder prefers the Green project, and the money-conscious shareholder prefers the Brown project. The threshold for δ_{es} is given by:*

$$\underline{\delta_{es}} = \max \left\{ \frac{(1 - \alpha)(R_B - R_G) - \alpha \kappa_G}{R_B - R_G + \kappa_G}, \frac{\alpha \kappa_G - (1 - \alpha)(R_B - R_G)}{R_B - R_G + \kappa_G} \right\}.$$

The ES-oriented shareholder advocates for the Green project, and the money-conscious shareholder advocates for the Brown project. The manager implements the project that receives a higher level of advocacy. If $e_{es} = e_m$, the choice of which project to be implemented is decided by a flipping coin. By advocating to the manager, shareholders can benefit from enjoying a higher probability of success (and thus a higher financial return) and implementing

their favorite project if they win the competition. Thus, both shareholders have incentives to engage to the maximal level (when the profit is still positive).

Proposition 3. *When δ_{es} increases, the profit for switching to the favorite project increases; thus, both the ES-oriented shareholder and money-conscious shareholder can accept a higher e^{max} and thus higher $E(R)$. Both shareholders have incentives to engage to the maximal level (when the profit is still positive):*

- $e_{es}^{max} = \frac{\psi[(\alpha + \delta_{es})\kappa_G - (1 - \alpha - \delta_{es})(R_B - R_G)]}{\beta},$
- $e_m^{max} = \frac{\psi[(1 - \alpha + \delta_{es})(R_B - R_G) - (\alpha - \delta_{es})\kappa_G]}{\beta}.$

Both e_{es}^{max} and e_m^{max} increase as δ_{es} increases, and thus $E[R]$ increases.

8.4 Governance Disagreement: Heterogeneous Cost of Engagement

Assume δ_{es} is fixed, and shareholders prefer different projects. Now let's assume the cost of engagement differs between these two shareholders. First, assume the ES-oriented shareholder has a higher cost of engagement than the money-conscious shareholder. Their cost functions can be represented as:

$$C(e_{es}) = \frac{1}{2}(\beta + \delta_G) \times e_{es}^2, \quad (15)$$

$$C(e_m) = \frac{1}{2}(\beta - \delta_G) \times e_m^2. \quad (16)$$

Here, $\delta_G > 0$ captures the dispersion in the governance perspective, and $\bar{\beta}$ is a constant representing the firm-level cost of governance issues.

The ES-oriented shareholder and the money-conscious shareholder engage with the manager sequentially. The order of engagement is determined by flipping a coin.

Proposition 4. *When δ_G increases, the cost associated with governance dispersion rises, leading to a decrease in the maximum engagement level, e_{es}^{max} , for the shareholder with higher agency costs. Consequently, the competing shareholder can win the advocacy competition with a lower engagement level, e'_m , resulting in a lower expected return, $E(R)$.*

If $\delta_G < \frac{1}{3}\beta$, then $e_{es}^{*'} < e_m^{*'} < e_{es}^{max'}$. When the ES shareholder moves first, he/she chooses $e'_{es} = e_{es}^{max'}$. When the money-conscious shareholder moves first, he/she chooses $e'_m = e_{es}^{max'}$, then $e'_{es} = 0$. In both scenarios, the money-conscious shareholder wins,⁸ and $e'_m = e_{es}^{max'} + \epsilon$:

$$E(e_m) = \frac{1}{2} \left(\frac{3\psi \times E[R_B]}{\beta + \delta_G} + \epsilon \right).$$

As δ_G rises, $E(e_m)$ decreases, and thus $E(R) = (p + \Delta p(e_m)) \times R_B^{\text{success}}$ decreases.

8.5 Comparing ES and Governance Disagreement

The results highlight a fundamental asymmetry between ES disagreement and governance disagreement. When shareholders disagree over ES issues, the divergence in preferences (δ_{es}) increases each party's incentive to advocate more strongly for their preferred project. This heightened advocacy intensity enhances overall engagement and raises the firm's expected return, $E[R]$. Thus, ES disagreement can be value-enhancing because it mitigates the free-rider problem and stimulates shareholder monitoring effort.

In contrast, governance disagreement—captured by heterogeneity in engagement costs (δ_G)—has the opposite effect. As governance dispersion increases, the shareholder facing higher engagement costs reduces effort, which weakens competitive pressure on the rival shareholder. The total level of engagement declines, lowering the probability of project success and, consequently, expected firm performance.

These contrasting mechanisms rationalize the empirical finding that shareholder disagree-

⁸The ES shareholder has an incentive to engage because competition with the money-conscious shareholder drives the latter to engage more. Increased engagement from the money-conscious shareholder enhances project outcomes, leading to higher financial returns.

ment on ES issues can create value, whereas disagreement on governance tends to be detrimental to firm outcomes.

9 Conclusion

In this paper, I develop a novel measure of firm-level shareholder ES disagreement. The findings indicate that shareholder ES disagreements are associated with higher ROA and improved ESG ratings, particularly for smaller, younger firms and those with below-median ES provision ratings. This is consistent with the notion that shareholder ES disagreement enhances engagement with management, facilitates the collection of more comprehensive information, and enables better corporate decision-making, thereby reducing downside risks, as evidenced by lower VaR. To establish causality, I exploit exogenous variation in firm-level disagreement stemming from cross-family mutual fund mergers. The results are robust to several alternative measures of disagreement. A theoretical model further explains how different types of disagreement can variably influence firm value. This study provides a novel setting to explore how shareholder disagreement, specifically on ES issues, can mitigate the free-rider problem. Overall, the findings suggest that shareholder ES disagreement has a value-enhancing effect.

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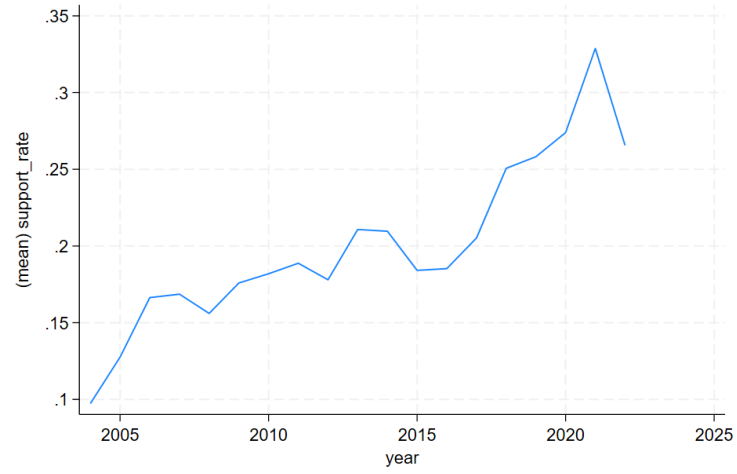


Figure 1: Time Series of Average Support Rate

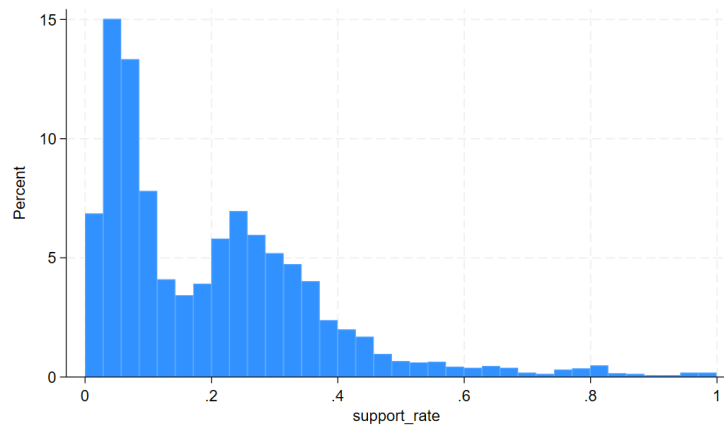


Figure 2: Histogram of Support Rate

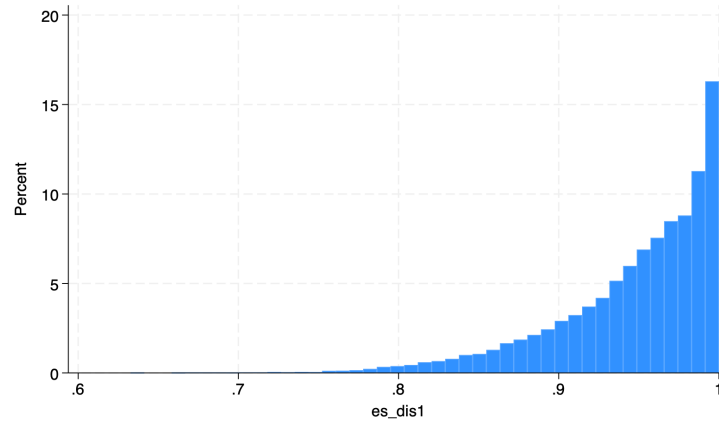


Figure 3: Distribution of Firm-Level Environmental and Social (ES) Disagreement

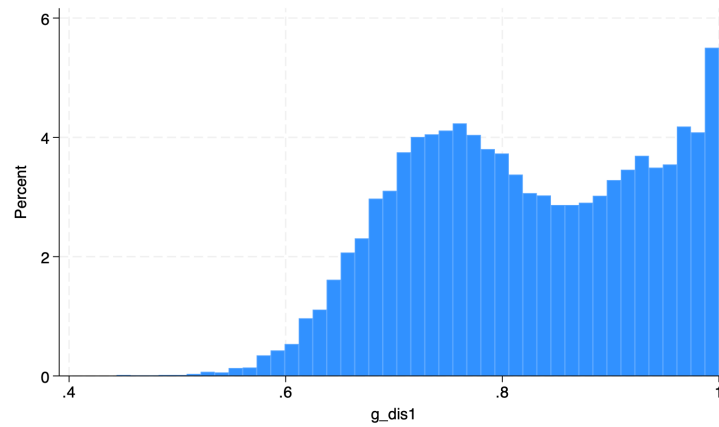


Figure 4: Distribution of Firm-Level Governance Disagreement

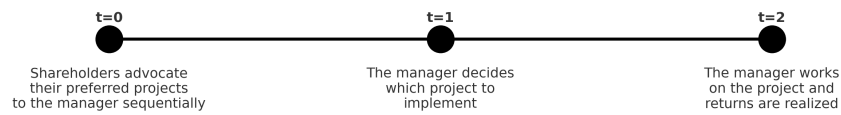


Figure 5: Sequence of Events

Table 1: Variable Definitions

Variable	Definition
ES_voting_score	$\frac{\text{total votes for} - \text{total votes against}}{\text{total votes for} + \text{total votes against}}$
ES_dis1	$1 - \left \sum_{jt} (\% \text{pos. own} \times \text{ES_voting_score}) - \sum_{jt} (\% \text{neg. own} \times \text{ES_voting_score}) \right $ (contested ES proposals only)
ES_cost_dis1	$1 - \left \sum_{jt} (\% \text{pos. own} \times \text{ES_voting_score}) - \sum_{jt} (\% \text{neg. own} \times \text{ES_voting_score}) \right $ (costlier ES proposals only)
ES_dis1_all	$1 - \left \sum_{jt} (\% \text{pos. own} \times \text{ES_voting_score}) - \sum_{jt} (\% \text{neg. own} \times \text{ES_voting_score}) \right $ (all ES proposals)
g_dis1	$1 - \left \sum_{jt} (\% \text{pos. own} \times \text{ES_voting_score}) - \sum_{jt} (\% \text{neg. own} \times \text{ES_voting_score}) \right $ (controversial governance proposals only)
g_dis1_all	$1 - \left \sum_{jt} (\% \text{pos. own} \times \text{ES_voting_score}) - \sum_{jt} (\% \text{neg. own} \times \text{ES_voting_score}) \right $ (all governance proposals)
ROA	OIBDP/average total assets based on t and $t-1$
Earnings	NI / AT
Profitability	OIBDP / SEQ
Cash-flow-to-total-assets	(IB + DP) / AT
Cash	CHE / AT
Capital stock	PPENT / AT
Capital expenditures	CAPX / AT
Market-to-book (of equity)	$(\text{PRCCF} \times \text{CSHO}) / (\text{TXDITC} + \text{CEQ})$
R&D expenditures	XRD / AT
Size	$\log(\text{AT})$
Institutional ownership	Fraction of shares owned by institutions
% Positive ES ownership	Fraction of shares owned by funds with positive ES_voting_score
% Negative ES ownership	Fraction of shares owned by funds with negative ES_voting_score
% Positive G ownership	Fraction of shares owned by funds with positive g_voting_scores
% Negative G ownership	Fraction of shares owned by funds with negative g_voting_scores
More_positive_shares	Indicator = 1 if firms' % Positive ES ownership > % Negative ES ownership

Table 2: Summary Statistics

This table presents summary statistics for the variables used in my study. The sample spans 2015 – 2021 and covers all nonfinancial non utilities public firms in Compustat. I exclude firms with zero environmental and social (ES)-related ownership. Firm-level disagreements are constructed as described in Section 3. All variables are defined in the Appendix. I winsorize all continuous variables at the 1st and 99th percentiles. Voting data are from Institutional Shareholder Services (ISS) and cover the S&P 1500 firms in the sample.

Variable	Mean	Min	p25	p50	p75	Max	SD	N
Panel A: Financial and Operational Metrics								
roa	.014	-1.501	-.003	.095	.150	.429	.276	15,626
bm	.521	.023	.194	.372	.670	3.916	.527	15,158
cash	.251	.000	.048	.139	.368	.994	.270	15,748
cash_flow	-.011	-25.667	-.011	.068	.113	.362	.376	14,638
size	6.789	-.860	5.383	6.810	8.145	12.388	2.043	15,748
leverage	.275	.000	.060	.238	.408	9.207	.284	15,688
capstock	.226	.000	.060	.139	.319	.968	.227	15,715
age	20.838	0	5	17	29	96	19.473	15,755
Panel B: Firm-Level Disagreement								
es_all1	0.899	0.694	0.844	0.914	0.967	0.999	0.078	16017
es_dis1	0.946	0.785	0.922	0.960	0.985	1.000	0.049	16017
es_cos1	0.898	0.687	0.839	0.909	0.971	0.999	0.081	16017
g_dis1	0.817	0.588	0.728	0.808	0.917	0.998	0.110	16017
subg_d1	0.917	0.782	0.877	0.918	0.966	0.999	0.055	16017
Panel C: Ownership								
%positive_es_all	.043	.000	.012	.030	.057	.456	.043	15,755
%negative_es_all	.170	.000	.079	.169	.249	.562	.106	15,755
%positive_es	.047	.000	.015	.038	.070	.328	.040	15,755
%negative_es	.113	.000	.041	.109	.170	.469	.078	15,755
%positive_g_all	.213	.000	.101	.221	.312	.622	.127	15,755
%negative_g_all	.000	.000	.000	.000	.000	.107	.002	15,755
%positive_g	.195	.000	.094	.199	.283	.599	.117	15,755
%negative_g	.018	.000	.001	.011	.027	.199	.021	15,755
more_positive_es	.108	0	0	0	0	1	.310	15,755
%pct_inst	.626	0	.390	.734	.891	1	.314	15,755
Panel D: Pairwise Correlation								
	es_all_dis1	es_dis1	es_cost_dis1	g_all_dis1	g_dis1			
es_all_dis1	1.000							
es_dis1	0.537	1.000						
es_cost_dis1	0.872	0.511	1.000					
g_all_dis1	0.743	0.559	0.771	1.000				
g_dis1	0.751	0.525	0.778	0.925	1.000			

Table 3: Regression: ROA

This table reports the regressions of firm performance (ROA_t and ROA_{t+1}) on shareholder disagreement. *es_dis* is the main shareholder environmental and social (ES) disagreement measure constructed as described in Section 3. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1) roa	(2) roa_f1
<i>es_dis1</i>	0.244*** (3.79)	0.124*** (2.80)
<i>g_dis1</i>	-0.156*** (-2.85)	-0.154*** (-3.03)
<i>more_positive_es</i>	0.030*** (2.63)	0.029** (2.39)
<i>bm</i>	-0.015*** (-3.83)	-0.025*** (-7.33)
<i>cash</i>	-0.364*** (-7.45)	-0.310*** (-5.60)
<i>cash_flow</i>	0.291** (2.56)	0.346*** (2.64)
<i>size</i>	0.012** (2.50)	0.012** (2.40)
<i>leverage</i>	-0.065* (-1.84)	-0.062 (-1.62)
<i>capstock</i>	0.002 (0.19)	0.001 (0.13)
<i>age</i>	0.001*** (5.85)	0.000*** (5.15)
<i>t_positive_es</i>	0.144* (1.87)	0.160*** (2.61)
<i>t_negative_es</i>	0.152** (2.38)	0.021 (0.45)
<i>t_positive_g</i>	-0.039 (-0.44)	-0.108 (-1.39)
<i>t_negative_g</i>	0.124 (0.52)	-0.085 (-0.41)
<i>pct_inst_shares</i>	0.038*** (4.91)	0.025*** (3.45)
<i>_cons</i>	-0.106 (-1.36)	0.028 (0.50)
Industry X Year FE	Yes	Yes
<i>R</i> ²	0.64	0.71
Observations	14,112	14,144

Table 4: Regression: ESG Ratings

This table reports the regressions of firm ESG performance (ESG_rating_t and ESG_rating_{t+1}) on shareholder disagreement. es_dis is the main shareholder ES disagreement measure constructed as described in subsection 4.6. ESG rating data, including es_rating and fl_rating , is sourced from MSCI, while $forward_ESG_raw$ and $forward_ESG_modeled$ are obtained from S&P Global. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and t -statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	es_rating	fl_rating	$forward_ESG_raw$	$forward_ESG_modeled$
es_dis1	0.712 (1.03)	0.003 (0.01)	5.396 (1.09)	7.970* (1.90)
g_dis1	-1.618 (-0.27)	-0.285 (-0.09)	-22.272 (-1.21)	-17.723 (-0.98)
$more_positive_es$	-0.085 (-0.64)	0.141 (0.81)	-0.535 (-0.67)	-0.416 (-0.59)
bm	-0.345*** (-3.36)	-0.253*** (-3.99)	-2.212*** (-3.26)	-1.527*** (-2.81)
$cash$	-1.216*** (-5.31)	-0.252* (-1.66)	4.714** (2.45)	4.576*** (2.95)
$cash_flow$	0.122 (1.20)	0.102 (0.77)	1.541 (0.71)	1.244 (0.73)
$size$	0.247*** (6.49)	0.113*** (4.72)	6.675*** (19.81)	5.369*** (20.26)
$leverage$	0.043 (0.22)	-0.157 (-1.22)	-2.857 (-1.63)	-0.760 (-0.54)
$capstock$	-1.287*** (-4.61)	-0.566*** (-3.58)	-0.571 (-0.27)	-1.570 (-0.93)
age	0.007*** (2.67)	0.004*** (2.59)	0.077*** (3.44)	0.070*** (3.95)
$t_positive_es$	-2.085 (-1.32)	-1.198 (-0.95)	0.015 (0.00)	-4.055 (-0.49)
$t_negative_es$	-1.876** (-2.05)	-0.180 (-0.32)	18.379*** (2.60)	10.036* (1.70)
$t_positive_g$	-0.295 (-0.05)	0.687 (0.22)	-42.938** (-2.39)	-27.807 (-1.56)
$t_negative_g$	-2.425 (-0.11)	21.666* (1.70)	-196.596 (-0.46)	-128.791 (-0.35)
pct_inst_shares	0.336*** (2.66)	0.130* (1.87)	2.826*** (3.28)	2.290*** (3.13)
$_cons$	8.532 (1.43)	1.992 (0.61)	-14.658 (-0.76)	-0.832 (-0.04)
Industry X Year FE	Yes	Yes	Yes	Yes
R^2	0.28	0.11	0.46	0.47
Observations	9,910	8,090	5,838	5,838

Table 5: Triple-Difference Regression: ROA

This table presents the results of the triple-difference regression Equation (11). *Merger_exposure* is defined in Equation 10. *High_dis1* is an indicator that equals 1 if a firm experienced an increase in environmental and social (ES) disagreement following a fund merger. *Post* is an indicator variable equal to 1 for the treatment quarter and the following 8 quarters. A firm can only be treated once. All variables are defined in Table 1. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	roa	roa
<i>merger_exposure</i>	0.001 (0.06)	-0.004 (-0.60)
<i>high_esdis1</i>	0.017 (0.99)	0.016 (1.36)
<i>merger_exposure</i> $\times$ <i>high_esdis1</i>	-0.011 (-0.64)	-0.009 (-1.00)
<i>post</i>	0.013* (1.96)	0.009 (0.96)
<i>merger_exposure</i> $\times$ <i>post</i>	-0.011 (-1.50)	-0.008 (-1.35)
<i>high_esdis1</i> $\times$ <i>post</i>	-0.011*** (-3.86)	-0.013* (-1.96)
<i>merger_exposure</i> $\times$ <i>high_esdis1</i> $\times$ <i>post</i>	0.018** (3.21)	0.019** (3.38)
<i>bm</i>	-0.013*** (-8.16)	-0.019*** (-19.22)
<i>cash</i>	-0.286*** (-9.05)	-0.249*** (-11.81)
<i>cf_at</i>	2.062*** (18.24)	1.997*** (22.32)
<i>size</i>	0.009*** (8.28)	0.008*** (8.81)
<i>leverage</i>	-0.045** (-3.23)	-0.039*** (-4.18)
<i>capstock</i>	-0.002 (-0.16)	-0.002 (-0.38)
<i>age</i>	0.000* (1.90)	0.000** (3.02)
<i>pct_inst_shares</i>	0.052*** (4.30)	0.057*** (5.10)
<i>_cons</i>	0.012 (0.98)	0.010 (0.82)
Industry X YQ FE	No	Yes
<i>R</i> ²	0.71	0.73
Observations	15,836	15,824

Table 6: Split Sample Analysis

This table presents split-sample regression analyses of ROA on ES disagreement for firms categorized by size (small/big), age (young/mature), and ES rating (low/high). The primary measure of shareholder ES disagreement, *es_dis1*, is constructed as described in Section 3. Industry classifications follow Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. Variable definitions are provided in Table 1. Standard errors are clustered at the firm level, and *t*-statistics are shown in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) Small	(2) Big	(3) Young	(4) Mature	(5) Low ES rating	(6) High ES rating
<i>es_dis1</i>	0.454*** (3.67)	0.133*** (3.52)	0.263** (2.39)	0.164*** (3.08)	0.247*** (3.35)	0.103** (2.00)
<i>g_dis1</i>	0.094 (0.77)	-0.058* (-1.74)	-0.295*** (-3.44)	0.053 (1.12)	-0.214** (-2.42)	-0.057 (-1.31)
<i>more_positive_es</i>	0.033** (2.14)	0.008* (1.70)	0.054*** (3.59)	0.010 (1.60)	0.035*** (3.62)	0.006 (1.10)
<i>bm</i>	-0.006 (-1.05)	-0.016*** (-5.31)	-0.008 (-1.57)	-0.026*** (-4.89)	-0.046*** (-6.30)	-0.042*** (-4.02)
<i>cash</i>	-0.395*** (-7.89)	-0.120*** (-8.62)	-0.386*** (-8.45)	-0.194*** (-4.10)	-0.396*** (-9.93)	-0.159*** (-3.41)
<i>cash_flow</i>	0.240** (2.39)	0.877*** (25.23)	0.226** (2.16)	0.528*** (4.47)	0.131 (1.59)	0.595*** (4.50)
<i>size</i>	0.031** (2.35)	0.003*** (2.82)	0.022*** (3.16)	0.005** (2.41)	0.011*** (3.10)	0.001 (0.76)
<i>leverage</i>	-0.099** (-2.03)	0.023*** (3.07)	-0.073* (-1.78)	-0.041* (-1.71)	-0.124*** (-4.37)	-0.019 (-0.94)
<i>capstock</i>	-0.041** (-2.29)	0.011** (1.99)	-0.022 (-1.59)	0.020* (1.86)	0.023* (1.84)	0.001 (0.13)
<i>age</i>	0.002*** (5.07)	0.000*** (3.71)	0.003*** (5.45)	-0.000 (-0.44)	0.000 (1.37)	0.000*** (3.12)
<i>t_positive_es</i>	0.162 (1.26)	-0.074 (-1.60)	0.032 (0.27)	0.117 (1.43)	-0.055 (-0.60)	0.067 (0.94)
<i>t_negative_es</i>	0.455*** (3.52)	0.066 (1.64)	0.069 (0.62)	0.150** (2.12)	-0.012 (-0.14)	-0.023 (-0.44)
<i>t_positive_g</i>	0.038 (0.24)	0.050 (0.87)	-0.261* (-1.91)	0.170** (2.04)	-0.021 (-0.15)	0.004 (0.06)
<i>t_negative_g</i>	0.708* (1.68)	0.356* (1.78)	0.090 (0.27)	0.361 (1.59)	0.273 (0.75)	0.316* (1.85)
<i>pct_inst_shares</i>	0.062*** (4.35)	0.005 (1.31)	0.058*** (5.24)	0.014** (2.20)	0.010 (1.06)	-0.005 (-0.95)
<i>_cons</i>	-0.669*** (-3.34)	-0.072 (-1.47)	-0.086 (-0.63)	-0.165** (-2.20)	0.037 (0.35)	0.043 (0.65)
Industry X Year FE	Yes	Yes	Yes	Yes	Yes	Yes
<i>R</i> ²	0.63	0.77	0.65	0.69	0.59	0.73
Observations	6,801	7,311	7,096	7,016	4,952	4,943

Table 7: Regression: ROA - Costly ES Proposals

This table reports the regressions of firm performance (ROA_t and ROA_{t+1}) on shareholder disagreement. `es_cost_dis1` is the main shareholder ES disagreement measure constructed as described in Table 1. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1) roa	(2) roa_fl
<code>es_cost_dis1</code>	0.202** (2.55)	0.080 (1.00)
<code>g_dis1</code>	-0.268*** (-4.39)	-0.208*** (-3.76)
<code>more_positive_es</code>	0.034** (2.49)	0.026* (1.87)
<code>bm</code>	-0.015*** (-3.77)	-0.025*** (-7.28)
<code>cash</code>	-0.365*** (-7.46)	-0.310*** (-5.60)
<code>cash_flow</code>	0.292** (2.57)	0.346*** (2.64)
<code>size</code>	0.012** (2.49)	0.012** (2.36)
<code>leverage</code>	-0.066* (-1.86)	-0.063 (-1.63)
<code>capstock</code>	0.002 (0.18)	0.001 (0.10)
<code>age</code>	0.001*** (6.00)	0.000*** (5.17)
<code>t_positive_es_cost_pct</code>	-0.029 (-0.39)	0.073 (1.29)
<code>t_negative_es_cost_pct</code>	0.030 (0.37)	-0.042 (-0.56)
<code>t_positive_sub_g</code>	-0.002 (-0.03)	-0.071 (-0.97)
<code>t_negative_sub_g</code>	0.094 (0.39)	-0.068 (-0.33)
<code>pct_inst_shares</code>	0.039*** (4.95)	0.026*** (3.45)
<code>_cons</code>	0.046 (0.50)	0.126 (1.56)
Industry X Year FE	Yes	Yes
R^2	0.64	0.71
Observations	14,112	14,144

Table 8: Regression: Top 10 Shareholders

This table reports the regressions of firm performance (ROA.*t* and ROA.*t*+1) on the Top 10 shareholders' disagreement. *es_dis1* is the main shareholder ES disagreement measure constructed as described in Section 3. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1) roa	(2) roa_f1
<i>es_dis1</i>	0.336*** (3.28)	0.170** (2.40)
<i>g_dis1</i>	-0.263*** (-3.49)	-0.234*** (-3.32)
<i>more_positive_es</i>	0.029*** (2.68)	0.025** (2.27)
<i>bm</i>	-0.017*** (-4.34)	-0.027*** (-7.79)
<i>cash</i>	-0.368*** (-7.47)	-0.313*** (-5.60)
<i>cash_flow</i>	0.292** (2.57)	0.347*** (2.64)
<i>size</i>	0.014*** (2.98)	0.014*** (2.65)
<i>leverage</i>	-0.068* (-1.90)	-0.064* (-1.65)
<i>capstock</i>	-0.001 (-0.07)	-0.001 (-0.08)
<i>age</i>	0.001*** (6.07)	0.000*** (5.30)
<i>t_positive_es</i>	-0.014 (-0.15)	0.082 (1.16)
<i>t_negative_es</i>	0.273*** (2.68)	0.090 (1.24)
<i>t_positive_g</i>	-0.089 (-0.87)	-0.170* (-1.94)
<i>t_negative_g</i>	-0.131 (-0.54)	-0.269 (-1.36)
<i>pct_inst_shares</i>	0.045*** (5.84)	0.030*** (4.15)
<i>_cons</i>	-0.101 (-0.88)	0.056 (0.70)
Industry X Year FE	Yes	Yes
<i>R</i> ²	0.64	0.71
Observations	14,203	14,237

Table 9: Regression: Motivated Monitors

This table reports the regressions of firm performance (ROA_t and ROA_{t+1}) on motivated monitors' disagreement. Motivated monitors are defined as institutional investors whose holding value in the firm is within the top 10% of their portfolio. *es_dis1* is the main shareholder ES disagreement measure constructed as described in Section 3. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	roa	roa_f1
<i>es_dis1</i>	0.114* (1.82)	0.014 (0.28)
<i>g_dis1</i>	-0.118 (-1.15)	-0.203*** (-3.08)
<i>more_positive_es</i>	-0.005* (-1.87)	-0.002 (-1.07)
<i>bm</i>	-0.015*** (-3.82)	-0.020*** (-5.90)
<i>cash</i>	0.000** (2.52)	0.000*** (4.10)
<i>cash_flow</i>	0.914*** (13.26)	0.950*** (15.06)
<i>size</i>	-0.002* (-1.87)	-0.004*** (-4.01)
<i>leverage</i>	0.039*** (5.26)	0.035*** (6.00)
<i>capstock</i>	0.003 (0.63)	0.004 (0.91)
<i>age</i>	0.000*** (3.60)	0.000*** (3.23)
<i>t_positive_es</i>	-0.096 (-0.75)	-0.290** (-2.54)
<i>t_negative_es</i>	0.135* (1.81)	0.078 (1.43)
<i>t_positive_g</i>	-0.103 (-0.65)	-0.156* (-1.74)
<i>t_negative_g</i>	0.251 (0.51)	-0.349 (-0.74)
<i>pct_inst_shares</i>	0.006* (1.73)	0.001 (0.55)
<i>_cons</i>	0.043 (0.40)	0.243*** (3.39)
Industry X Year FE	Yes	Yes
R ²	.75	.86
Observations	7,090	7,084

Table 10: Regression: Value at Risk (VaR)

This table reports the associations between firm's downside risk and shareholder disagreement. VaR_5pct_yq and cVaR_yq are the quarter-level downside risk measures. f_VaR_5pct_yq and f_cVaR_yq are downside risk in the next period. es_dis1 is the main shareholder environmental and social (ES) disagreement measure. Control variables include governance disagreement, profit margin, log(market value), market-to-book, leverage, investments, and positive and negative ES and governance ownership. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	VaR_5pct_yq	cVaR_yq	f_VaR_5pct_yq	f_cVaR_yq
es_dis1	-0.029*** (-4.17)	-0.039*** (-3.95)	-0.039*** (-5.58)	-0.052*** (-5.32)
g_dis1	0.038*** (6.08)	0.052*** (5.89)	0.031*** (4.76)	0.040*** (4.33)
profit_margin	-0.035*** (-5.40)	-0.047*** (-5.29)	-0.037*** (-5.75)	-0.052*** (-5.87)
mkt_value	-0.004*** (-26.35)	-0.005*** (-26.18)	-0.004*** (-25.30)	-0.005*** (-24.76)
mtb	0.000*** (5.84)	0.000*** (4.94)	0.000*** (8.80)	0.001*** (8.59)
leverage	0.007*** (7.52)	0.010*** (8.10)	0.007*** (7.96)	0.011*** (8.58)
investments	0.012** (2.37)	0.017** (2.32)	0.016*** (2.89)	0.020*** (2.59)
t_positive_es	-0.015* (-1.85)	-0.022** (-1.99)	-0.005 (-0.63)	-0.012 (-1.02)
t_negative_es	-0.022*** (-3.17)	-0.026*** (-2.60)	-0.026*** (-3.68)	-0.031*** (-3.09)
t_positive_g	0.052*** (5.54)	0.070*** (5.16)	0.028*** (2.88)	0.034** (2.41)
t_negative_g	-0.022 (-0.81)	-0.018 (-0.46)	-0.016 (-0.59)	-0.001 (-0.03)
pct_inst_shares	-0.006*** (-5.05)	-0.007*** (-4.07)	-0.005*** (-4.30)	-0.006*** (-3.67)
_cons	0.090*** (9.88)	0.124*** (9.51)	0.105*** (11.21)	0.145*** (10.84)
Industry X Year FE	Yes	Yes	Yes	Yes
R ²	0.52	0.48	0.5	0.47
Observations	44,541	44,541	44,498	44,498

Appendix

Table A1: Controversial Governance Proposals

NewSubCategory	ratio_against	sum_ct	sum_pro_mgmt
Board Related	0.304	1689996	1175828
Severance Agreement	0.306	239277	165980
Compensation	0.316	295763	202228
Non-Routine Business	0.363	142486	90704
Re-Registration	0.364	33	21
Director Election - Cumulative	0.432	1278268	726151
Director Election - Bundled	0.527	231147	109273
Shareholder Rights	0.539	420597	193834
Proxy Contest	0.543	339402	155132
Takeover - Restricting	0.617	94721	36316
Capitalization Amendments	0.701	1520	455

1. The NewSubCategory is from ISS
2. Governance proposals are classified as controversial if more than 30% of the fund-proposal observations indicate a Fund-Vote that differs from the Management's recommendations.

Table A2: Regression: ROA (Binary Disagreement Measure)

This table reports the regressions of firm performance (ROA_t and ROA_{t+1}) on binary measures shareholder disagreement. $ES_dis1_binary = 1 - \text{abs}(\% \text{ positive ES shares} - \% \text{ negative ES shares})$. $g_dis1_binary = 1 - \text{abs}(\% \text{ positive G shares} - \% \text{ negative G shares})$. Industries are classified by Global Industry Classification Standard(GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and t -statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1) Small	(2) Big
es_dis1_binary	0.564*** (4.91)	0.308*** (3.43)
g_dis1_binary	-0.348* (-1.66)	-0.287* (-1.91)
more_positive_es	0.032*** (3.06)	0.025** (2.43)
bm	-0.016*** (-4.04)	-0.026*** (-7.59)
cash	-0.368*** (-7.45)	-0.315*** (-5.61)
cash_flow	0.289** (2.54)	0.344*** (2.62)
size	0.011** (2.44)	0.012** (2.33)
leverage	-0.067* (-1.89)	-0.065* (-1.71)
capstock	0.002 (0.21)	0.002 (0.21)
age	0.001*** (5.67)	0.000*** (4.97)
positive_es	-0.358*** (-2.87)	-0.177* (-1.68)
negative_es	0.509*** (4.62)	0.235*** (2.98)
positive_g	-0.198 (-0.99)	-0.166 (-1.24)
negative_g	0.541*** (2.59)	0.432*** (2.69)
pct_inst_shares	0.039*** (4.92)	0.026*** (3.47)
_cons	-0.233 (-1.07)	-0.020 (-0.15)
Industry X Year FE	Yes	Yes
R^2	0.64	0.71
Observations	13,882	13,914

Table A3: Regression: ROA ($\log(1/\text{abs}())$ measure)

This table reports the regressions of firm performance (ROA_t and ROA_{t+1}) on shareholder disagreement. `es_dis2` is the " $\log(1/\text{abs}())$ " ES disagreement measure constructed as described in Section 3. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and t -statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1) roa	(2) roa_fl
es_dis2	0.004** (2.13)	0.002* (1.90)
g_dis2	-0.028*** (-4.40)	-0.021*** (-3.53)
more_positive_es	0.031*** (2.62)	0.029** (2.41)
bm	-0.014*** (-3.59)	-0.025*** (-7.31)
cash	-0.371*** (-7.49)	-0.315*** (-5.62)
cash_flow	0.289** (2.56)	0.344*** (2.63)
size	0.009** (2.14)	0.010** (2.21)
leverage	-0.065* (-1.85)	-0.062 (-1.62)
capstock	-0.001 (-0.09)	-0.001 (-0.11)
age	0.001*** (6.08)	0.000*** (5.30)
t_positive_es	0.156** (2.24)	0.174*** (3.09)
t_negative_es	-0.027 (-0.62)	-0.057 (-1.61)
t_positive_g	-0.031 (-0.45)	-0.057 (-0.92)
t_negative_g	0.282 (1.22)	0.050 (0.26)
pct_inst_shares	0.024*** (3.51)	0.015** (2.50)
_cons	0.082*** (3.78)	0.075*** (4.34)
Industry X Year FE	Yes	Yes
R^2	0.64	0.71
Observations	14,092	14,124

Table A4: Regression: ROA (Quarter level)

This table reports the quarter-level regressions of firm performance (ROA_t and ROA_{t+1}) on shareholder disagreement. *es.dis* is the main shareholder ES disagreement measure constructed as described in Section 3. Industries are classified by Global Industry Classification Standard (GICS). Control variables include governance disagreement, indicators for firms with more ES-oriented shareholders, market-to-book ratio, cash holdings, cash flows, firm size, leverage, capital stock, firm age, positive and negative ES and governance ownership, and institutional ownership. All variables are defined in Table 1. Standard errors are clustered by firm, and t-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	roa	roa_fl
es_dis1	0.170*** (5.19)	0.152*** (5.12)
g_dis1	-0.705** (-2.12)	-0.602* (-1.79)
more_positive_es	0.018*** (3.18)	0.015*** (3.17)
bm	0.008*** (2.67)	0.004 (1.32)
cash	0.000 (1.09)	0.000 (0.93)
cf_at	2.103*** (39.14)	2.263*** (43.77)
size	0.011*** (7.37)	0.010*** (7.45)
leverage	0.056*** (6.05)	0.051*** (6.01)
capstock	0.046*** (5.37)	0.039*** (5.05)
age	0.001*** (9.07)	0.001*** (8.74)
t_positive_es	-0.072 (-1.02)	-0.068 (-1.08)
t_negative_es	-0.250*** (-5.78)	-0.220*** (-5.68)
t_positive_g	-0.354 (-1.07)	-0.295 (-0.88)
t_negative_g	-0.046 (-0.03)	0.231 (0.15)
pct_inst_shares	0.036*** (3.24)	0.031*** (3.10)
_cons	0.402 (1.19)	0.340 (0.99)
Industry X YQ FE	Yes	Yes
R ²	0.67	0.73
Observations	48,341	48,379

Table A5: Frequency of Cross-family Mergers by Year

Merger Year	Frequency	Percent	Cumulative %
2016	8	7.08	7.08
2017	19	16.81	23.89
2018	20	17.70	41.59
2019	42	37.17	78.76
2020	24	21.24	100.00
Total	113	100.00	