The Ownership Structure of U.S. Corporations

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Main Results

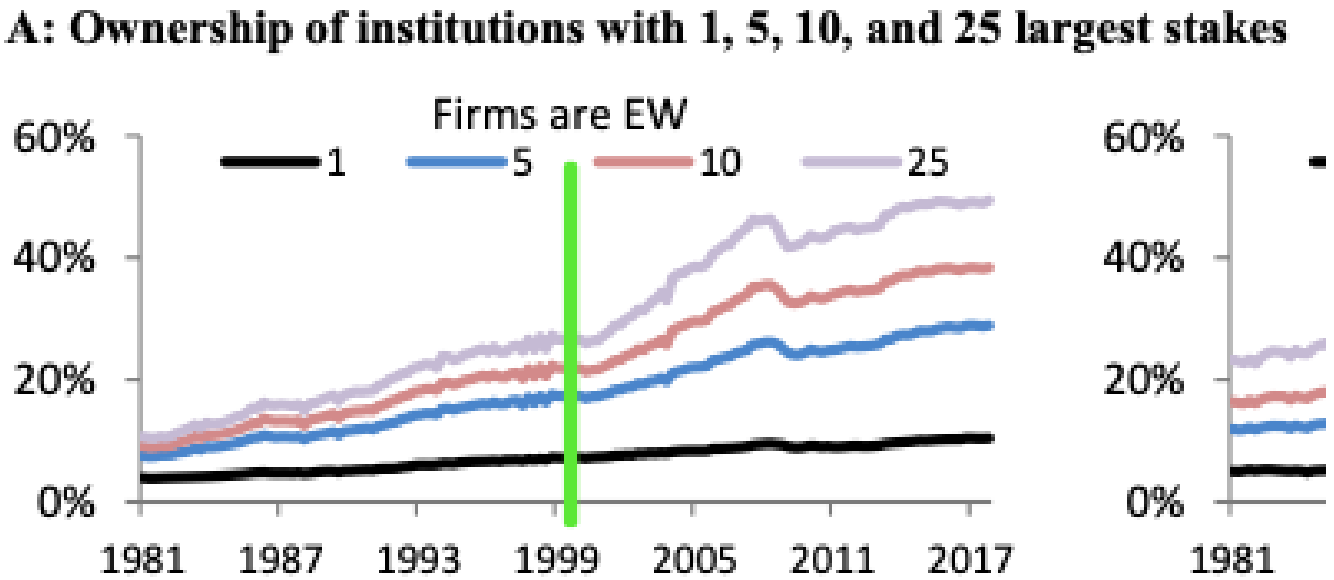
- 1. They find that U.S. corporations' ownership has become much more concentrated.
- 2. They find firms' top institutional shareholders put a lot of AUM into the firms.
- 3. Bullet point 2 leads that: Small firms' top shareholders are small institutions, large firms' top shareholders are large institutions.
- 4. Institutional shareholders are stable and patient.

Data

- They get "insider" by sum the ownership of officers and directors from Factset.
- They get "affiliated" from Factset.
- They retrieve the "institutional shareholders" from Refinitiv and WRDS.
- They put a lot efforts to merge and clean the data set.
- The discrepancy across databases may be problematic. They may consider drop some relatively smaller firms to keep data more consistent.

What causes the institutional concentration?

- One of the results is that shareholders are increasingly concentrated.
- The author mentioned SEC Rule 14a-2(b)(2).
- They may consider use such action as an experiment to test whether the shareholder concentration effect is caused by this event.
- Fig 2 Panel A shows some evidence, may be confirmed by DiD.



Upside Down U-shaped in Size Portfolio

- One of the papers' contribution is the finding of upside-down U-shaped institutional concentration.
- What's the reason behind this? 1. Too costly (the size is non-liner after quintile 3)? 2. Legal constraints? 3. Becoming the top shareholder of big firms has limited benefit compared to small firms?

Panel A: Size portfolios	*Small*	*2*	*3*	*4*	*Large*
Insider ownership	**0.127**	**0.071**	**0.061**	**0.042**	**0.028**
Affiliated entities	**0.068**	**0.039**	**0.027**	**0.023**	**0.020**
Institutional ownership	**0.396**	**0.764**	**0.825**	**0.818**	**0.751**
IO of top inst shareholder	**0.094**	**0.125**	**0.119**	0.103	**0.086**
IO of top 3 inst shareholders	**0.186**	**0.265**	**0.262**	**0.237**	**0.203**
IO of top 10 inst shareholders	**0.306**	**0.484**	**0.482**	**0.444**	0.379
IO of top 25 inst shareholders	**0.367**	**0.642**	**0.657**	**0.604**	**0.512**

Institutional Investors are Chasing Profit Performance

- The author find that institutional investors are more concentrated in firms with good profit.
- Does becoming the top holder help firm still perform well in the future? If not, why they still doing that? (Mutual funds oversized problem)

Panel C: Profitability portfolios	*Low*	*2*	*3*	*4*	*High*
Insider ownership	**0.070**	0.081	0.087	0.097	**0.106**
Affiliated entities	**0.055**	0.052	0.045	**0.036**	**0.034**
Institutional ownership	**0.505**	**0.578**	0.612	**0.665**	**0.663**
IO of top inst shareholder	**0.097**	0.105	0.101	**0.108**	0.104
IO of top 3 inst shareholders	**0.200**	0.218	0.216	**0.230**	**0.226**
IO of top 10 inst shareholders	**0.338**	0.380	0.388	**0.414**	**0.409**
IO of top 25 inst shareholders	**0.425**	**0.483**	0.503	**0.542**	**0.537**

Top Institutional Shareholders are Very Different

- One of their findings is that: the institution is often smaller, trades less, but invests a substantially higher fraction of AUM in the firm.
- And they argue that a firm's weight in the institution's portfolio is an important factor, such institution plays large governance role because it put more attentions on the firm.
- Such factor can explain why small firms' top holder are small institutions but not big institutions.
- Why the institution is willing to put large fraction of its AUM into the firm to become the top shareholder instead of diversification? Does having attentive governance lead higher profit than other investments?

Top Institutional Shareholders are Very Different (Conti.)

- They also compare the top holder with other institutional holders.
- Top holders have lower AUM, but they put more money to becoming top ones. Again, top holders' portfolio are less diversified.
- Is there winner's curse?
- They also trying to explain they are different by regression on firms' size, turnover...

	Slope				t-statistic				
	Size	Turn	Prof	Volat	Size	Turn	Prof	Volat	R^2
Panel A: All firms									
Insider ownership	**-0.044**	**-0.021**	**0.021**	**0.011**	-16.91	-9.30	8.46	3.35	0.142
Affiliated entities	0.000	**-0.026**	0.000	**0.031**	-0.05	-10.57	0.07	9.04	0.055
Institutional ownership	**0.141**	**0.089**	**0.035**	**-0.083**	29.21	20.23	10.85	-18.35	0.512
IO of top inst shareholder	**0.007**	0.000	**0.003**	0.001	6.00	0.30	2.59	0.83	0.012
IO of top 3 inst shareholders	**0.020**	**0.012**	**0.007**	**-0.012**	10.13	6.47	4.09	-5.09	0.084
IO of top 10 inst shareholders	**0.044**	**0.040**	**0.017**	**-0.044**	12.85	13.66	6.64	-12.90	0.222
IO of top 25 inst shareholders	**0.072**	**0.067**	**0.027**	**-0.070**	16.41	17.56	8.83	-16.85	0.332

- How's the intercept? It may be impressive if intercept is non-significant.

What is the impact of mutual funds' ESG preferences on portfolio firms?

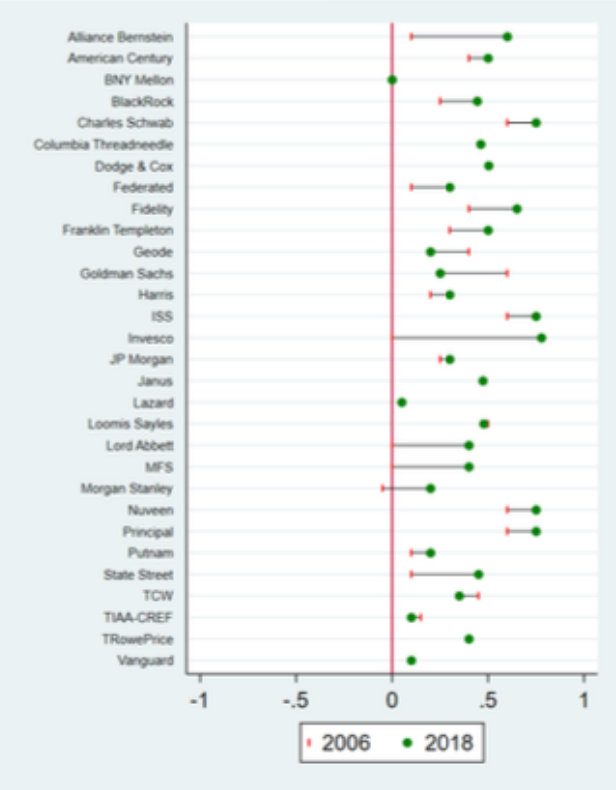
Main Results

- The author finds that ESG preference inferred from mutual funds' proxy voting guidelines will be adapted by investee firm.
- He uses the staggered change in ESG preference as an IV to mitigate the endogeneity.
- The channel of synchronizing ESG preference may be explained by: (1) Mutual funds' votes are powerful. (2) Mutual funds conduct private negotiations to implement their ESG preference. (3) Non-mutual fund shareholders strategically submit proposals that meet their ESG preference.

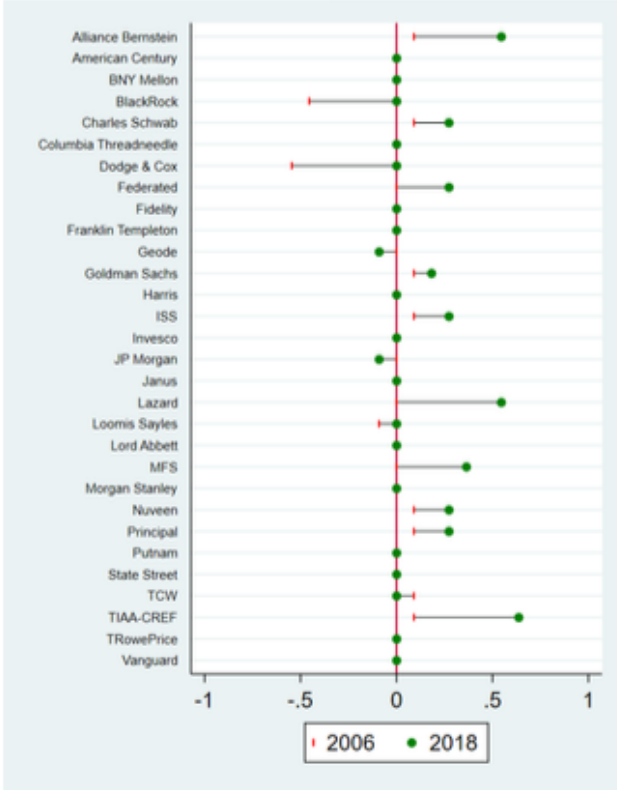
Mutual Fund's Voting Guideline

- In mutual fund's proxy voting guidelines, they describe its preference to certain proposals (agree, against, or case-by-case).

(a) Governance issues (per fund family)



(b) E&S issues (per fund family)



What's the research questions?

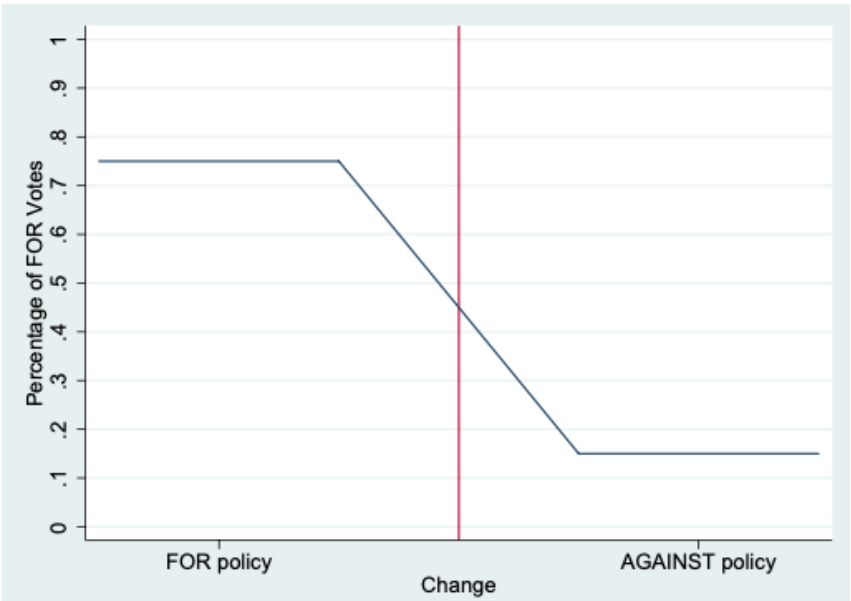
- Some interesting research questions are:
- Does the mutual fund's ESG preference affect investee firms' proposals?
- What's the channel of effects?
- Some prerequisite for answering above questions: (1) Is the preference a validated threat? (2) Endogeneity?

The ESG preference is a validated threat

- If the mutual fund's ESG preference has 0 effect on fund's voting procedure, then such threat is weak.
- The author confirm the compliance with voting guidelines. Such threat is validated.

	Funds' compliance with		
	their own guidelines (1)	ISS recs. (2)	management recs. (3)
All:			
All	79.72	67.63	76.35
Top10	80.79	67.71	75.03
Policy=For	72.36	77.58	66.61
Policy=Against	92.76	50.00	93.33
Governance:			
All	76.15	73.06	70.27
Top10	79.48	75.13	70.40
Policy=For	74.90	78.42	67.72
Policy=Against	84.28	38.09	86.64
E&S:			
All	87.08	56.43	88.69
Top10	83.87	50.26	85.72
Policy=For	45.41	68.72	54.98
Policy=Against	95.56	53.93	95.53

(b) Compliance after change of voting policy



Key variables & Endogeneity

- He uses the weighted average of mutual funds' announced preferences index (API) to represent the overall preference of a firm's mutual fund investors.
- $VWAPI_{f,p,y} = \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y}$
- Where API = {"for": 1, "against": -1:, "case-by-case": 0}
- What's the problem of regression?
  $Provision_{f,p,y} = \beta_0 + \beta_1 VWAPI_{f,p,y} + \epsilon$
- Endogeneity: mutual funds invest investee due to similar ESG preference.

Instrument Variable $VW\Delta API$

- $\Delta VWAPI_{f,p,y} = VWAPI_{f,p,y} - VWAPI_{f,p,y-1} = \Delta O_{m,f,y} API_{m,p,y} + VW\Delta API_{m,p,y}$
- $\Delta O_{m,f,y} API_{m,p,y}$ may affect the Y variable.
- But $VW\Delta API_{m,p,y}$ is totally decided by mutual fund itself, it will not affect the Y varaible of investee firm.
- He uses $VW\Delta API_{m,p,y}$ as IV in 2SLS.

2SLS Regression

- Investee firms adopt the mutual fund's governance preference.
- No relation between mutual funds' E&S preferences and E&S performance.
- Question: Inconsistent result between OLS and 2SLS
- Question: the constant of governance provisions are positive, but KLD's are negative. Data Bias?

	Governance Provisions			E&S index (KLD)		
	first stage	2SLS	2SLS	first stage	2SLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWΔAPI	1.47***			0.44***		
	(0.00)			(0.00)		
VWAPI		1.75***	2.48***		79.65	1.34
		(0.00)	(0.00)		(0.52)	(0.13)
Log(firm size)	0.00	0.01***	0.01***	0.00***	0.05	0.13***
	(0.50)	(0.00)	(0.00)	(0.00)	(0.59)	(0.00)
ROA	0.00	0.04	0.00	0.00	0.70	0.06
	(0.55)	(0.22)	(0.90)	(0.46)	(0.33)	(0.32)
Firm book leverage	-0.00	0.00	-0.01	-0.00	0.59	-0.01
	(0.69)	(1.00)	(0.58)	(0.92)	(0.54)	(0.76)
Firm return	0.00	-0.01	0.00	-0.00	0.06	-0.01
	(0.85)	(0.19)	(0.97)	(0.15)	(0.57)	(0.36)
Institutional ownership	-0.01**	0.05**	0.12***	-0.03***	3.43	0.01
	(0.03)	(0.03)	(0.00)	(0.00)	(0.51)	(0.87)
Constant	-0.03	0.20***	0.38**	-0.04***	-0.45	-1.19***
	(0.13)	(0.00)	(0.03)	(0.00)	(0.60)	(0.00)
Observations	65978	65978	65978	142990	142990	142990
Fixed effects		No	Industry and year		No	Industry and year
Partial R^2	0.04			0.017		
Kleibergen-Paap F statistic	185.46			155.632		

Why mutual fund's ESG preference affect firm? (Channel)

- Mutual fund's votes are meaningful to impact the majority passing.

	Channel 1 Passing		Channel 2 Shareholder proposal		Channel 3 Change in provision	
	LPM	2SLS	LPM	2SLS	OLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWAPI	2.64***	8.12***	0.01***	0.03**	0.14***	0.06**
	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)	(0.01)
Log(firm size)	-0.09***	-0.03	0.00***	0.00***	-0.00***	-0.00***
	(0.00)	(0.28)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	-0.24**	-0.30**	-0.00**	0.00	0.00	0.01
	(0.02)	(0.02)	(0.01)	(0.14)	(0.75)	(0.36)
Firm book leverage	-0.05***	-0.04	0.00	0.00*	-0.00	0.00
	(0.00)	(0.15)	(0.23)	(0.08)	(0.56)	(0.73)
Firm return	-0.03*	-0.08***	0.00	-0.00	0.01**	0.00
	(0.08)	(0.01)	(0.47)	(0.51)	(0.03)	(0.15)
Institutional ownership	0.13**	0.05	-0.00	-0.00	0.01***	0.01
	(0.03)	(0.57)	(0.36)	(0.28)	(0.01)	(0.10)
Constant	1.13***	0.69***	-0.01***	-0.01***	-0.01**	-0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.32)
Observations	4447	3669	854712	609719	66367	56469
Fixed effects	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year

Why mutual fund's ESG preference affect firm? (Channel)

- Non-mutual fund shareholders strategically submit proposals that meet their ESG preference.

	Channel 1 Passing		Channel 2 Shareholder proposal		Channel 3 Change in provision	
	LPM (1)	2SLS (2)	LPM (3)	2SLS (4)	OLS (5)	2SLS (6)
VWAPI	2.64***	8.12***	0.01***	0.03**	0.14***	0.06**
	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)	(0.01)
Log(firm size)	-0.09***	-0.03	0.00***	0.00***	-0.00***	-0.00***
	(0.00)	(0.28)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	-0.24**	-0.30**	-0.00**	0.00	0.00	0.01
	(0.02)	(0.02)	(0.01)	(0.14)	(0.75)	(0.36)
Firm book leverage	-0.05***	-0.04	0.00	0.00*	-0.00	0.00
	(0.00)	(0.15)	(0.23)	(0.08)	(0.56)	(0.73)
Firm return	-0.03*	-0.08***	0.00	-0.00	0.01**	0.00
	(0.08)	(0.01)	(0.47)	(0.51)	(0.03)	(0.15)
Institutional ownership	0.13**	0.05	-0.00	-0.00	0.01***	0.01
	(0.03)	(0.57)	(0.36)	(0.28)	(0.01)	(0.10)
Constant	1.13***	0.69***	-0.01***	-0.01***	-0.01**	-0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.32)
Observations	4447	3669	854712	609719	66367	56469
Fixed effects	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year

Why mutual fund's ESG preference affect firm? (Channel)

- Mutual funds conduct private negotiations to implement their ESG preference.
- Question. Chang in provision: 1 if there is a new provision in this topic. This may be a bad proxy of private negotiation.
- Question: the compliance rate be be also added as a key variable.

	Channel 1 Passing		Channel 2 Shareholder proposal		Channel 3 Change in provision	
	LPM	2SLS	LPM	2SLS	OLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWAPI	2.64***	8.12***	0.01***	0.03**	0.14***	0.06**
	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)	(0.01)
Log(firm size)	-0.09***	-0.03	0.00***	0.00***	-0.00***	-0.00***
	(0.00)	(0.28)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	-0.24**	-0.30**	-0.00**	0.00	0.00	0.01
	(0.02)	(0.02)	(0.01)	(0.14)	(0.75)	(0.36)
Firm book leverage	-0.05***	-0.04	0.00	0.00*	-0.00	0.00
	(0.00)	(0.15)	(0.23)	(0.08)	(0.56)	(0.73)
Firm return	-0.03*	-0.08***	0.00	-0.00	0.01**	0.00
	(0.08)	(0.01)	(0.47)	(0.51)	(0.03)	(0.15)
Institutional ownership	0.13**	0.05	-0.00	-0.00	0.01***	0.01
	(0.03)	(0.57)	(0.36)	(0.28)	(0.01)	(0.10)
Constant	1.13***	0.69***	-0.01***	-0.01***	-0.01**	-0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.32)
Observations	4447	3669	854712	609719	66367	56469
Fixed effects	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year

Mutual fund's ESG policy doesn't attract inflows.

- He finds changing the ESG guideline doesn't affect the inflows to the mutual funds.

	N	-12 to 0 (1)	-6 to 0 (2)	-3 to 0 (3)	0 to 3 (4)	0 to 6 (5)	0 to 12 (6)
Panel A: Cumulative abnormal flows for all changes (incl. new guidelines)							
All changes	1015.00	0.05	0.01	0.00	-0.01	0.01	0.00
		(0.33)	(0.47)	(0.70)	(0.45)	(0.60)	(1.00)
Positive changes	792.00	0.00	-0.00	0.01	-0.00	0.00	-0.05
		(0.98)	(1.00)	(0.37)	(0.75)	(0.94)	(0.27)
Negative changes	175.00	0.10	0.00	-0.01	-0.00	0.04	0.13
		(0.53)	(0.91)	(0.41)	(0.79)	(0.38)	(0.13)
Panel B: Cumulative abnormal flows for changes (excl. new guidelines)							
All changes	723.00	0.06	0.01	0.01	-0.02*	0.02	-0.00
		(0.33)	(0.40)	(0.37)	(0.05)	(0.35)	(0.97)
Positive changes	480.00	0.06	0.02	0.01	-0.02**	-0.02	-0.12**
		(0.23)	(0.38)	(0.25)	(0.03)	(0.37)	(0.04)
Negative changes	210.00	-0.06	-0.03	-0.01	-0.02	0.00	0.02
		(0.63)	(0.40)	(0.35)	(0.18)	(0.93)	(0.81)

- Question: we should control the profit of the mutual funds. Which is the key of inflows.

Thanks!

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