

4/10 Prof Camara's title+abstract:

“Shareholder Democracy and the Market for Voting Advice”

abstract:

We study voting advice markets where proxy advising firms (PAs) compete to offer voting recommendations to institutional investors. Investors have heterogeneous goals: they differ in the weights they place on financial returns versus nonfinancial (“social”) returns, such as reductions in carbon emissions. We assume that investors vote for expressive reasons and may also differ in how much they care about voting correctly. PAs compete by first choosing an advising policy (how much relative weight they will place on the financial return of the proposals), and then engaging in discriminatory price competition. In equilibrium, advising firms segment the market and tailor their advice to reflect the preference of their average investor. We show how the PAs' profit-maximizing goals can skew voting outcomes away from what the outcomes would be if investors had access to free information. In particular, we define conditions such that PAs skew their advice and the voting outcome in favor of a minority of investors who have a strong preference for nonfinancial returns. We also study how increasing PA competition affects equilibrium outcomes.