Big Three (Dis)Engagements

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Abstract: This paper uses newly available data to empirically analyze how the three largest asset managers (BlackRock, Vanguard, and State Street) engage with portfolio companies. We find that asset managers' choice of engagement targets is virtually unrelated to ex ante firm financial performance. Event study analysis finds that targeted firms exhibit transitory negative but tiny abnormal returns when engagements are reported. Engagement is not correlated with ex post stock returns or changes in operating performance or corporate governance outcomes at portfolio companies. Asset managers are also not more likely to vote against management at firms selected for engagement. Combined with qualitative evidence regarding the limited resources available to engagement personnel, these results cast doubt on the Big Three asset managers' ability to be active owners.

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1. Introduction

"As a fiduciary, BlackRock engages with companies to drive the sustainable, long-term growth that our clients need to meet their goals."

- Larry Fink, CEO, BlackRock[1]

"While couched in language about long-term value, BlackRock's alignment of engagement priorities with environmental and social goals. . . is not consistent with fiduciary and legal obligations. Nor are blanket commitments to vote for directors based upon protected characteristics, such as gender. . . If BlackRock were focused solely on financial returns, its conduct would likely be different."

- Letter from Republican Attorneys General to Larry Fink[2]

Large asset managers play an increasingly important role in corporate governance, shaping the extent of shareholder engagement and pressing for "long-term" value creation. The Big Three asset managers (BlackRock, Vanguard, and State Street) collectively manage trillions of dollars of assets, and own about a fifth of the average S&P 500 firm (Backus et al. 2021, Lund and Robertson 2023). Most research on the Big Three has focused on the causal effect of their ownership of public companies (Appel et al. 2016). Asset managers, as passive investors, have virtually no choice in which firms they own, as their equity stakes are determined by a portfolio company's inclusion in popular indices such as those maintaind by FTSE Russell. Existing work exploits mechanical, index-driven variations in Big Three ownership to track subsequent changes in corporate governance at portfolio firms.

In this paper, we present the first measurement of Big Three *engagements*. We utilize novel Big Three data from 2014-22 for 1,969 companies regarding the asset managers' engagement with portfolio companies on issues such as board diversity, executive compensation, and sustainability. Engagement is a qualitatively different and underexplored manifestation of common ownership that

[1] See https://corpgov.law.harvard.edu/2018/01/17/a-sense-of-purpose/.
[2] See https://www.texasattorneygeneral.gov/sites/default/files/images/executive-management/BlackRock%20Letter.pdf.

could potentially be a central force in corporate governance. Each of the Big Three asset managers has publicized examples of "successful" engagements where they allegedly achieved greater value for their clients by reaching out to management at a portfolio company and making them change operational, financial or governance practices or policies. While such examples could be seen as an important measure of the Big Three's influence, we know surprisingly little about how the three biggest asset managers in the US select engagement targets and what economic impact these engagements have. Crucially, unlike mere ownership by the Big Three, which is mechanically determined by index membership, engagement targets are deliberately *chosen* by the asset managers from among their portfolio companies. Therefore, we add to the debate about the place of large asset managers in corporate governance by analyzing their deliberate interventions in the corporate governance of portfolio companies through engagements.

In this paper, we address three research questions. First, we use an event study approach to measure market reactions to the Big Three's disclosure of engagement targets. If investors perceive engagement as news about weak corporate governance of target firms, one expects targeted portfolio firms to exhibit negative abnormal returns when information about the engagement becomes public. Conversely, if engagement is an important corrective or protective mechanism that spurs better governance in the future, one may anticipate positive abnormal returns for engaged companies. Second, we examine whether Big Three engagements are plausibly related to creating value for their clients. Asset managers have fiduciary obligations to their clients under federal securities regulations: if they force portfolio companies to adopt strategies that reduce their clients' portfolio value, they violate their legal duties (Hemphill and Kahan 2020). Each of the Big Three therefore justifies their engagement efforts in their own stewardship materials as being *exclusively* focused on creating client value, because this is a binding legal requirement. We empirically assess whether the Big Three actually select targets that are underperformers. If engagement is a corrective

or a protective mechanism, one would expect asset managers to target financial laggards for governance outreach. Third, we examine if Big Three managers "walk the walk" by voting against management at portfolio companies after engagements. To the extent engagements are focused on financial laggards, one should expect asset managers to become more likely to vote against management after announcing that they disapprove of the company's governance. We also analyze whether firms change key corporate governance practices or improve financial performance after being engaged by Big Three asset managers.

We use recently available data disclosed by the Big Three revealing which companies they targeted for engagements. Each of the largest asset managers periodically publishes stewardship reports containing lists of engaged firms: State Street was the first to begin this practice, for 2014 engagements, followed by BlackRock from 2018 and Vanguard from 2019. A key contribution of this paper is to use this new information from the Big Three to systematically analyze the determinants and consequences of portfolio company engagement. To the best of our knowledge, our study is the first academic analysis using the entirety of the Big Three engagement data over an extended time period, as opposed to selected anecdotes or summary statistics.

The event study findings suggest that Big Three engagements do not have an economically significant effect on the value of targeted firms on the date asset managers publish the list of engaged companies. Engaged firms exhibit negative abnormal returns on these dates, but these are tiny (10-60 basis points) in magnitude, transitory, and only significant for two of the Big Three. This finding is not consistent with the notion that engagements are a credible signal of governance quality, and instead suggest that investors do not treat these interactions as revealing significant new information about the firm's operations.

Next, assessing the Big Three's selection of engagement targets, we find little support for asset managers' claim that they focus on financial value for their clients. There is virtually no significant correlation between a portfolio firm's financial performance and the likelihood that it is targeted for engagement by BlackRock, Vanguard, or State Street. Instead, engagement seems to largely be a function of the asset manager's influence over and exposure to the portfolio firm, as proxied by the percentage of firm equity owned by the manager and the percentage of the manager's portfolio represented by the firm, respectively. The non-salience of financial returns in predicting the likelihood of engagement persists when we additionally control for firm financial characteristics and a variety of corporate governance indicia mentioned in the Big Three's investment stewardship policies. Moreover, this non-correlation between engagement and financial performance is present even for the subsample of firms selected as engagement targets by all of the Big Three in a given year, i.e., for a subset of targets especially likely to be financial laggards in principle. The non-correlation also persists when we separately analyze engagements driven by environmental, social, and governance aims. Therefore, Big Three engagements seem detached from the financial performance of portfolio companies, rather than focused on it as required by fiduciary law and claimed in these managers' stated policies.

Based on our reading of Big Three investment stewardship policies and extensive informal interactions with personnel, we propose an organizational reason for the Big Three being unable to pursue a value-based approach to engagements: their stewardship teams are understaffed. BlackRock—the largest of the Big Three—has reportedly only employed about a dozen individuals to monitor portfolio companies and select engagement targets in the US. This headcount number is striking, given that BlackRock engages with hundreds of portfolio firms every year. Our conversations with informed parties indicate that the engagement teams at Vanguard and State Street are similarly small. It is implausible that a team of this size could form a sophisticated

understanding of the corporate governance intricacies at each of the Big Three's portfolio firms and then select the worst performers in a systematic fashion. Moreover, the investment teams at these asset managers are reportedly siloed from the engagement teams. Communication related to improving the investment performance of laggards in an index between the investment teams and engagement managers could arguably be improved. Further, we were told that "success" for the engagement team was not necessarily measured as improvement in firm performance. Instead, these personnel report that their objective function is to simply record more engagements, without a clear metric for measuring the success of any particular engagement. Engagement personnel at the Big Three may hence lack the incentive to target firms for engagement with an eye on changing governance or delivering shareholder value.

Finally, our third research finding is that the Big Three do not become more likely to vote against management at portfolio companies after engaging with them. Therefore, we find no evidence that the Big Three punish engagement targets using their voting power. We interpret this finding to suggest that Big Three personnel follow a "checklist" approach, both in picking firms to engage with, and in classifying an engagement as successful after potentially perfunctory communications with management, on average. Our informal correspondence with engagement personnel is consistent with the existence of such a "checklist" approach. This could explain why the Big Three do not "walk the walk" and vote against management after an engagement. Beyond voting by the Big Three, we also do not find any effect of engagement on subsequent corporate governance outcomes at portfolio companies, including CEO compensation, dual class stock, and the presence of female directors. Engagement is also uncorrelated with subsequent abnormal returns at targeted firms. Therefore, engagement does not seem to change the voting behavior, corporate governance practices, or financial performance of portfolio firms.

One concern with our baseline results could be that the selection of engagement targets is not random but is endogenous to unobservable factors. This endogeneity could potentially explain our results, rather than any flaws with Big Three engagement efforts. We account for this possibility by utilizing the fact that Big Three asset managers only engage with portfolio firms. Our conversations with current and former members of Big Three engagement personnel reveal that these asset managers tend to be engage with portfolio companies where they have a greater ownership stake. Moreover, our baseline results show that portfolio companies with higher Big Three ownership are more likely to be engaged.

We exploit Russell index reconstitutions to generate exogenous variations in Big Three holdings in individual firms. Specifically, we find that firms that switch from the bottom of the Russell 1000 index to the top of the Russell 2000 index experience a greater number of Big Three engagements, consistent with previous findings that these portfolio companies see a significant increase in index ownership (Heath et al. 2022). However, we continue to find no change in corporate governance outcomes at these portfolio companies, the Big Three's propensity to vote against management, or in these firms' financial returns. We further confirm the causal effect of index reconstitution on Big Three engagement, and non-effect of engagement on corporate governance outcomes, by instrumenting Big Three asset managers number of engagements using an indicators for switching from Russell 1000 index to Russell 2000 index ("R1-to-R2") and switching from the Russell 2000 index to the Russell 1000 index ("R2-to-R1") (Appel et al. 2019). We continue to find that reassignment to the Russell 2000 index increases the number of Big Three engagements but has no effect on corporate governance outcomes at portfolio firms or asset managers' willingness to vote against management.

Our findings make three contributions to the literature. First, we add to the literature on the determinants and consequences of shareholder engagement. Using actual engagement data from the Big Three, we supplement survey-based analyses such as Krueger et al. (2020), and can discern whether institutional investors' actual engagement practices align with their stated policies. Moreover, by using the newly publicized data from the Big Three, we find strikingly different results from the existing literature on engagement. For instance, Dimson et al. (2015) use a proprietary dataset from a smaller institutional investor to find that engagements are more likely for financially underperforming portfolio firms and that successful engagements are associated with positive abnormal returns. However, the institutional investor in their study ranked between 80th and 100th globally in terms of assets under management, paling in comparison to the vast holdings of the Big Three. The considerably more complex operations of BlackRock, Vanguard, and State Street and their unique position in the financial markets make it unsurprising that these prior results do not hold in our study of Big Three engagements.[3]

Heath et al. (2022) study the efficacy of engagement efforts by index funds including, but not restricted to, the Big Three. However, they use 13-D filings and the passage of contentious management or shareholder proposals as proxies for public and private engagement, respectively. These proxies are imperfect measures of Big Three engagement. 13-D filings are only legally required by the Securities and Exchange Commission (SEC) if a holder of over 5% stock has "the purpose or the effect of influencing the control of the firm." Many engagements we study, such as those pertaining to environmental practices or board diversity, would not logically implicate "control

[3] Moreover, the institutional investor studied by Dimson et al. (2015) had a unique history of backing ethical investing. Given the higher influence and visibility of the Big Three, they face greater pressure from market participants, regulators, and politicians to run their operations focused on financial returns. Finally, the institutional investor investigated by Dimson et al. (2015) was not an index fund manager and engagement was likely based on more sophisticated knowledge of each portfolio company's strategy.

of the firm," and would thus be missed by focusing on 13-D filings. Contentious management or shareholder proposals may pass or fail for reasons completely unrelated to institutional ownership.

Similarly, Schmidt and Fahlenbrach (2017) examine how changes in passive ownership affect CEO power, measured as president and chairman appointments, and fewer new independent director appointments. That paper does not appear to investigate engagements by passive investors. The previous literature is thus not examining the same phenomenon (private engagements by the Big Three) as our paper, because these earlier papers did not have access to the same original data. The advantage of our study is that we have comprehensive engagement data disclosed by the Big Three themselves, and do not need to rely on either mere index-driven institutional ownership or 13-D filings as crude proxies for asset manager engagement. Azar et al. (2021) do use actual engagement information for Big Three asset managers. However, their data comes from a much shorter time period (from a few months to a year, depending on the asset manager), is focused exclusively on corporate greenhouse emissions and does not focus on whether engagements are driven by shareholder wealth concerns.[4]

Second, we contribute to scholarship on the effect of institutional owners on corporate governance. Several papers have documented both positive and negative aspects of increased levels of passive institutional ownership. Appel et al. (2016) find that institutional investors use their large ownership stakes to pressure management to adopt policies such as appointing independent directors and removing antitakeover devices. Fisch et al. (2019) argue that passive investors are incentivized to effectively engage with portfolio firms because they must compete for investor dollars. On the other hand, Bebchuk and Hirst (2021) argue that institutional investors lack

[4] Furthermore, using our more comprehensive engagement data, we find evidence at odds with Azar et al. (2021)'s central claim that the Big Three engage with portfolio firms with high levels of pollution. The results in section 5 find no statistically significant correlation between Big Three engagement and portfolio company emissions.

appropriate incentives to spend on value-increasing stewardship: since all index funds own the same stocks, any asset manager engaging with a portfolio company does so at considerable personal cost, only to see the added value shared by funds controlled by competing managers. Our results, showing the non-correlation between portfolio firm value and Big Three engagement, provide novel evidence for this latter view in the literature. Moreover, as explained earlier, engagement represents an economic model of institutional influence that is entirely different from that of passive ownership. Big Three asset managers have great discretion in deciding engagement targets, while ownership is dictated by index composition. Our empirical analysis thus studies institutional influence on corporate governance in a setting where, unlike index-based passive ownership, asset managers can deliberately intervene in the affairs of portfolio companies.

Finally, we add to the scholarship on the relationship between institutional ownership and managerial incentives. Common owners such as the Big Three maximize portfolio value, which can diminish their willingness to monitor or exit any particular portfolio firm in response to managerial shirking (Edmans et al. 2019). Moreover, compensation for managers at companies with greater institutional ownership is less sensitive to firm performance because institutional investors place weight on competitor profits (Anton et al. 2023). Our findings, suggesting that the Big Three overlook underperforming firms, indicate that these large asset managers forego the opportunity to credibly signal managerial slack or inefficiencies through engagements. We thus provide a cautionary note regarding the efficacy of Big Three engagement in disciplining portfolio firm managers.

Section 2 describes two crucial features of Big Three asset managers' engagements with portfolio companies that undergird our empirical analysis and illustrate this paper's contribution to the literature. First, unlike passive ownership, the selection of engagement targets is characterized by broad discretion for Big Three asset managers. Our study of novel engagement data thus provides a

rare opportunity to measure engagement for the first time, and study asset managers' influence on corporate governance where their interventions are unconstrained by the constitution of stock indices. Second, both U.S. fiduciary law and asset managers' own public statements dictate that engagement should focus on delivering value for the Big Three's clients. Section 2 weighs arguments both for and against the efficacy of engagement and argues that Big Three asset managers are currently institutionally ill-equipped to monitor or improve corporate governance at portfolio firms by engaging management. Engagement is thus unlikely to deliver value or increase wealth for the Big Three's clients.

Section 3 describes our hand-collected engagement dataset and other variables and provides summary statistics. Section 4 uses a standard event study methodology and finds that portfolio companies exhibit short-lived and economically insignificant negative abnormal returns when Big Three asset managers report engagement with their management. Section 5 examines the correlates of the Big Three's selection of engagement targets and analyzes whether these asset managers target financially underperforming companies. Section 6 investigates whether engagement makes the Big Three more likely to vote against management at portfolio firms, while section 7 analyzes engagement's effect on corporate governance outcomes and subsequent financial performance. Section 8 establishes the robustness of the baseline results in two separate experiments utilizing the exogenous variations in Big Three holdings in individual firms generated by Russell index reconstitutions. Section 9 concludes the paper.

2. The Uncertain Case for Big Three Engagements

A potent way in which Big Three asset managers exert influence portfolio companies is by engaging with firm management. Vanguard's 2017 Investment Stewardship Annual Report, using language similar to that in documents we reviewed for all three managers throughout the sample

period, defined engagement as a way for it to "share our corporate governance principles and learn about portfolio companies' corporate governance practices."[5] Vanguard described engagement as "quiet diplomacy focused on results." In other words, unlike voting against a say-on-pay proposal at a meeting, the Big Three asset manager's disagreement with firm governance is not publicly broadcasted when it engages with management. Instead, the Big Three asset manager privately communicates its concern to firm management. The 2017 Vanguard report is typical of the claims made by asset managers in several public reports we manually inspected: they argue that these private communications tangibly change governance practices at firms.

Two aspects of Big Three engagements are crucial in understanding this paper's motivation, empirical analysis, and contribution to the literature on common ownership. First, the economic model of engagement is characterized by broad asset manager discretion in selecting portfolio companies to engage. Unlike the decision to own a company, which is determined by index composition, the Big Three can pick engagement targets using whatever criteria they desire from among portfolio companies. In fact, the Big Three themselves report that their engagement activities are the product of their value judgments. Examining the factors that led asset managers to engage with portfolio companies in 2021, according to the Big Three's own reports, shows the functionally limitless discretion their stewardship staff has in deciding whether a firm should be engaged.

BlackRock claimed to have picked engagement targets based on eleven categories: board composition and effectiveness, business oversight/risk management, executive management, corporate strategy, governance structure, renumeration, climate risk management, environmental impact management, operational sustainability, human capital management, and social risks and opportunities.[6] Vanguard cited four factors for engaging with firms: board composition, executive

[5] See https://www.wlrk.com/docs/VanguardInvestmentStewardshipReport2017.pdf.
[6] See https://www.blackrock.com/corporate/literature/press-release/blk-engagement-summary-report-2021.pdf.

compensation, oversight of strategy and risk, and shareholder rights.[7] Finally, State Street lists fourteen factors: effective board leadership, executive compensation, shareholder rights, climate change, land use and biodiversity, circular economy and natural resources, human capital management, diversity, equity and inclusion, political participation, human rights, board oversight of climate change, board oversight of human capital management and diversity, and even the "R-Factor" (a proprietary ESG measure developed by State Street).

Therefore, this first feature of engagements provides a stark contrast to the other mechanism of Big Three influence—direct equity ownership in portfolio firms. While asset managers' accumulation of equity stakes is passive and reflects an objective function to increase assets under management and match index performance, their decision to engage a company is emphatically not passive. Instead, engagements are a product of subjective value judgments made by the asset manager and are ostensibly undertaken to spread the manager's vision of appropriate governance to its portfolio companies. Our study of novel engagement data thus allows for an empirical analysis of Big Three influence in corporate governance when they have maximum discretion, unlike previous studies of institutional ownership. Engagement represents a fundamentally different economic model than institutional equity ownership, which implies that Big Three engagement may affect corporate governance in a different way than direct institutional ownership.

The second feature shaping this paper's motivation and empirical analysis is that Big Three asset managers justify engagement as increasing shareholder value. Vanguard's 2017 report claims that its engagement efforts "better position companies to deliver sustainable value over the long term for all investors." Reading investment stewardship reports for the Big Three during the 2014-2022 period, we find that asset managers ground their engagement efforts in shareholder wealth maximization in

[7] See https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/policies-and-reports/inv_stew_2021_annual_report.pdf.

every single document. We present illustrative examples from BlackRock and State Street's public policy documents. BlackRock's 2018 investment stewardship report asserts that it engages with a company if there "has been an event at the company that has impacted its performance or may impact long-term company value;" if the firm belongs to a sector where "there is a thematic governance issue material to shareholder value;" or if there are "environmental, social or governance matters that may impact long-term value."[8] In all cases, including when citing environmental, social or governance (ESG) concerns, BlackRock justifies engagement solely on the grounds of safeguarding shareholder value. State Street's 2014 report states that its status as "near perpetual holder[] of the constituents of the world's primary indices" meant that its engagement efforts would be "targeted and value-driven."[9] Indeed, as fiduciaries, the Big Three are mandated by law to maximize their clients' portfolio values (Hemphill and Kahan 2020). It is therefore an important empirical question to see whether the Big Three actually create value for their clients through their engagement activities.

At first glance, Big Three engagements can be seen as effective ways to monitor and change corporate governance for broadly the same reasons articulated in Bebchuk and Hirst (2021): the large voting power of these asset managers and the in terrorem effect they exert on firm directors. Moreover, institutional investors are widely perceived to represent "smart money," and could be able to distinguish firms with strong and weak corporate governance (Akbas et al. 2015, Keswani and Stolin 2008). Therefore, when a portfolio firm is revealed to have been the subject of private engagement efforts by BlackRock, Vanguard, or State Street, investors may take the engagement to signal weak corporate governance at the company. Section 4 partially validates this intuition, with

[8] See https://www.blackrock.com/corporate/literature/publication/blk-voting-and-engagment-statistics-annual-report-2018.pdf.
[9] See https://www.ssga.com/investment-topics/environmental-social-governance/2016/Annual-Stewardship-Report-2014.pdf. State Street seems to have subsequently removed this report from public access on the Internet, but a previously downloaded copy is available from the authors.

event study analysis showing that portfolio firms exhibit small negative (albeit short-lived) abnormal returns when publicly revealed to be engagement targets.

However, collective action problems, overbroad scope of engagement, and institutional limitations at Big Three asset managers limit the possibility of a tight connection between the selection of engagement targets and consideration of shareholder value. If there is indeed value to be created by engaging with portfolio companies, an asset manager would internalize the cost of thoroughly investigating corporate governance issues and communicating possible solutions to firm management. On the other hand, the increase in value from improving governance would be shared by rival asset managers, who also likely own stakes in the engaged firm, given the extensive shareholdings of the Big Three. Therefore, this collective action logic would incentivize the Big Three to skip costly (albeit thoughtful) governance research when selecting engagement targets and instead pick companies for engagement quasi-randomly and relatively costlessly.

The overbroad and ambiguous criteria used by the Big Three to select targets described above also undermines the efficacy of their engagement efforts. Many of the factors, such as "corporate strategy" or "shareholder rights," are vague and ill-defined. Several categories used to pick engagement targets appear to overlap substantially (such as "political participation" and "human rights" or "climate risk management" and "environmental impact management"). The large list of factors each of the Big Three claims to use in picking engagement targets is reminiscent of earlier "corporate governance indices" that were used to measure firms' governance, but have been criticized by recent scholarship for arbitrarily adding up the presence or absence of potentially irrelevant institutional features such as antitakeover defenses (Klausner 2013). It raises questions about the Big Three's ability to accurately pinpoint which firms are financial laggards, and to use engagement to deliver value for the asset managers' clients.

A final and crucial limitation on the Big Three's ability to structure engagement efforts around shareholder value is the meager levels of staffing and resources asset managers dedicate to stewardship. BlackRock, which is the largest and best resourced of the Big Three, disclosed in its 2021 report that it employs just 13 individuals responsible for engagements with U.S. companies.[10] At the same time, BlackRock reported that it had carried out 905 engagements with U.S. companies in 2021. This implies that each of the U.S.-based Blackrock engagement personnel handled ~70 engagements a year, or more than one a week. It is implausible that these employees were able to compare Blackrock's many portfolio companies across the eleven engagement criteria described above, scientifically select one or two companies a week for which engagement would boost shareholder value and communicate the governance concern to portfolio firm management. Even if the Big Three employee did select engagement targets keeping shareholder value in mind, it is unlikely they would have time to follow through with portfolio firm management and ensure that the necessary corporate governance reforms were enacted, since they had at least one more new engagement to pursue every subsequent week. On top of that, industry interviewees told us that the objective function of engagement teams was simply to record more engagements, with no other definite criteria to measure the appropriateness or success of an engagement. Informal conversations also reveal that the investment team, tasked with earning returns on portfolios, is not well coordinated with the engagement team.

The collective action dilemma, overbroad and ambiguous categories used to select engagement targets, and limited resources and personnel dedicated to engagement all cast doubt on the Big Three's ability to ground their engagement activities in client wealth maximization. As explained earlier, it is not merely optional for asset managers to structure their activities to maximize the value

[10] See https://www.blackrock.com/corporate/literature/publication/annual-stewardship-report-2021.pdf (p. 36).

of their clients' portfolios—it is their legal duty as investment fiduciaries. Moreover, the Big Three's stated policies describe engagement as delivering maximum value for clients. It is therefore a worthwhile empirical question to test whether, in the presence of institutional constraints on asset managers, their engagement activities are aligned with shareholder value and portfolio firm financial performance.

3. Dataset and Summary Statistics

A significant contribution of this paper is to compile the first comprehensive dataset on Big Three engagements with portfolio firm management. BlackRock, Vanguard, and State Street began publicly disclosing these engagements starting 2018, 2017, and 2014, respectively. We manually code each of these engagements for U.S. companies. Our dataset has a total of 4,021 engagements for BlackRock, 2,544 engagements for Vanguard, and 3,011 engagements for State Street. The total number of engagements for State Street is roughly comparable to the average of engagements by Blackrock and Vanguard despite State Street disclosing more years of engagements. This is probably because State Street is a significantly smaller asset manager, with $3.3 trillion in assets under management in 2022, compared to $8 trillion and $7.1 trillion for BlackRock and Vanguard, respectively.

The only papers to similarly study engagement data directly from the Big Three are Azar et al. (2021) and Bebchuk and Hirst (2019). There are crucial differences in the breadth of data and the questions we study compared to Azar et al. (2021). First and most importantly, they do not study whether Big Three engagements are grounded in shareholder wealth maximization, which is the main research question in this paper. They focus only on greenhouse gas emissions. Second, our study covers engagements over a significantly longer period. Azar et al. (2021)'s data covers engagements over a short period of time: 7/1/2018 to 6/30/2019 for BlackRock, 7/1/2018 to

12/31/2018 for Vanguard, and 1/1/2018 to 12/31/2018 for State Street. Therefore, their data covers a year for BlackRock and State Street, and six months for Vanguard. In contrast, our dataset compiles engagements for BlackRock, Vanguard, and State Street over 5 years, 4 years, and 9 years, respectively. Finally, Azar et al. (2021) study a cross-country sample, while we focus on U.S. engagements. Our results are thus less likely to be influenced by country-specific institutional or policy differences. Perhaps because of the longer scope of our data, section 5 does not find support for Azar et al. (2021)'s claim that Big Three engagements are targeted at polluting companies. Instead, we find no statistically significant correlation between Big Three engagement and portfolio company emissions. Bebchuk and Hirst (2019) present summary statistics for the number of Big Three engagements for three years (2017-19) and argue that these asset managers do not engage most portfolio firms. However, they do not analyze the determinants or consequences of engagement and do not investigate the relationship between engagement and shareholder value.

We name-match each engagement target with corporate governance, firm financial, and stock price data. Table 1 contains the definitions of variables used in the paper and Table 2 presents summary statistics. Stock return data comes from the Center for Research in Stock Prices (CRSP). From the Compustat database, we extract information for variables used in the existing literature on institutional investors in corporate governance: book-to-market ratio, asset tangibility (net property, plant & equipment divided by total assets), firm size, debt ratio, cash ratio, return on assets, and sales per employee (Azar et al. 2021, Calluzzo and Kedia 2021).

The Big Three frame their engagement activities as interventions to improve corporate governance at portfolio firms. Therefore, we collect information from Institutional Shareholder Services (ISS) on indicator variables for whether the firm had a staggered board of directors, the firm had a visible poison pill, the chief executive officer (CEO) had a golden parachute contract, or

the firm had a dual class stock structure. Each of these institutional arrangements has been characterized by some scholars as a correlate of poor corporate governance or weak shareholder protection (Bebchuk et al. 2009). Because inclusion in a broad index is associated with higher Big Three ownership (Appel et al. 2016), we also include a dummy variable from ISS for membership in the S&P 500 index.

We then collect additional data to proxy for other topics extensively described in Big Three policies as grounds for engagement. Because asset managers state that they are concerned about firm policies regarding sustainability and climate change, we obtain information about greenhouse gas emissions. Based on Ilhan et al. (2021) and Sautner et al. (2023), we define this variable as the natural logarithm of the sum of Scope 1 and Scope 2 emissions from the Trucost database. Because asset managers frequently cite excessive executive compensation as a core concern driving engagements, we collect data for CEO compensation (proxied by the natural logarithm of total compensation, i.e., the *TDC1* variable) from Execucomp.[11]

Big Three stewardship reports consistently stress the importance of human capital management, especially diversity in the top ranks of portfolio firms. An important aspect of diversity described in the reports is female representation on corporate boards. Consistent with these formal policies, Gormley et al. (2023) claim that Big Three campaigns such as State Street's "Fearless Girl" initiative increased the share of women directors. Similarly, the *Wall Street Journal* noted that California's legislation imposing gender quotas on corporate boards had not received investor pushback primarily due to Big Three support for diversifying corporate leadership.[12] We code a dummy

[11] We could instead use industry-adjusted excessive compensation as a measure for CEO pay as a driver of engagement. However, conversations with institutional investor personnel reveal that asset managers focus on the CEO's actual compensation figure, rather than the "excess" over industry peers. Moreover, our specifications include industry-year fixed effects, therefore accounting for within-industry trends in CEO compensation.
[12] See https://www.wsj.com/articles/california-rolls-out-diversity-quotas-for-corporate-boards-11601507471.

variable, based on BoardEx data, equaling one if the portfolio firm had at least one woman on the board. The paper's results remain qualitatively unchanged if we instead proxy board gender diversity by the presence of at least two women on the board.

Finally, we collect information about firm violations of federal and state regulations as a proxy for risk management and pro-social behavior. A firm that has been fined by a regulatory agency for wage theft or investor fraud is less likely to have adequate risk management systems or a socially responsible business model, implicating many of the engagement priorities in Big Three policies. We use the Violation Tracker database maintained by the Good Jobs First project. Violation Tracker has information on more than 300,000 penalties issued by federal and state authorities. We focus on financially material penalties, defined as enforcement actions that lead to settlements of at least $500,000. Violation Tracker has been used in a spate of recent accounting and finance papers, including Heese and Pérez-Cavazos (2020), Heese et al. (2022), Raghunandan (2021), Raghunandan and Rajgopal (2020), Raghunandan and Rajgopal (2022), and Stubben and Welch (2020).

Most of our empirical models use firm and industry-year fixed effects. We use firm fixed effects to account for idiosyncratic factors unique to a given firm, as is standard in the accounting literature. We also use industry-year fixed effects to absorb industry-specific time trends, because the Big Three's investment stewardship materials claim they contextualize a portfolio firm's corporate governance using industry norms and metrics.[13] Previous work on institutional ownership has similarly used industry-year fixed effects (Chen et al. 2020, Cohen et al. 2023). Therefore, our control variables draw on previous work on institutional ownership as well as the explicit language of the Big Three's stewardship reports. The number of observations varies across different

[13] An analysis of the Big Three's stewardship materials by the law firm Weil, Gotshal & Manges LLP repeatedly finds that each of the Big Three looks at industry practices in evaluating firm governance. See https://governance.weil.com/wp-content/uploads/2023/09/The-Big-Three-ESG-A-Guide-to-BlackRock-State-Street-Vanguard-Proxy-Voting-Policies-Guidance-on-K.pdf, at 10, 11, 12, 13, 14, and 17.

empirical tests in this paper based on the unit of analysis (e.g., some tests are at the firm-year level while our voting analysis, for instance, is at the proposal level), while it varies across different model specifications for the same test due to data availability (e.g., a model with a battery of control variables will have fewer observations than a baseline model).

4. Stock Price Effect of Big Three Engagements

We use the event study methodology to estimate investors' assessment of the impact of Big Three engagements and portfolio firm value. Ex-ante, the revelation that a portfolio firm is an engagement target has an unclear effect on that firm's stock price. Some of the literature on the role of the Big Three has been skeptical of these managers' incentives or ability to effectively monitor portfolio companies (Bebchuk and Hirst 2021). Under such a view, the public revelation of a firm being an engagement target should have no impact on its value because investors would not treat an engagement as a useful measure of governance. On the other hand, because institutional investors are considered the "smart money" (Akbas et al. 2015, Keswani and Stolin 2008), the market may take engagements as a credible signal that the portfolio firm's governance has serious deficits. Such a strong signal could lead to Big Three engagements destroying portfolio firm value. Finally, if investors see Big Three engagements as an important protective or corrective mechanism that can tangibly improve portfolio firm governance, a company being revealed as a target could increase its value.

To empirically test the effect of Big Three engagement announcements on portfolio firm value, we estimate a market model, using the value-weighted S&P 500 index as the market index. For all results in the section, the estimation window extends over the 255 trading days preceding the start of the event window. In unreported results, we find that our results are qualitatively similar using either the Fama-French or Carhart four-factor asset pricing models. A significant challenge in the

event study analysis is pinning down the actual date of the event; i.e., the date each portfolio firm was revealed to be an engagement target. We downloaded and carefully read engagement and stewardship reports dating back to 2014, 2017, and 2018 for State Street, Vanguard, and BlackRock, respectively. We designated the event window corresponding to the date each report was first made publicly available, based on the content of the report as well as FACTIVA and news wire searches. However, we were still unable to clearly establish the publication dates for all the Big Three engagement reports in the sample. Table A.1 in the Internet Appendix lists the publication dates for the various documents we assembled for State Street, Vanguard, and BlackRock in Panels A, B, and C, respectively. Vanguard issued a press release each time it released its engagement summary, allowing us to determine the event date for each of its reports. However, we are only able to extract the date for one State Street and BlackRock publication each (the 2015 and 2018 reports, respectively).[14]

A potential objection to an event study analysis of engagements is that the disclosure of targets may not represent new information—these engagements often occurred months before the Big Three's publication of stewardship reports. However, this is unlikely to affect the motivation for this section's event study for two reasons. First, the engagements we study are, by definition, *private* between the Big Three and portfolio managers: they are not publicly disclosed to the market till the publication of stewardship reports. Second, we show in section 5 that traditional corporate governance measures and financial underperformance do not predict the probability of a portfolio firm being engaged. Therefore, it is unlikely that Big Three engagement is preemptively priced in by the market.

[14] We are also unable to incorporate the 2022 Vanguard report into the event study analysis, since the CRSP data had not been updated till the relevant event date as of the time of our empirical analysis.

Table 3 present the results of the event study for State Street, BlackRock, and Vanguard, respectively. We regress cumulative abnormal returns against an indicator for whether the company was designated as an engagement target in the specific asset manager's report(s). The regression includes industry fixed effects (proxied by the three-digit Standard Industrial Classification (SIC)), and standard errors are clustered at the industry level. Broadly speaking, engagements seem to have a negative effect on firm value at targeted portfolio firms: the coefficients across event windows for all managers are mostly negative. However, none of these coefficients is significantly different from zero for State Street.

In contrast, the coefficient is negative and highly significant for all event windows for the BlackRock engagement report, barring the [-3,3] event window. The magnitude—60 basis points for the [-1,1] window—is modest. Finally, examining Vanguard, the coefficient is significant and implies a 20 (10) basis point reduction in cumulative abnormal returns for the [-1, 0] ([0]) window. However, the coefficient is not significant for other event windows examining the price effect of Vanguard engagements. Collectively, the results indicate that Big Three engagements have a small negative effect on portfolio firm value. However, this effect is limited to BlackRock and Vanguard, with State Street engagements not indicating any relationship with abnormal returns. Moreover, the effect seems transitory, concentrated in the [-2,2] window for BlackRock and the day of the event (i.e., [0]) itself for Vanguard. Finally, the price effect of Big Three engagements is modest, ranging from 10 to 60 basis points depending on the asset manager and event window. The event study thus finds limited support for the notion that engagements lead to value destruction at targeted portfolio firms.[15]

[15] One may argue that we ignore the portfolio level impact of engagement in a firm-specific event study. We offer two counterarguments. First, empirically, we are unable to document "portfolio" level abnormal returns that are statistically significant to the firm-specific events we examine when we consider engagement with the mega-cap companies (equity capitalization greater than $250 billion). "Portfolio" is defined as all firms that a specific asset manager, say BlackRock,

5. Is Big Three Engagement Related to Shareholder Value?

Big Three asset managers are bound by fiduciary law, as well as their internal policies articulated in public documents, to focus on financial returns when selecting targets for engagement. Therefore, in this section, we examine if engagement targets are more likely to be financial laggards. Table 4 estimates a linear probability model, with the dependent variable equaling 1 if the firm is engaged by State Street, BlackRock, or Vanguard, with results for each asset manager presented in a separate panel. All specifications include firm and industry-year fixed effects, with standard errors clustered at the firm level. The key variable of interest is the portfolio firm's abnormal returns over the preceding year, estimated using the market model. If engagement targets are selected using financial performance as a primary consideration, prior-year abnormal returns ought to be negatively and significantly correlated with the likelihood of a Big Three engagement at a given portfolio firm.

However, Table 4 overall tells a story of Big Three engagement target selection being virtually unrelated to portfolio firm performance. Asset managers instead seem to be driven by heuristics such as the extent of their ownership stake in the firm and the size of the CEO's total compensation package. In all three panels, the baseline in column (1) only controls for the following variables: the share of the company owned by the asset manager, the portion of the asset manager's portfolio represented by the firm, and the previous-year abnormal returns. Column (2) adds the firm financial, corporate governance, and social responsibility variables listed previously in section 3. Irrespective of the asset manager, and regardless of whether we add additional controls, the likelihood that any given portfolio company is targeted for engagement seems unrelated to its

has an ownership stake in the U.S. We focus on mega caps as an interview with a senior stewardship officer suggested that "if we engage with the mega/large caps in an industry and compel them toward practices that will protect long term value, we expect that the mid-cap and smaller-cap companies will follow suit, once the large companies raise the bar for the entire market." Second, it is hard to attribute any portfolio level abnormal return, even if we had found any, to Big Three intervention, when the firm-specific return to a specific engagement is statistically zero.

financial performance. The coefficient associated with prior-year abnormal returns is not significant in any specification. The exception is the baseline model for BlackRock, where the coefficient is *positive* and significant at the 10% level—the opposite sign from what we would expect if Big Three institutional investors were engaging with firms that were failing to deliver value for their clients.[16]

The asset manager's ownership of a portfolio firm is a far more salient predictor of engagement than the company's financial performance. The baseline regressions for engagement target selection show that all three asset managers are more likely to engage with a firm if their ownership stake in the company is larger. Because asset managers are passive investors, this finding cannot be explained by the Big Three buying a larger stake in a firm to subsequently engage with management and change corporate governance. A more plausible explanation for the significant association between Big Three ownership and engagement is that these portfolio companies may think they have a higher chance of changing corporate governance at firms where they have larger stakes and can more credibly threaten management.

Alternatively, such portfolio firms may be more *familiar* to asset managers. There is a longstanding literature in finance showing that investment activities are driven by prior familiarity between investors and firms (Bailey et al. 2011, Huberman 2001). The Big Three could similarly know more about firms they have greater voting power in and choose to engage with their management. Another conjecture is that these are cases of reverse engagement. That is, firms with a large ownership stake by a specific asset manager engage with that manager as opposed to the

[16] Return on assets, which as an accounting measure of profit could be seen as another proxy for firm performance, also does not have a significant coefficient for engagement by State Street or Vanguard. The coefficient is negative but only marginally significant in the case of State Street.

other way around. The publicly available engagement reports do not distinguish between company-initiated and asset manager-initiated engagement.[17]

The large asset managers also seem to account for CEO compensation when determining engagement targets. The coefficient for the natural logarithm of CEO total compensation is positive and significant for each of the asset managers. This association is consistent with the Big Three's numerous policy statements decrying excessive executive compensation and promising to engage with firms that pay their top management too highly. It is also similar to the previous finding that engagement is correlated with Big Three firm ownership: both asset manager ownership and absolute CEO compensation are easily measurable and available heuristics that can be used to select engagement targets. Given that, as discussed in section 2, each of the Big Three hire fewer than 15 people to run their U.S. engagements, it may not be surprising that their target selection is based on such relatively easy to access data points.

A notable feature of the results in Table 4 is that a host of factors conventionally considered to be important for corporate governance (Bebchuk et al. 2009) seem wholly unrelated to Big Three engagement. For instance, poison pills, CEO golden parachutes, and greenhouse gas emissions are unrelated to engagement for all three asset managers. The last of these insignificant relationships is especially striking, given asset managers' repeated references to climate change and fossil fuels in their stewardship reports and prior literature claiming that engagement is related to firm emissions (Azar et al. 2021). However, Table 4 shows that BlackRock and Vanguard are significantly more likely to engage a portfolio company that has a dual class structure. This is consistent with

[17] We also re-run Table 4's model for the determinants of engagement separately for firms with above- and below-median ownership stakes for each of the Big Three, separately for each asset manager. We continue to find no correlation between engagement and prior-year financial returns for any of the Big Three, for both subsamples of firms with below- and above-median ownership stakes of the Big Three.

institutional investors' public opposition to dual class arrangements that give founders and other controllers voting power disproportionate to their economic interests in the firm (Winden 2018).

Assessing the relationship between Big Three engagement and financial returns could neglect the possibility that engagement targets are systematically different from other firms. Therefore, we re-run the analysis in this section on a matched sample. For each engaged firm, we find a "nearest neighbor" non-engaged firm based on natural logarithm of firm size, return on assets, industry, and year. The results, presented in Table A.2. in the Internet Appendix, confirm that the Big Three do not target financial underperformers in their engagement efforts. In none of the six specifications, spanning the engagement efforts of all three asset managers, is the coefficient for engagement negatively related to prior-year abnormal returns. The non-association of engagement with portfolio firm financial performance hence persists in matched sample analysis.

To excavate a possible relationship between engagement and value, we take a more granular approach to the engagement dataset in two ways. First, we re-run the model for the determinants of engagement target selection for what we classify as *common engagements*. We call firm *i* a common engagement in year *t* if each of BlackRock, Vanguard, and State Street select that firm for engagement in *t*. By definition, this analysis begins in 2019, the first year for which we have data from all three asset managers. If engagements were determined by value considerations, we would expect such a relationship to be especially amplified for companies whose corporate governance precipitated outreach by each of the Big Three asset managers. Therefore, common engagements are the types of firms where we should see a significant correlation between engagement and prior return.

Table 5 presents the results for a linear probability model where the dependent variable equals 1 if a firm was a common engagement. We control for the average Big Three ownership in the

portfolio firm as well as the average share of the asset managers' holdings represented by the firm. Once again, our main result persists, and we find no evidence that even common engagements have any relation to wealth maximization or value creation. This null effect persists in untabulated results when we re-run the analysis separately for BlackRock, Vanguard, and State Street, controlling for that particular asset manager's ownership of the firm and the share of its assets under management represented by the individual company. The only notable new insight from analyzing common engagements is that the Big Three seem to be less likely to engage portfolio companies with female directors on the board, though this correlation is only marginally significant ($p<0.1$).[18]

A second way in which we take a closer look at engagements is to disaggregate Big Three engagements driven by environmental, social, and governance objectives. Starting in 2021, two of the asset managers—BlackRock and State Street—have categorized each of their interventions as fitting "E," "S" or "G." We re-run the target selection model for BlackRock and State Street separately for each of these three categories for both BlackRock and State Street. The results, presented in Table A.3. in the Internet Appendix, show that the non-correlation between engagement and financial return is impervious to which of the three broad categories the engagement belongs to. In fact, in several of these models, prior-year financial returns have a *positive* and significant coefficient, the opposite sign from what one would expect if the asset managers were targeting financial underperformers.

Our analysis of Big Three engagement practices reveals that a portfolio company's selection as target appears to have little to do with its financial returns or ability to deliver value for the asset managers' clients. Instead, Big Three engagements seem correlated with the extent of their

[18] The common engagement analysis in Table 5 suggests that the Big Three are significantly *less* likely to engage a portfolio firm with a poison pill, which is the reverse of what one may expect if the asset managers were targeting companies with suboptimal corporate governance.

ownership stake in the firm and the CEO's total compensation. The analysis provides some evidence that the Big Three are more likely to engage firms with dual class structures, and less likely to engage firms with female directors on the board. A host of factors typically considered important in corporate governance and Big Three policies, including firm greenhouse gas emissions, are unrelated to the company's selection for engagement. Collectively, the results indicate that Big Three engagements are not grounded in the wealth maximization norm prescribed by fiduciary law.

6. Do the Big Three Punish Management at Engagement Targets?

The previous section explored the determinants of Big Three engagements. This section investigates their consequences. Table 6 estimates a linear probability model for whether the Big Three voted against the portfolio firm management's proposal. The data is at the proposal level. The key variable of interest is whether the asset manager engaged with the portfolio firm in the previous year. We include firm, fund, proposal type, and industry-year fixed effects. If engagements signal the asset manager's concern or discontent over corporate governance at the firm, it is reasonable to expect that these activities would be followed by increased Big Three voting against management on proposals at shareholder meetings. Results for each asset manager are presented in a separate panel.

In each of the three panels, column (1) simply regresses the dummy for voting against management against the indicator for whether the asset manager engaged the firm in the previous year. Column (2) adds controls for corporate governance variables, and column (3) further controls for firm financials. Columns (4), (5), and (6) specifically focus on Big Three votes on "say on pay" proposals on executive compensation. Since the previous section found that asset managers' target selection is significantly related to CEO compensation, one may think that the Big Three are more likely to vote "no" on say on pay proposals at engaged companies. The controls in these columns are analogous to those in columns (1) through (3).

In this section, we focus on Big Three votes on *all* proposals at shareholder meetings, whether they were brought forth by shareholders or management. The key question is whether the Big Three abide by management's recommendation, irrespective of who formulated the given proposal. Our basic results remain unchanged if we instead focus on the subset of "management proposals" that are initiated by managers.

The basic takeaway from these tables is that Big Three asset managers do not punish portfolio firms with which they engage; they do not become more likely to subsequently vote against management recommendations on proposals or specifically on say-on-pay. In columns (1) through (3), which relate to all proposals at shareholder meetings, none of the coefficients for prior-year engagement are positive and significant, as we would expect if asset managers were to punish management. Interestingly, for Vanguard, the coefficient is negative and significant. In other words, Vanguard becomes *less* likely to vote against management at portfolio firms the year after engaging with them. However, this coefficient is only significant in the baseline specification for Vanguard. Similarly, this coefficient is negative and significant for BlackRock in column (3) when we include all controls, but only the significance is only marginal ($p<0.1$). For columns (4) through (6), focusing exclusively on say on pay proposals, the coefficient for prior-year engagement is not positive and significant for any of the specifications for each of the three asset managers.

One caveat applies to the results in this section: engagement targets may have addressed governance concerns after being contacted by the asset manager. In exchange for prompt corrective or corrective action, the Big Three could have decided not to vote against the management, or even become more likely to follow the managerial position on proposals. While we cannot completely rule out this possibility, it is unlikely that asset managers refuse to punish firm management or become less likely to vote against them because of concrete corporate governance changes in response to

engagement. The sorts of issues engagements are focused on—climate change, board diversity, staggered boards—are difficult to resolve overnight. It is not very plausible that the portfolio firm response to the concern flagged in an engagement is substantive and far-reaching enough for the asset manager to become more likely to vote with management in the next year. The implausibility of this channel becomes clearer after considering the results of the next section, which shows that engaged firms do not significantly change measurable corporate governance outcomes or financial performance after being targeted by the Big Three.

A more plausible institutional story that can be told from the results in Table 6 is that Big Three personnel take a "checklist" approach to handling engagements. Not only is the selection of engagement targets unrelated to shareholder value (as section 5 argued), but the follow-up to engagement is not completely focused on improving governance or holding management accountable. We were told by our industry interviewees that it might be far easier for the understaffed Big Three departments handling U.S. engagements, numbering 15 or fewer at each asset manager, to classify an engagement as successfully concluded based on assurances in an email exchange with management rather than concrete changes to board composition or CEO compensation. This explanation is consistent with both the lack of empirical correlations in this section as well as our analysis of the staffing of Big Three engagement teams and informal conversations with individuals closely associated with engagement activities. The voting results thus indicate that the Big Three do not become any more likely to punish engagement targets by subsequently voting against management.

7. Does Engagement Spur Corporate Governance Changes at Portfolio Firms?

Engagement could have effects that extend beyond a change in Big Three voting behavior: engaged portfolio firms could alter their corporate governance characteristics to comport with asset

managers' ideas of optimal corporate governance. In this section, we estimate whether engagement by a Big Three asset manager in year *t* is associated with a change in portfolio firm governance in *t*+1. We focus on three corporate governance variables shown by the results in section 5 to predict Big Three engagement: CEO compensation, dual class stock structure, and the indicator for whether the firm has at least one female director. These variables have theoretical relevance to corporate governance (Bebchuk et al. 2009, Green and Hand 2021, Zhang 2020) and are emphasized throughout the stewardship policies of the Big Three. If asset manager engagement affected portfolio firm governance, we would expect engaged firms to reduce CEO compensation, increase female board representation, or become less likely to have dual class structures.

Table A.4. in the Internet Appendix estimate linear probability models where the dependent variable is CEO compensation or the indicators for dual class or female directors in the year after engagement.[19] We estimate results separately for each of the Big Three. Odd-numbered columns present the baseline model, where we only control for the engagement dummy, prior-year abnormal returns, the asset manager's ownership stake, and the percentage of the asset manager's portfolio represented by the firm. Even-numbered columns add the other control variables used elsewhere in the paper. To ensure that engagement is not simultaneous with financial and corporate governance variables, we code these controls for the year prior to the engagement (and two years before the observed values of CEO pay, dual class structure, or board gender diversity).

The three tables do not provide any strong evidence for the hypothesized effects of engagement on firm corporate governance. State Street and Vanguard engagements in year *t* are positively

[19] A possible objection to our use of dual class stock as an outcome variable is that multiple shares of stock are usually permitted by the corporate charter, which is formalized at the time of the IPO. However, many dual class firms have "sunset clauses" wherein the controller can voluntarily convert her superior voting shares to low-voting stock (Fisch and Solomon 2019). It is therefore conceivable that Big Three engagements can pressure a dual class controller to convert her shares and abandon the system of multiple shares of common stock.

associated with subsequent female board representation, but solely for the baseline model. This correlation disappears once we add the standard set of firm controls. Moreover, the baseline model in Table 15 shows that BlackRock engagement has a negative and significant relationship with subsequent female board representation. In the full model, prior-year BlackRock engagement has a negative association with subsequent CEO compensation, but the relevant coefficient is marginally significant ($p<0.1$).

Overall, Table A.4. does not support a coherent story of Big Three engagement improving salient corporate governance characteristics. The non-correlation between Big Three engagement and subsequent corporate governance outcomes persists if we measure CEO compensation, dual class structure, and board gender diversity three, rather than one, years after engagement. Finally, our industry interviewees suggested that Big Three engagements are most likely to have an impact on corporate governance at smaller firms. Their intuition is that managers at smaller firms may be more threatened by engagements initiated by the Big Three, and eager to respond with governance changes. However, when we repeat this section's empirical analysis for firms of below-median size, we continue to find no correlation between engagement in year t and any of the corporate governance outcomes at $t+1$.

Even if Big Three engagements do not move the needle on any of the three corporate governance variables that are significantly related with target selection, engagements could nevertheless improve firm performance and increase value through other channels. To test this hypothesis, we examine abnormal returns in the twelve months following engagements. Table A.5. in the Internet Appendix presents the results of this regression model, with two columns showing the baseline and full specifications detailed earlier in this section for each of the asset managers. Regardless of the use of controls or which asset manager we examine, engagement is virtually

uncorrelated with subsequent financial return. Therefore, the Big Three do not seem to spur value creation at targeted firms through channels other than observable changes in corporate governance outcomes such as CEO pay, dual class structures, and board gender diversity.

8. Robustness: Evidence from Index Reconstitutions

One concern with the preceding analysis could be that the decision to engage a firm is endogenously determined by unobservable factors, and this endogeneity explains the lack of correlation to financial performance, rather than any flaws in the Big Three's engagement activities. To account for this possibility, we first establish a causal link between Russell index reconstitutions and Big Three engagements. As a first stage result, we explore the relationship between index reconstitution and the number of Big Three engagements at a portfolio company for 2019-22, the period for which we have engagement data from each of the asset managers. We find that portfolio firms that get reassigned from the bottom of the Russell 1000 index to the top of the Russell 2000 index (and thus gain more institutional ownership) face significantly more Big Three engagements ($p = 0.01$). This first stage result showing that an exogenous rise in Big Three ownership leads to an increase in engagement is notable given that the actual magnitude of the ownership increase is modest. A stock reassigned from the Russell 1000 index to Russell 2000 index experiences an increase in the average ownership stake by individual Big Three asset managers of 1.52 percentage points and an increase in the average total Big Three holding of 3.21 percentage points. In the second stage, we test whether the reassignment-driven increase in engagement translates to a change in the corporate governance and voting outcomes of interest. We continue to find that these firms do not improve on corporate governance outcomes and do not see Big Three asset managers become more likely to vote against managers on proposals at shareholder meetings. The second stage results also show that treated firms do not exhibit superior subsequent financial returns.

As a separate robustness test to validate the causal nature of our findings, we instrument the number of Big Three engagements using reassignment to the Russell 1000 and 2000 indices. We control for the natural logarithm of market cap (calculated as of May each year), as well as its squared and cubed metrics, and apply year fixed effects (Appel et al. 2019):[20]

$$Engagement\ Count_{it} = \alpha + \beta R1toR2_{it} + \gamma R2toR1_{it} + \sum_{k=1}^{3} \theta_k \big(ln(market\ cap_{it})\big)^k + \delta_t + u_{it}$$

We continue to find that firms pushed to the Russell 2000 index experience more Big Three engagements but do not see any change in corporate governance, Big Three voting against management, or financial returns. The sole exception seems to be the proportion of female directors: the second-stage result for the instrumental variable analysis shows that Big Three engagement is followed by an increase in female board representation, but the effect is marginally significant (p<0.1). Tables 7 and 8 show the results of the two robustness tests using index reconstitutions to generate exogenous variation in Big Three holdings. The evidence from Russell index reconstitutions provides further evidence that engagements are not associated with subsequent improvements in corporate governance.

9. Conclusion

We use a novel hand-collected dataset compiling all disclosed Big Three engagements at portfolio companies. In theory, engagement represents a tangible way for the largest asset managers to influence corporate governance at firms beyond the exercise of their voting power. Both principles of fiduciary law and the Big Three's publicly announced internal policies should lead asset

[20] We deviate from Appel et al. (2019) by excluding an indicator for being in Russell 2000 index last year, as our main instrument are not the membership into Russell 2000 index in the current year but (as in Heath et al. (2022)) indicators for switches from Russell 1000 index to Russell 2000 index, and an indicator for switches from Russell 2000 index to Russell 1000 index.

managers to structure engagement efforts to maximize wealth for their clients as shareholders of the portfolio firms. The core empirical effort of the paper is to investigate whether Big Three engagement complies with this legal and policy requirement to zealously maximize value.

We first use an event study methodology to evaluate the price effect of Big Three engagements. The revelation that a portfolio firm is targeted for engagement leads it to exhibit negative abnormal returns. However, the magnitude of value destruction is tiny, ranging from 10 to 60 basis points, and transient, concentrated in the days immediately around the public revelation of the engagement effort. Moreover, the abnormal returns are not significantly different from zero for engagements by State Street.

Next, we find that the selection of portfolio firms for engagement is virtually unrelated to their financial performance, as measured by abnormal returns over the prior year. Instead, engagement is significantly correlated with the extent of the asset managers' ownership stake in the firm and the CEO's total compensation. Both these variables are easily available heuristics that can be used by the Big Three's understaffed stewardship teams to select engagement targets. Finally, we find no evidence that the Big Three punish engagement targets by subsequently becoming more likely to vote against management on proposals. In fact, there is some evidence that BlackRock and Vanguard become *less* likely to vote against management the year after they select a portfolio company for engagement. Our preferred interpretation of this finding, backed by interviews with industry participants, is that Big Three personnel adopt a "checklist" approach and classify an engagement as successful after potentially cursory gestures or communications from management. This allows the asset manager to not punish management after the engagement.

There is no strong evidence that engagement changes subsequent corporate governance outcomes or financial performance for portfolio firms. Companies do not reduce CEO compensation, increase female board representation, or become less likely to have dual class

structures after being targeted for engagement by the largest asset managers. Engagement is uncorrelated with targeted firms' subsequent abnormal returns. Using plausibly exogenous variation in Big Three holdings in portfolio firms from Russell index reconstitutions, we continue to find that engagements are not linked with improvements in corporate governance, apart from some weak evidence that engagement may increase female board representation.

We emphasize that our results do not imply that institutional investors cannot play a salutary role in corporate governance, or even that their engagement activities cannot possibly be grounded in client wealth maximization. Instead, our analysis is a description of Big Three engagement as it has been conducted till today. For instance, nothing prevents BlackRock from expanding its U.S. engagement team beyond its current strength of under 15 individuals. We thus echo Bebchuk and Hirst (2021), who assert that the current lack of effective stewardship "should not be regarded as a given fact of nature, but rather as the product of choices made by the Big Three managers." We take no position on the optimal extent of Big Three involvement in corporate governance or engagement with portfolio firms. Moreover, we cannot entirely rule out a "displacement effect," wherein the lack of value-oriented engagement is negated by the Big Three's efforts in other ways, or that secular trends in the market (such as the rise in the number of female directors) are driven by asset manager engagements with a subset of firms. It is also possible that the Big Three believe that the changes in governance that they emphasize are the "right thing to do" in a fiduciary sense without ascertaining whether such engagement has moved the needle in the past. Our analysis, however, provides strong empirical support for the notion that the Big Three's current engagement practices are not focused on targeting underperforming firms or maximizing value for their clients.

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Table 1. Variable Definitions

	Definition	Source
BlackRock Engagement Indicator	Equals one if the U.S. domestic firm is included in BlackRock engagement reports, zero otherwise	*BlackRock Engagement Reports (manual checks).*
Vanguard Engagement Indicator	Equals one if the U.S. domestic firm is included in Vanguard engagement reports, zero otherwise	*Vanguard Engagement Reports (manual checks).*
SSGA Engagement Indicator	Equals one if the U.S. domestic firm is included in State Street engagement reports, zero otherwise	*State Street Engagement Reports (manual checks).*
(t-1) year abnormal returns	Abnormal returns from the prior year, using a market model.	*CRSP.*
(t+1) year abnormal returns	Abnormal returns from the subsequent year, using a market model.	*CRSP.*
Ln(Scope 1+Scope 2 GHG emissions)	Natural logarithm of the sum of Scope1 and Scope 2 Green House Gases emissions	*TrueCost.*
Book-to-Market	The ratio of book value to market value of equity.	*Compustat.*
PP&E/Assets	Net PP&E divided by total assets.	*Compustat.*
Sales per Employee	Total sales divided by the number of employees.	*Compustat.*
Ln(Total CEO Compensation)	Natural logarithm of the total CEO compensation (TDC1)	*ExecuComp.*
Poison Pills	Indicator of one if the firm has a visible poison pill.	*ISS*.
CEO Golden Parachute	Indicator of one if the CEO has a golden parachute.	*ISS*.
Dual Class Indicator	Indicator for whether the firm has dual class stock structure.	*ISS*.
S&P 500	Indicator if the firm is in the S&P 500 index.	*ISS*.
Female Directors on	Indicator of one if the corporate board as at	*BoardEx.*

Board	least one female director.	
Violation Tracker Penalty Indicator	An indicator of one if the firm has a penalty above $500,000 for the current year.	*Violation Tracker.*
Common Engagement by Big Three	An indicator at the firm level defined as one if each of State Street, Black Rock and Vanguard engaged with that firm for that given year.	*Engagement Reports for SSGA, BlackRock and Vanguard.*
R2-to-R1 Indicator	Defined as one if the firm switches from Russell 2000 index to Russell 1000 index in the relevant year, zero otherwise.	WRDS FTSE/Russell.
R2-to-R1 Indicator	Defined as one if the firm switches from Russell 1000 index to Russell 2000 index in the relevant year, zero otherwise.	WRDS FTSE/Russell.
Post	Equal one in years t, t+1, and t+2 where t is the year of the reconstitution, zero for years t-3, t-2, and t-1. It is defined separately for R2-to-R1 indicator and R1-to-R2 indicator.	WRDS FTSE/Russell.

Table 2. Summary Statistics for Main Variables

Panel A. Number of engagements.

Main Variables:	Number of Engagements
Engagements, *State Street* 2014	297
Engagements, *State Street* 2015	307
Engagements, *State Street* 2016	320
Engagements, *State Street* 2017	254
Engagements, *State Street* 2018	465
Engagements, *State Street* 2019	399
Engagements, *State Street* 2020	402
Engagements, *State Street* 2021	251
Engagements, *State Street* 2022	316
Engagements, *BlackRock* 2018	596
Engagements, *BlackRock* 2019	566
Engagements, *BlackRock* 2020	920
Engagements, *BlackRock* 2021	905
Engagements, *BlackRock* 2022	1,034
Engagements, *Vanguard* 2019	629
Engagements, *Vanguard* 2020	538
Engagements, *Vanguard* 2021	726
Engagements, *Vanguard* 2022	651

Panel B. Average CARs.

Main Variables:	CAR (-3,3)	CAR (-2,2)	CAR (-1,1)	CAR (-1,0)	CAR (0,0)	CAR (0,1)
State Street Report 2015	0.06%	0.06%	0.06%	0.02%	0.03%	0.06%
BlackRock Report 2018	-0.26%	-0.37%	-0.17%	-0.10%	-0.08%	-0.15%
Vanguard Report 2019	0.18%	0.10%	0.06%	0.01%	0.03%	0.07%
Vanguard Report 2020	-0.22%	0.01%	-0.02%	0.03%	0.05%	0.00%
Vanguard Report 2021	-0.04%	0.00%	-0.11%	-0.09%	-0.10%	-0.12%

Panel C. Propensity to vote against management.

	State Street	BlackRock	Vanguard
Percent of cases voting against management proposal	8.79%	5.21%	3.60%

Panel D. Control variables (per each investor panel.)

Sample for *State Street*	N	Mean	Std. Dev.
Share of Company Owned by *State Street*	32,902	.02	0.02
Share of *State Street* Portfolio Invested in Company	32,902	0	0.00
Staggered Board	32,902	.27	0.45
Debt Ratio	23,770	.26	0.26
Cash Ratio	28,687	.15	0.20
Ln (Assets)	29,140	7.09	2.11
ROA	26,054	-.05	0.37
(t-1) year abnormal returns	32,902	.03	0.77
Ln(Scope2 GHG emissions)	13,831	10.41	2.85
Book-to-Market	32,765	1	0.08
PP&E/Asset	28,393	.2	0.24
Sales per Employee	22,307	569.57	930.38
Ln(Total CEO Compensation)	14,573	8.47	0.95
Poison Pills	32,902	.01	0.12
CEO Golden Parachute	32,902	.29	0.45
Dual Class Indicator	32,902	.02	0.15
S&P 500	32,902	.12	0.33
Female Directors on Board	32,902	.8	0.40
Violation Tracker Penalty Indicator	32,902	.05	0.21

Sample for *BlackRock*	N	Mean	Std. Dev.
Share of Company Owned by *BlackRock*	19,036	.06	0.05
Share of *BlackRock* Portfolio Invested in Company	19,036	0	0.00
Staggered Board	19,036	.2	0.40
Debt Ratio	14,102	.28	0.27
Cash Ratio	16,740	.16	0.22
Ln (Assets)	17,006	7.13	2.15
ROA	15,359	-.07	0.40
(t-1) year abnormal returns	19,036	.09	0.86
Ln(Scope2 GHG emissions)	9,080	10.13	2.85
Book-to-Market	18,916	1	0.09
PP&E/Asset	16,582	.2	0.24
Sales per Employee	13,231	588.93	996.43
Ln(Total CEO Compensation)	8,036	8.59	0.94
Poison Pills	19,036	.01	0.08
CEO Golden Parachute	19,036	.3	0.46
Dual Class Indicator	19,036	.02	0.14
S&P 500	19,036	.12	0.33
Female Directors on Board	19,036	.85	0.35
Violation Tracker Penalty Indicator	19,036	.04	0.21

Sample for *Vanguard*	N	Mean	Std. Dev.
Share of Company Owned by *Vanguard*	15,485	.06	0.04
Share of *Vanguard* Portfolio Invested in Company	15,485	0	0.00
Staggered Board	15,485	.17	0.37
Debt Ratio	11,561	.28	0.27
Cash Ratio	13,649	.17	0.22
Ln (Assets)	13,863	7.13	2.17
ROA	12,549	-.08	0.37
(t-1) year abnormal returns	15,485	-.14	0.93
Ln(Scope2 GHG emissions)	7,206	10.06	2.87
Book-to-Market	15,344	1	0.10
PP&E/Asset	13,531	.19	0.24
Sales per Employee	10,845	588.19	1005.34
Ln(Total CEO Compensation)	6,398	8.62	0.94
Poison Pills	15,485	.01	0.08
CEO Golden Parachute	15,485	.3	0.46
Dual Class Indicator	15,485	.02	0.14
S&P 500	15,485	.12	0.33
Female Directors on Board	15,485	.88	0.33
Violation Tracker Penalty Indicator	15,485	.04	0.21

Table 3. Event Study for Announcements of the Engagement Report Publications

Panel A. *State Street*

This table shows the market-model-based cumulative abnormal returns in the event window around the date of the announcement and online publication of the "Annual Stewardship Report" for U.S. stocks by *State Street* on April 15, 2016. The *SSGA Engagement Indicator* variable is defined in Table 1. The cumulative announcement returns are based on a market model. We include industry fixed effects (SIC-3). T-statistics are displayed in parentheses. Standard errors are clustered at the SIC-3 industry level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	-3 to +3 Annc. Returns Market Model	-2 to +2 Annc. Returns Market Model	-1 to +1 Annc. Returns Market Model	-1 to 0 Annc. Returns Market Model	0 to 0 Annc. Returns Market Model	0 to +1 Annc. Returns Market Model
SSGA Engagement Indicator	-0.003	-0.002	-0.0005	-0.001	-0.001	-0.0004
	(-0.759)	(-0.495)	(-0.186)	(-0.583)	(-0.730)	(-0.264)
Constant	0.000**	0.000**	-0.000***	-0.000***	-0.000***	-0.000***
	(2.437)	(2.546)	(-4.797)	(-4.942)	(-3.859)	(-5.296)
Observations	7,035	7,035	7,035	7,035	7,033	7,034
R-squared	0.047	0.036	0.027	0.061	0.059	0.021
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel B. *BlackRock*

This table shows the market-model-based cumulative abnormal returns in six event windows around the date of the announcement and online publication of the "*BlackRock* Investment Stewardship Annual Report" for the universe of U.S. domestic stocks in CRSP dataset. The *BlackRock Engagement Indicator* variable is defined in Table 1. The cumulative announcement returns are based on a market model. We include industry fixed effects (SIC-3). T-statistics are displayed in parentheses. Standard errors are clustered at the SIC-3 industry level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
	-3 to +3 Annc. Returns	-2 to +2 Annc. Returns	-1 to +1 Annc. Returns	-1 to 0 Annc. Returns	0 to 0 Annc. Returns	0 to +1 Annc. Returns
VARIABLES	Market Model	Market Model	Market Model	Market Model	Market Model	Market Model
BlackRock Engagement Indicator	-0.003	-0.006**	-0.006***	-0.004**	-0.002**	-0.005***
	(-0.910)	(-2.360)	(-3.545)	(-2.207)	(-2.419)	(-4.065)
Constant	-0.002***	-0.003***	-0.001***	-0.001***	-0.001***	-0.001***
	(-8.646)	(-15.341)	(-8.711)	(-4.633)	(-7.150)	(-12.105)
Observations	7,156	7,156	7,156	7,156	7,156	7,156
R-squared	0.060	0.071	0.065	0.057	0.061	0.076
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C. *Vanguard*

This table shows the market model based cumulative abnormal returns in six event windows around the date of the announcement and online publication of the first "*Vanguard* Engagement Report" for the universe of U.S. domestic stocks in CRSP dataset. The *Vanguard Engagement Indicator* variable is defined in Table 1. The cumulative announcement returns are based on a market model. We include industry fixed effects (SIC-3). T-statistics are displayed in parentheses. Standard errors are clustered at the SIC-3 industry level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	-3 to +3 Annc. Returns Market Model	-2 to +2 Annc. Returns Market Model	-1 to +1 Annc. Returns Market Model	-1 to 0 Annc. Returns Market Model	0 to 0 Annc. Returns Market Model	0 to +1 Annc. Returns Market Model
Vanguard Engagement Indicator	-0.002	0.001	-0.002	-0.002**	-0.001***	-0.001
	(-0.742)	(0.428)	(-1.091)	(-1.976)	(-2.832)	(-0.806)
Constant	-0.000	0.000*	-0.000	-0.000	-0.000	-0.000*
	(-0.810)	(1.883)	(-1.471)	(-0.434)	(-0.614)	(-1.884)
Observations	23,639	23,639	23,639	23,639	23,639	23,639
R-squared	0.034	0.033	0.034	0.032	0.020	0.028
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4. The Determinants of Portfolio Company Engagement

Panel A. *State Street*

This table shows the propensity (linear probability model) of portfolio company engagement in *State Street*'s 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022 engagement reports from the universe of U.S. domestic stocks in CRSP dataset as of the corresponding years. We include firm and industry-year (SIC-3 x year) fixed effects. The control variables are defined in Table 1. Continuous variables are winsorized at 1% in each tail. The report includes engagements ending at the corresponding engagement reports date for 2014 through 2022. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
VARIABLES	*State Street* Engagement Indicator	*State Street* Engagement Indicator
Share of Company Owned by *State Street*	1.189***	0.327
	(5.509)	(0.439)
Share of *State Street* Portfolio in Company	44.655**	19.491
	(2.320)	(0.531)
Staggered Board		-0.032**
		(-1.967)
Debt Ratio		0.019
		(0.368)
Cash Ratio		-0.023
		(-0.323)
Ln (Assets)		0.045**
		(1.963)
ROA		-0.091*
		(-1.805)
(t-1) year abnormal returns	0.000	-0.005
	(0.227)	(-0.819)
Ln(Scope1 + Scope2 GHG emissions)		-0.000
		(-0.023)
Book-to-Market		-0.056
		(-1.305)
PP&E/Asset		-0.010
		(-0.097)
Sales per Employee		0.000
		(1.164)
Ln(Total CEO Compensation)		0.033***
		(3.143)

Poison Pills		-0.003
		(-0.043)
CEO Golden Parachute		-0.005
		(-0.229)
Dual Class Indicator		-0.060
		(-0.931)
S&P 500		0.120**
		(2.025)
Female Directors on Board		-0.021
		(-1.153)
Violation Tracker Penalty Indicator		0.004
		(0.196)
Observations	30,958	6,433
R-squared	0.473	0.517
Industry-Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel B. *BlackRock*

This table shows the propensity (linear probability model) of portfolio company engagement in *BlackRock*'s 2018, 2019, 2020, 2021, and 2022 engagement reports from the universe of U.S. domestic stocks in CRSP dataset as of the corresponding years. We include firm and industry-year (SIC-3 x year) fixed effects. The control variables are defined in Table 1. Continuous variables are winsorized at 1% in each tail. The report includes engagements ending at the corresponding engagement reports date for 2018 through 2022. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
VARIABLES	*BlackRock* Engagement Indicator	*BlackRock* Engagement Indicator
Share of Company Owned by *BlackRock*	1.005***	1.287***
	(6.270)	(2.981)
Share of *BlackRock* Portfolio in Company	-20.499	-71.766
	(-0.547)	(-1.149)
Staggered Board		0.023
		(0.755)
Debt Ratio		-0.040
		(-0.399)
Cash Ratio		0.047
		(0.346)
Ln (Assets)		0.001
		(0.02)
ROA		-0.015
		(-0.135)
(t-1) year abnormal returns	0.006*	-0.005
	(1.764)	(-0.478)
Ln(Scope 1+Scope 2 CO_2 emissions)		0.027
		(1.278)
Book-to-Market		0.064
		(0.835)
PP&E/Asset		-0.205
		(-0.933)
Sales per Employee		-0.000
		(-0.576)
Ln(Total CEO Compensation)		0.035**
		(2.26)
Poison Pills		-0.071
		(-0.814)
CEO Golden Parachute		-0.023
		(-0.54)

Dual Class Indicator		0.572*
		(1.88)
S&P 500		-0.055
		(-0.393)
Female Directors on Board		-0.027
		(-0.66)
Violation Tracker Penalty Indicator		0.005
		(0.16)
Observations	17,632	3,878
R-squared	0.561	0.606
Industry-Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C. *Vanguard*

This table shows the propensity (linear probability model) of portfolio company engagement in *Vanguard*'s 2019, 2020, 2021, and 2022 engagement reports from the universe of U.S. domestic stocks in CRSP dataset as of the corresponding years. We include firm and industry-year (SIC-3 x year) fixed effects. The control variables are defined in Table 1. Continuous variables are winsorized at 1% in each tail. The report includes engagements ending at the corresponding engagement reports date for 2019 through 2022. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
VARIABLES	*Vanguard* Engagement Indicator	*Vanguard* Engagement Indicator
Share of Company Owned by *Vanguard*	0.857***	2.064**
	(3.904)	(2.123)
Share of *Vanguard* Portfolio in Company	-37.936	-106.254*
	(-1.608)	(-1.921)
Staggered Board		-0.035
		(-1.093)
Debt Ratio		-0.036
		(-0.277)
Cash Ratio		-0.132
		(-0.847)
Ln (Assets)		0.027
		(0.467)
ROA		-0.112
		(-0.768)
(t-1) year abnormal returns	0.004	0.003
	(1.164)	(0.322)
Ln(Scope1+Scope2 GHG emissions)		-0.031
		(-1.012)
Book-to-Market		0.006
		(0.080)
PP&E/Asset		0.005
		(0.018)
Sales per Employee		-0.000
		(-0.502)
Ln(Total CEO Compensation)		0.031*
		(1.766)
Poison Pills		-0.407*
		(-1.761)
CEO Golden Parachute		-0.047

		(-0.864)
Dual Class Indicator		0.509***
		(2.995)
S&P 500		0.135
		(0.890)
Female Directors on Board		-0.010
		(-0.256)
Violation Tracker Penalty Indicator		0.017
		(0.443)
Observations	14,352	2,933
R-squared	0.570	0.673
Industry-Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5. Predictive Model for Common Engagements

This table shows the propensity (linear probability model) of portfolio company common (simultaneous) engagement by State Street, BlackRock and Vanguard. We define common engagement if State Street, BlackRock and Vanguard engage simultaneously the same company. The report includes engagements ending at the corresponding engagement reports date for 2019 through 2022. Standard errors are clustered at the firm level. T-statistics are displayed in parentheses. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
VARIABLES	Common Engagement by Big Three	Company Engagement by Big Three
Average Share of Company Owned by *Big Three*	0.071	-0.468
	(0.586)	(-0.562)
Average Share of *Big Three* Portfolio in Company	-48.286	-23.065
	(-0.869)	(-0.237)
Staggered Board		-0.009
		(-0.473)
Debt Ratio		-0.037
		(-0.357)
Cash Ratio		0.012
		(0.126)
Ln (Assets)		0.022
		(0.579)
ROA		-0.079
		(-1.103)
(t-1) year abnormal returns	0.000	-0.000
	(0.320)	(-0.007)
Ln(Scope1 + Scope2 GHG emissions)		0.007
		(0.414)
Book-to-Market		0.026
		(0.587)
PP&E/Asset		-0.080
		(-0.442)
Sales per Employee		0.000
		(0.452)
Ln(Total CEO Compensation)		0.019*
		(1.664)
Poison Pills		-0.824**
		(-2.173)
CEO Golden Parachute		-0.010
		(-0.256)

Dual Class Indicator		0.040
		(1.306)
S&P 500		-0.046
		(-0.471)
Female Directors on Board		-0.029*
		(-1.676)
Violation Tracker Penalty Indicator		0.021
		(0.732)
Observations	13,652	2,900
R-squared	0.550	0.620
Industry-Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 6. Voting Against Management After Engagement

Panel A. *State Street*

This table shows the propensity (linear probability model) of voting against the recommendations of portfolio company management following *State Street* engagement in the previous year. The sample period includes the years of available reports of *State Street* engagement (2014-2022) for U.S. domestic stocks (as available in the CRSP dataset. We include proposal type, fund, firm, and industry-year (SIC-3 x year) fixed effects. The control variables are defined in Table 1. Continuous variables are winsorized at 1% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	*State Street* Voting Against Management on All Proposals			*State Street* Votes No on "Say-On-Pay"		
Indicator for *StateStreet* Engaging	-0.001	0.001	0.002	0.007	0.009	0.006
Comp in Year Preceding Vote	(-0.253)	(0.261)	(0.417)	(0.746)	(0.805)	(0.460)
Fund-Specific Controls						
Percent of *State Street* Portfolio			-6.512			-21.754
Invested in the Company			(-0.831)			(-1.029)
Company-Specific Controls						
(t-1) year abnormal returns			0.002			0.004
			(0.840)			(0.447)
S&P 500			-0.002			-0.022
			(-0.093)			(-0.311)
Debt Ratio			-0.021*			-0.075*
			(-1.664)			(-1.673)
Cash Ratio			0.050**			-0.110
			(2.316)			(-1.365)
Ln (Assets)			-0.004			0.018
			(-0.614)			(0.801)
ROA			-0.006			-0.061
			(-0.278)			(-0.824)
Book-to-Market			0.005			-0.109**
			(0.349)			(-2.450)
PP&E/Asset			0.053			0.102
			(1.613)			(0.894)
Sales per Employee			0.000			0.000
			(0.037)			(0.207)
Company Governance Controls						
Percent of Company Owned by *State Street*		-0.261*	-0.209		-1.327**	-0.969

		(-1.732)	(-1.014)		(-2.237)	(-1.180)
Staggered Board		-0.005	-0.006		-0.002	-0.006
		(-0.939)	(-1.268)		(-0.112)	(-0.425)
Ln(Total CEO Compensation)		0.002	0.003		0.016*	0.011
		(0.900)	(1.085)		(1.728)	(1.127)
Poison Pills		0.017	0.022		-0.004	0.013
		(1.486)	(1.621)		(-0.137)	(0.384)
CEO Golden Parachute		-0.006	-0.012**		-0.016	-0.030
		(-1.274)	(-2.046)		(-0.937)	(-1.459)
Dual Class Indicator		0.008	0.003		0.036	0.063
		(0.436)	(0.180)		(0.661)	(0.766)
Company Environmental & Social Controls						
Ln(Scope1+Scope2 GHG emissions)		-0.001	0.000		0.003	-0.001
		(-0.428)	(0.100)		(0.231)	(-0.108)
Female Directors on Board		-0.019***	-0.022***		-0.044**	-0.067***
		(-3.288)	(-3.450)		(-2.002)	(-2.962)
Violation Tracker Penalty Indicator		-0.004	-0.004		-0.007	-0.014
		(-1.203)	(-1.181)		(-0.557)	(-0.908)
Observations	1,300,386	968,655	721,656	117,193	83,437	64,372
R-squared	0.262	0.256	0.249	0.496	0.533	0.569
Proposal Type Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Fund Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel B. *BlackRock*

This table shows the propensity (linear probability model) of voting against the recommendations of portfolio company management following *BlackRock* engagement in the previous year. The sample period includes the years of available reports of *BlackRock* engagement (2018-2022) for U.S. domestic stocks (as available in the CRSP dataset. We include proposal type, fund, firm, and industry-year (SIC-3 x year) fixed effects. The control variables are defined in Table 1. Continuous variables are winsorized at 1% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	*BlackRock* Voting Against Management on All Proposals			*BlackRock* Votes No on "Say-On-Pay"		
Indicator for *BlackRock* Engaging Comp in Year Preceding Vote	-0.001	-0.002	-0.007*	0.002	0.002	0.006
	(-0.440)	(-0.636)	(-1.719)	(0.270)	(0.235)	(0.422)
Fund-specific controls						
Percent of *BlackRock* Portfolio Invested in the Company			5.012			8.712
			(0.555)			(0.361)
Company-Specific Controls						
(t-1) year abnormal returns			-0.001			-0.018**
			(-0.184)			(-2.269)
S&P 500			0.015			0.128
			(0.467)			(1.273)
Debt Ratio			-0.029			-0.077
			(-1.499)			(-1.099)
Cash Ratio			-0.056**			-0.058
			(-2.019)			(-0.584)
Ln (Assets)			-0.001			0.030
			(-0.138)			(0.684)
ROA			-0.069**			-0.187*
			(-2.563)			(-1.904)
Book-to-Market			-0.004			-0.025
			(-0.193)			(-0.423)
PP&E/Asset			-0.069			0.074
			(-1.490)			(0.713)
Sales per Employee			0.000			0.000
			(0.908)			(1.468)
Company Governance Controls						
Percent of Company Owned by *BlackRock*		-0.001	0.103		0.543**	0.930***
		(-0.008)	(0.943)		(2.226)	(3.253)
Staggered Board		-0.005	-0.003		-0.051**	-0.038
		(-0.682)	(-0.372)		(-2.371)	(-1.619)
Ln(Total CEO Compensation)		0.002	0.005		0.005	0.002
		(0.680)	(1.347)		(0.540)	(0.180)

Poison Pills		0.052	0.052		0.148	0.149*
		(1.427)	(1.446)		(1.622)	(1.742)
CEO Golden Parachute		-0.010	-0.012		-0.028	-0.061
		(-0.807)	(-0.727)		(-0.754)	(-1.619)
Dual Class Indicator		0.217***	0.215***		-	-
		(10.561)	(9.149)		-	-
Company Environmental & Social Controls						
Ln(Scope1+Scope2 GHG emissions)		-0.007	-0.012*		-0.010	-0.014
		(-1.430)	(-1.905)		(-0.901)	(-0.991)
Female Directors on Board		0.002	-0.008		-0.019	-0.048**
		(0.334)	(-1.069)		(-0.846)	(-2.318)
Violation Tracker Penalty Indicator		-0.008*	-0.007		-0.011	-0.015
		(-1.874)	(-1.131)		(-0.838)	(-0.770)
Observations	1,583,021	1,149,990	868,087	144,456	98,494	76,743
R-squared	0.161	0.150	0.147	0.618	0.608	0.624
Proposal Type Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Fund Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C. *Vanguard*

This table shows the propensity (linear probability model) of voting against the recommendations of portfolio company management following *Vanguard* engagement in the previous year. The sample period includes the years of available reports of *Vanguard* engagement (2019-2022) for U.S. domestic stocks (as available in the CRSP dataset. We include proposal type, fund, firm, and industry-year (SIC-3 x year) fixed effects. The control variables are defined in Table 1. Continuous variables are winsorized at 1% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	*Vanguard* Voting Against Management on All Proposals			*Vanguard* Votes No on "Say-On-Pay"		
Indicator for *Vanguard* Engaging Comp in Year Preceding Vote	-0.006**	-0.002	-0.001	-0.017	-0.005	-0.002
	(-2.393)	(-0.733)	(-0.444)	(-1.439)	(-0.387)	(-0.138)
Fund-Specific Controls						
Percent of *Vanguard* Portfolio Invested in the Company			-0.796			-0.942
			(-0.098)			(-0.019)
Company-Specific Controls						
(t-1) year abnormal returns			-0.002			-0.018**
			(-1.213)			(-2.069)
S&P 500			-0.043*			0.052
			(-1.686)			(0.769)
Debt Ratio			0.014			0.098
			(0.736)			(1.062)
Cash Ratio			0.026			0.202*
			(1.249)			(1.806)
Ln (Assets)			-0.008			0.001
			(-1.052)			(0.010)
ROA			0.002			-0.018
			(0.102)			(-0.129)
Book-to-Market			-0.021*			-0.127*
			(-1.849)			(-1.916)
PP&E/Asset			-0.015			0.201
			(-0.462)			(1.476)
Sales per Employee			-0.000			-0.000
			(-1.365)			(-0.614)
Company Governance Controls						
Percent of Company Owned by *Vanguard*		0.049	0.110		0.069	0.280
		(0.665)	(0.812)		(0.149)	(0.429)
Staggered Board		0.002	0.001		-0.024	-0.012
		(0.363)	(0.196)		(-1.132)	(-0.508)

Ln(Total CEO Compensation)		-0.007***	-0.008***		-0.035***	-0.031***
		(-3.324)	(-3.173)		(-3.152)	(-2.709)
Poison Pills		-0.005	-0.009		-0.014	-0.026
		(-0.303)	(-0.571)		(-0.773)	(-0.971)
CEO Golden Parachute		-0.001	0.010		-0.030	-0.041
		(-0.159)	(0.922)		(-0.732)	(-0.774)
Dual Class Indicator		0.000	-0.008		-	-
		(0.006)	(-0.957)		-	-
Company Environmental & Social Controls						
Ln(Scope1+Scope2 GHG emissions)		-0.002	-0.001		0.010	0.016
		(-0.626)	(-0.323)		(0.642)	(0.896)
Female Directors on Board		-0.007	-0.007		-0.070**	-0.091**
		(-0.755)	(-0.656)		(-2.118)	(-2.294)
Violation Tracker Penalty Indicator		-0.001	-0.001		-0.007	-0.015
		(-0.324)	(-0.157)		(-0.514)	(-0.851)
Observations	1,045,237	714,138	539,561	98,742	63,465	49,542
R-squared	0.235	0.209	0.211	0.646	0.639	0.664
Proposal Type Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Fund Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry-Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7. Stacked Regression Model of Predicting Engagement

Panel A. Engagement as a consequence of being added to the Russell 2000 Index

This table shows the effect of the Russell 2000 to Russell 1000 index switches and the Russell 1000 to Russell 2000 index switches on the engagements count by big three investors over 2019-2022 (i.e., the common sample of available engagement data for the Big Three). We include industry-year-cohort fixed effects and firm-cohort fixed effects. We cluster the standard errors independently at the firm and year level. All control variables are defined in Table 1. The R1-to-R2 x Post coefficient estimate is significant at p=0.01. T-stats are shown in parentheses below the coefficient estimates. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)
VARIABLES	Engagements Count at (t+1)
R2-to-R1 x Post	0.077
	(0.663)
R1-to-R2 x Post	0.090**
	(5.835)
Observations	3,906
R-squared	0.684
Industry-Year-Cohort Fixed Effects	Yes
Firm-Cohort Fixed Effects	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel B. Governance Outcomes

This table shows the effect of the Russell 2000 to Russell 1000 index switches and the Russell 1000 to Russell 2000 index switches on log(Total CEO Compensation) at t+1 in column (1), female directorship indicator at t+1 in column (2), and dual class stock indicator at t+1 in column (3). We include industry-year-cohort fixed effects and firm-cohort fixed effects. We cluster the standard errors independently at the firm and year level. All control variables are defined in the Table 1. T-stats are shown in parentheses below the coefficient estimates. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)
VARIABLES	Log (Total CEO Compensation at t+1)	Female Directorship at t+1	Dual Class Stock at t+1
R2-to-R1 x Post	0.039	0.030	0.013
	(0.301)	(1.251)	(1.480)
R1-to-R2 x Post	-0.169	-0.014	0.010
	(-1.553)	(-2.021)	(1.101)
Observations	2,115	3,906	3,906
R-squared	0.853	0.681	0.882
Industry-Year-Cohort Fixed Effects	Yes	Yes	Yes
Firm-Cohort Fixed Effects	Yes	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C. Voting Outcomes

This table shows the effect of the Russell 2000 to Russell 1000 index switches and the Russell 1000 to Russell 2000 switches on the propensity to vote against management at t+1 in column (1), and on the propensity to vote No on "Say-on-Pay" at t+1 in column (2). We include proposal type-cohort fixed effects, industry-year-cohort fixed effects, fund-cohort fixed effects and firm-cohort fixed effects. We cluster the standard errors independently at the firm and year level. All control variables are defined in the Table 1. T-stats are shown in parentheses below the coefficient estimates. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
VARIABLES	Propensity to Vote Against Management	Vote No on "Say-on-Pay"
R2-to-R1 x Post	-0.013	-0.042
	(-0.964)	(-0.842)
R1-to-R2 x Post	-0.031	-0.155
	(-2.509)	(-2.486)
Observations	1,683,333	173,616
R-squared	0.193	0.606
Proposal Type - Cohort Fixed Effects	Yes	Yes
Industry-Year-Cohort Fixed Effects	Yes	Yes
Fund-Cohort Fixed Effect	Yes	Yes
Firm-Cohort Fixed Effects	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel D. Post-Engagement Returns

This table shows the effect of the Russell 2000 to Russell 1000 index switches and the Russell 1000 to Russell 2000 index switches on the average annual post-switch return at t+1 in column (1). We include industry-year-cohort fixed effects and firm-cohort fixed effects. Included but not shown are indicators for Post, R2-to-R1, and R1-to-R2. We cluster the standard errors independently at the firm and year level. All control variables are defined in the Table 1. T-stats are shown in parentheses below the coefficient estimates. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)
	Average Returns at t+1
VARIABLES:	
R2-to-R1 x Post	0.089
	(1.181)
R1-to-R2 x Post	0.184
	(0.975)
Observations	3,076
R-squared	0.618
Industry-Year-Cohort Fixed Effects	Yes
Firm-Cohort Fixed Effects	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 8. Instrumental Variable Regression Model of Predicting Engagement

Panel A. First-Stage: Engagement as a Function of Moving into Russell 2000 Index

In this table, we relate the engagement count by Big Three investors over 2019-2022 with the following variables that are used as instruments: R2-to-R1 indicator at time t (June each year), R1-to-R2 (June each year), log(market cap), log(market cap)^2, and log(market cap)^3. The market cap is calculated as of May each year. We include year fixed effects. We cluster standard errors at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

$$Engagement\ Count_{it} = \alpha + \beta R1toR2_{it} + \gamma R2toR1_{it} + \sum_{k=1}^{3} \theta_k \left(ln(market\ cap_{it})\right)^k + \delta_t + u_{it}$$

	(1)
	Propensity to Engage at t
VARIABLES:	
R2-to-R1	-0.016
	(-0.187)
R1-to-R2	0.139*
	(1.853)
Log(Market Cap)	-3.651*
	(-1.689)
Log(Market Cap)^2	0.145
	(1.447)
Log(Market Cap)^3	-0.002
	(-1.120)
Observations	10,654
R-squared	0.199
Year Fixed Effects	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel B. Second-Stage: Governance Outcomes

In this table, we relate the instrumented engagement count by Big Three investors over 2019-2022 (using the instruments from Table 8, Panel A) with the following variables: (1) log(Total CEO Compensation) at t+1, (2) Female Board Participation at t+1; (3) dual class stock indicator at t+1. As instruments we use: R2-to-R1 indicator at time t (June each year) and R1-to-R2 indicator at time t (June each year). We further include as control variables log(market cap), log(market cap)^2, and log(market cap)^3. The market cap is calculated as of May each year. We include year fixed effects. We cluster standard errors at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)
VARIABLES	Log(Total CEO Compensation at t+1)	Female Board Participation at t+1	Dual Class Stock at t+1
Instrumented Engagement Count	1.617	0.071*	0.185
	(1.114)	(1.662)	(1.086)
Observations	4,444	10,654	10,654
Model F-statistic (p-value)	54.01 (0.00)	15.48 (0.00)	7.56 (0.00)
Year Fixed Effects	Yes	Yes	Yes

Robust z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel C. Second-Stage: Voting Outcomes

In this table, we relate the instrumented engagement count by Big Three investors over 2019-2022 (using the instruments from Table 8, Panel A) with the following variables: (1) Propensity to Vote Against Management at t+1, (2) Vote No on "Say-on-Pay" at t+1. As instruments we use: R2-to-R1 indicator at time t (June each year) and R1-to-R2 indicator (June each year). We further include as control variables log(market cap), log(market cap)^2, and log(market cap)^3. The market cap is calculated as of May each year. We include proposal type fixed effects, year fixed effects, and fund ID fixed effects. We cluster standard errors at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
VARIABLES	Propensity to Vote Against Management	Vote No on "Say-on-Pay"
Instrumented Engagement Count	0.015	-0.083
	(0.167)	(-0.190)
Observations	2,370,450	218,160
Model F- statistics (p-value)	5.24 (0.00)	2.75 (0.027)
Proposal Type Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Fund ID Fixed Effect	Yes	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Panel D. Second-Stage: Post-Engagement Returns

In this table, we relate the instrumented engagement count by Big Three investors over 2019-2022 (using the instruments from Table 8, Panel A) with the average returns at t+1. As instruments we use: R2-to-R1 indicator at time t (June each year) and R1-to-R2 indicator at time t (June each year). We further include as control variables log(market cap), log(market cap)^2, and log(market cap)^3. The market cap is calculated as of May each year. We include year fixed effects. We cluster standard errors at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)
VARIABLES:	Average Returns at t+1
Instrumented Engagement Count	0.567
	(1.089)
Observations	7,757
Model F-statistic (p-value)	23.38 (0.00)
Industry-Year-Cohort Fixed Effects	Yes
Firm-Cohort Fixed Effects	Yes

Robust t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1