

Seminar series

Securities markets: trends, risks and policies

ES risks and shareholder voice

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Abstract:

While shareholder proposals related to ES issues nearly always fail, we show that investors' support for these proposals contains information regarding future risks that firms face. Support levels are informative regarding the probability of negative tail returns that stem from future ES incidents. Examining the economic channels underlying this finding, we find that agency frictions contribute to proposal failure, leading to predictable tail events. Contrasting ES versus non-ES failed proposals within the same firm, we find that predictability is unique to ES initiatives; this is consistent with higher uncertainty regarding the value of ES initiatives exacerbating agency frictions.

Keywords: shareholder proposals, voting, mutual funds, environmental, social

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