Newground
Social Investment
*a Social Purpose Corporation*

111 Queen Anne Ave N, #500
Seattle, WA 98109
(206) 522-1944
newground.net

**VIA ELECTRONIC DELIVERY TO:** Rule-Comments@sec.gov

February 3, 2020

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

**Re: Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8**
[Release No. 34-87458; File No. S7-23-19]

Dear Ms. Countryman:

We write to provide comment on File No. S7-23-19 of the U.S. Securities and Exchange Commission (the "Commission" or "SEC") in regard to proposed changes to Rule 14a-8 (the "Rule") as contemplated in the *Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8*[1] (the "Proposal" or "Release") as submitted to the Federal Register on November 5, 2019.

Newground Social Investment[2] ("Newground") was the nation's first Social Purpose Corporation and the country's second exclusively SRI/ESG focused Registered Investment Advisor ("RIA"). Since 1994 we have served as a legal fiduciary in managing assets for individual and institutional investors; and over the course of twenty-five years we have filed many hundreds of shareholder proposals on behalf of individual clients. The undersigned is also a past Governing Board member of the Interfaith Center on Corporate Responsibility ("ICCR"), whose members represent more than $500 billion in invested capital.

Through its work on behalf of individual clients, Newground reviews the financial, social, and governance implications of the policies and practices of publicly-traded companies. In so doing, we seek insights that enhance profitability while also creating higher levels of environmental, social, and governance wellbeing. The data supports a view that good governance and enlightened social and environmental policies are hallmarks of the most profitable companies.

---

## (A)
## Overview

We are deeply concerned about this amendment proceeding because it appears that the Commission has been led into a process of evaluation under false pretenses. Specifically, the SEC's review appears to be in response to the loud demands and errant assertions both made and orchestrated by the Business

[1] https://www.sec.gov/rules/proposed/2019/34-87458.pdf

[2] www.newground.net

Roundtable ("BRT"), the U.S. Chamber of Commerce ("CoC"), and the National Association of Manufacturers ("NAM") (or, collectively, the "Troika").

Each of these entities acts with a demonstrable conflict of interest – both in regard to this matter, and in respect to the true Main Street constituency that the SEC is mandated to serve. To our knowledge, no request from any investor prompted this amendment process – which would make it solely the child of pressure to advance corporate interests to the detriment of investors both small and large.

As published 1/31/2020 by Jon Hale, the Global Head of Sustainable Investing Research at Morningstar:

> *Neither rule is being demanded by investors. Both emerged out of the right-wing DC swamp of corporate lobbyist/trade organizations that are closely allied with the three Republican SEC commissioners...*[3]
>
> *Other than the shadowy swamp groups in the background, the rules are not being pushed by any identifiable group of investors, big or small.*[3]

As an historical point of relevance, the BRT-CoC-NAM axis attempted a similar Rule 14a-8 coup in 2017, that time orchestrated through The Honorable Jeb Hensarling (R), Chairman, of the House Committee on Financial Services, then in the guise of the so-called *Financial CHOICE Act of 2017*, whose discredited "Section 844" took similar aim against the rights of small, individual, and Main Street investors as do the purported 'reforms' put forth in this Proposal.

Fortunately, reason prevailed in 2017 and the axis failed in their efforts; however, distasteful ideas die hard when they benefit a narrow class of moneyed elites bent on self-advantage, so we witness now the resurrection of these discredited and unsavory policy ideas.

- In this regard, the Troika and other proponents of these changes are like foxes that clamor for removal of the safe shelter of the hen house. Theirs are self-serving voices that should be looked at askance, if not dismissed outright.

In stark contrast to the Troika and their dependents, a preponderance of the individuals, academics, investors, institutions, and investor organizations who have thoughtfully contributed to the comment record[4] of this Proposal have missions that are aligned with – and serve clients or members who actually are – the very Main Street investors that the SEC has a legal mandate to serve and protect.

These are the voices that need to be listened to. This Release ignores those voices, their legitimate concerns, and the mounting body of evidence that this Proposal is both ill-conceived and unwarranted.

---

[3] https://medium.com/the-esg-advisor/the-big-three-appear-to-be-fine-with-the-secs-attack-on-shareholder-democracy-96acba8c4c29

[4] https://www.sec.gov/comments/s7-23-19/s72319.htm

## (B)
## Misleading Language

In this debate, an oft-repeated assertion is that the Rule is antiquated and in need of reform... alleged evidence being that it has not been substantively "revised" for some time. However, use of the word "revised" is misleading because it distorts and ignores the fact that the Rule has been repeatedly reviewed over the decades and always found: **(a)** to still serve a useful and vital purpose, and **(b)** to operate in an efficient and serviceable way – particularly in regard to the $2,000 ownership threshold, the 1-year length of ownership threshold, and the 3%-6%-10% resubmission thresholds.

The fact is that the Rule has been repeatedly evaluated and found to not require revision. Supporters of the proposed changes conflate the meaning of "review" with "revise", and create a false impression that the Rule has never been examined or evaluated.

- In truth, the fact that the Rule has been the subject of frequent examination and review over the decades but not substantively revised is a source of both recurring and compelling evidence that, as it stands:
  - The Rule has utility, importance, and fulfils a necessary role.
  - The Rule's operating structure and procedures are inherently sound.

There is no need to revise the existing rules that govern the shareholder engagement and proxy process. In so stating we concur fully with the Council of Institutional Investors ("CII") who do not mince words about this ill-conceived Proposal:

*CII strongly opposes the Release in its entirety.*[5]

---

## (C)
## Benefits of the Current Rule 14a-8

The Rule 14a-8 shareholder engagement process is a key stockholder ownership right which, for the vast majority of investors, is the only practical means of communication – whether with a company or with other investors. The Rule is a nuanced, thoughtful, and highly polished set of processes and procedures that well serve its original, intended, and proper constituency. What's more, it has faithfully and appropriately done so for quite a number of decades now.

In our capacity as an RIA, Newground has filed many hundreds of Rule 14a-8 stockholder proposals on behalf of clients. Historically, roughly two-thirds of those proposals were withdrawn and did not go to a vote because the company in question agreed with the value of our observations and, of their own volition, took constructive

[5] https://www.sec.gov/comments/s7-22-19/s72219-6729687-207381.pdf

steps – steps that they deemed reasonable, profitable, and broadly beneficial.

The Proposal does not contemplate the value that these withdrawn proposals represent to the companies involved and to investors at large, and they are not one-time benefits, but contributions to corporate profitability that recur year-after-year.

**Case Studies #1, #2:** Starbucks | Proctor & Gamble

For example, **Starbucks** (ticker SBUX) launched, to great fanfare, its first Fair Trade brand of coffee as a result of Newground shareholder engagement backed by consumer action. As well, in response to a Newground shareholder proposal **Proctor & Gamble** (ticker PG) launched two fair trade brands. According to Progressive Grocer, the U.S. is now the third largest market for Fair Trade goods, surpassing $1 billion in annual sales ($9.2 billion globally), and Fair Trade coffee farmers benefitted from a 24.5% rise in sales in the reporting year alone.[6] As awareness grows and consumer preferences evolve, such trends place these companies at a competitive advantage in relation to both market share and reputation.

**Case Study #3:** McDonald's

In response to a Newground-led[7] shareholder proposal, **McDonald's** (ticker MCD) took initial steps in integrated pest management and pesticide reduction with 10% of its potato suppliers. The pilot project proved so profitable, within a year MCD expanded the strategies to 100% of its potato growers, then took them on to every one of their other agricultural crops (lettuce, tomatoes, onions, apples, etc.). This measurably lowered the use of toxic pesticides globally, which has benefitted every living being on the planet, reduced the company's cost of production, improved farm worker safety (and lowered related healthcare costs), while enhancing McDonald's reputation. This engagement proved so successful, a local NPR affiliate made a feature presentation of it which was subsequently refashioned into a video.[8]

A rough estimate of potential savings, though relating only to chemical inputs alone, is $6,534,389/year.[9] While difficult to quantify precisely from a vantage

---

[6] https://progressivegrocer.com/us-now-3rd-biggest-market-fairtrade-goods

[7] This proposal was co-filed by Bard College and the AFL-CIO, though on its own Bard would have been no-actioned out of filing because they could not produce a Rule-compliant verification of shares letter (their shares had been held by Bear Stearns, which failed during the Great Recession, and the new custodian would not confirm length of holding).

[8] *Getting McDonald's to the Table* https://youtu.be/_qclD1BZjm4

[9] See figures in Exhibit A. A USDA report entitled *Potatoes* (ISSN: 1949-1514) estimates an average of 43,100 pounds of potato production per acre. It is reported (and MCD has not publicly disputed) that McDonald's uses some 3.4 billion pounds of potatoes per year. Simple math results in an estimate of 78,886 acres dedicated to growing potatoes for MCD's use.

A government of Manitoba report entitled *Guidelines for Estimating Potato Production Costs 2018*, which provides potato cost inputs, estimates the cost of total chemical load in potato production is $552.22/acre per year, resulting in an estimated total cost to MCD of $43.56 million per year.

If the chemical cost savings derived from the integrated pest management pesticide reduction initiative (which resulted from a Newground-led 14a-8 shareholder proposal) is deemed to be 15% of the total

point outside the company (though the SEC could readily approach McDonald's for details), this impressive figure leaves uncounted a massive array of additional distributed benefits that would naturally derive year-after-year as a result of reducing:

**a.** Farm worker exposure to toxic reagents, and lowering their associated healthcare costs.

**b.** Toxic runoff from fields into the environment generally, but especially into water aquifers which then necessitate the construction and ongoing maintenance of local and municipal purification plants and systems.

**c.** Exposure to toxic chemicals for the roughly 62 million customers each day that visit McDonald's who (if they consume anything with potatoes, lettuce, tomatoes, onions, or apples) enjoy more healthy and life-prolonging meals than they did before Newground filed its shareholder proposal.

Following the Commission's method of taking estimates from one company and extrapolating out to every other company in the Russell 3000 ("R3000"), we calculate that all R3000 companies together could experience annual cost savings from **having** active shareholder engagement of up to $19.6 billion per year (see Exhibit A, item "A"), revealing that active shareholder engagement is potentially 277.7x times more valuable (see Exhibit A, item "B") than the maximum $70.6 million per year purportedly saved[10] were the SEC to regulate a curtailing of shareholder engagement. Compared to the Commission's low-end purported saving figure of $1.4 million across the R3000, the benefits brought by shareholder engagement could be an eye-popping 14,002x times more valuable (see Exhibit A, item "C") than no shareholder engagement.

Turning back to the MCD savings estimates, the lower bound of cost savings for all R3000 companies totals just $6.53 billion per year[11] (see Exhibit A, item "D") which makes shareholder engagement, on the low end, 92.6x times more valuable (see Exhibit A, item "E"), when compared to the Commission's low-end estimate, than the curtailing of shareholder engagement as contemplated by the Release.[12]

Lastly, our analysis on McDonald's (which employs the SEC's methodology) demonstrates that shareholder engagement activities as currently practiced under the well-honed and highly efficient Rule 14a-8 process – at a minimum – could generate annual savings to investors of $108.9 million (see Exhibit A, item "F"), or 1.54x more valuable (see Exhibit A, item "G") than the SEC's "high" estimate of potential cost saving.

---

chemical cost inputs, then the annual saving for MCD is $6.53 million/year; if only 10% then $4.36 million/year; and if 5% then $2.18 million/year. See figures in Exhibit A.

URL USDA: https://www.nass.usda.gov/Publications/Todays_Reports/reports/pots0918.pdf

URL Manitoba: https://www.gov.mb.ca/agriculture/farm-management/production-economics/pubs/cop_crop_irrigatedpotato.pdf

[10] Pages 137-138 and footnote 272 of the Release [No. 34-87458; File No. S7-23-19].

[11] Reducing chemical input costs by only 5%, see Exhibit A.

[12] Further details are in the spreadsheet attached as Exhibit A.

**Case Study #4:** DuPont

Without substantive analysis (simply continuing north into Georgia an existing project from northern Florida), **DuPont** (ticker DD) planned a 50-year-long, 24/7 strip mining operation on the Trail Ridge, which comprises the eastern boundary of the celebrated Okefenokee National Wildlife Refuge.

The intent was to mine titanium dioxide ($TiO_2$) – the seventh most common mineral on the planet – which is used as a whitening pigment for paper, paint, toothpaste, etc.

The Okefenokee is globally renowned – scholars travel from around the world to study the unique ecology of the region, and the Trail Ridge is home to an abundance of champion-size trees and wildlife, including seven endangered species. It was among the last places on earth considered a possible harbor for the feared-extinct Ivory-Billed woodpecker (the largest and most majestic woodpecker species on the North American continent, and third largest woodpecker in the world).

DuPont's dredge mill equipment would have operated within a ball-toss of the waters of the Okefenokee, and because of the potentially devastating ramifications of the strip-mining operation everybody and their brother was against the project – including citizens, environmental organizations, politicians, even the then-current U.S. Secretary of the Interior.

But DuPont persisted in claiming that it stood to earn hundreds of millions of dollars from the project, that not mining would constitute a 'taking' from the company, and asking the question: "who will recompense us if we do not mine?" As well, they claimed that the company had conducted research and that $TiO_2$, though common, was not available elsewhere in the concentrations needed to mine.

Newground filed a shareholder proposal questioning the wisdom of the project, and engaged in extensive dialogue with a DuPont team led by Louise Lancaster, Corporate Secretary and Paul Tebo, Corporate Vice President – Safety, Health and Environment. Paul, especially, was the person tasked with reiterating the refrain: "this will be a taking from our company, and who will recompense us?"

At one fateful meeting, following analysis and receiving private confirmation from a DuPont engineer that the company had neither sought nor evaluated alternative locations to mine, the undersigned paused the narrative and said:

> *Let's not be ridiculous. This won't be a taking from our company* (Newground represented shareholders, the rightful owners of DuPont)*, because no one is suggesting that those two pieces of dredge mill equipment go idle, simply that they be relocated to operate there for the next 50 years instead.*
>
> *Now, Mr. Tebo, you say this project will generate hundreds of millions of dollars, but that's over a 50-year span. Simple math: those earnings divided by fifty, in relation to our company's $45 billion/year gross revenue, show the project to*

*represent less than 2/100th of one percent of annual gross revenue – and that's gross, not even net. Yet, because the Okefenokee is an internationally known gem, if you harm the Okefenokee it has the potential of damaging DuPont's brand and reputation across every single one of our product lines.*

*So, you're telling me that for 2/100ths of a percent you're willing to risk DuPont's entire brand reputation, across every single one of its product lines, when that 2/100ths can be earned elsewhere simply by picking up the equipment and moving it? As shareowners, that just doesn't make good economic sense to us.*

I added: "*Critical to accomplishing this is to permanently retire the mining rights on the Trail Ridge so that this area is never mined in competition to our company.*"

Following that, Paul Tebo never attended another meeting. The company swiftly moved to donate 16,000 acres of land to conservancy, and relocated its strip-mining operation. Called "the largest land conservation gift in Georgia state history", the outcome saved the Okefenokee and brought such repute to DuPont that the company voluntarily donated $5 million to create a world-class research and education center in Folkston, GA at the gates of the National Wildlife Refuge.

To conclude on the DuPont case study, this example highlights the benefits of not doing, versus doing. While it's not possible to conclusively determine the extent of value generated by the shareholder proposal's idea that DuPont should be seeking alternative outcomes, there are numerous examples where a PR disaster caused precipitous – even double-digit – percentage drops in a company's stock price.

Even more troubling, reputational harm can lead consumers of all stripes to permanently avoid using a company's products and services; think of Nike as just one prime example. If avoiding a highly negative Okefenokee-related incident prevented 1% of sales from going elsewhere, that equates to an ongoing $45.0 million per year benefit – involving a single company, on just one issue.

**Case Studies:** Conclusions

1. Rule 14a-8 shareholder engagement activities contribute – in purely financial terms – far more to companies, investors, and the U.S. markets than even the most inflated corporate/Commission estimate of the supposed 'benefit' of curtailing Rule 14a-8 activity.
2. Because shareholder engagement contributes so vitally, it is clear beyond cavil that the U.S. capital markets should not be subjected to any curtailment of Rule 14a-8 shareholder engagement activity.
3. The benefits of Rule 14a-8 engagement activity extend far beyond the dollar savings figures shown – they advance the wellbeing of workers, communities, the environment, and society at large.

**(D)**

## ESG, Profitability, Attraction and Retention of Talent

It is well known that there exists today fierce competition to attract and retain employee talent, especially on the two coasts, in tech, in finance, and in other key industries.

As well, extensive research has been conducted that has established linkages between a company's performance on ESG and its success on operating income and earnings per share metrics.

Academics across many disciplines have studied issues around employee motivation, productivity, and loyalty, and mapped the linkages between these and a company's ranking, performance, and reputation on environmental, social and governance ("ESG") issues.

### 38 Studies

A leading scholar and researcher in the space is Julie Gorte, Senior Vice President of Sustainable Investing, Impax Asset Management | Pax World Funds. At our request she identified 38 discrete studies, dating back to 2004, which have identified and cataloged the linkage between ESG and profitability, and between a company's ESG characteristics and its ability to attract and retain top talent (studies listed in Exhibit B).

**Several excerpts from this body of research:** (emphases added)

*In previous work, we found that Glassdoor ratings were effective signals of social scores within an Environmental, Social and Governance (ESG) framework. Here* ***we find that employee ratings can lead to better risk-adjusted returns****. Stocks with high ratings would have outperformed those with low ratings by almost 5ppt per year from 2013 to 2018*

> *Extracting Alpha from Glassdoor* (2019)
> Savita Subramanian, Toby Wace, James Yeo, Jill Carey Hallo, Alex Makedon, Jimmy Bonilla and Ohsung Kwon (38)

*Prior research provides evidence that gay-friendly corporate policies...* ***improve employee recruitment and retention****, make gay employees feel more welcome and accepted in the workplace, and enhance consumer perception. In addition, investors view the adoption of such policies positively.*

*...we find that (1) the presence of gay-friendly policies is* ***associated with higher firm value and productivity****, (2) firms implementing (discontinuing) these policies experience increases (decreases) in firm value, productivity, and profitability, and (3) the firm-value and profitability benefits associated with gay-friendly policies are larger for companies with demand for highly skilled labor.*

*Do Gay-Friendly Corporate Policies Enhance Firm Performance?* (2013)
Janell L. Blazobich, Kirsten A. Cook, Janet H. Huston and William R. Strawser (14)

*...companies with the highest percentage of engaged workers had a 19%* ***increase in operating incomes*** *and a 28%* ***increase in earnings per share****. On the other hand, over the same year period, companies with the lowest employee engagement rates showed a 33% decline in operating incomes and an 11% decline in earnings per share.*

*Engaged Employees Equal Increased Earnings* (2007)
Anne Moore O'Dell (8)

**"ESG Why It Matters" a Merrill Lynch treatise**

In September 2019 Merrill Lynch released a study entitled *ESG Matters; 10 reasons you should care about ESG.*[13] Headline and subtitle #4 reads:

***Happy employees = better returns***

*Companies with high employee satisfaction ratings on Glassdoor.com have outperformed those with low ratings by nearly 5 percentage points per year over the past 6 years.*

**Employee Activism on the Rise**

A corollary of the fact that interest in ESG looms large (and increasingly so) for the modern workforce, we witness the rise of internal activism as employees challenge their company's positions and policies. In the past year, ardent and vocal employee groups of both **Amazon.com** and **Google** have been frequently in the press, have been vocal at the annual shareholder meetings, and been outspokenly defiant of company policies regarding outside communications.

We celebrate the right of these important employee groups to their First Amendment freedom of speech, and note they are giving inspiration to many others.

**Amazon employees cite 'moral responsibility' to speak out on climate, despite risk of losing their jobs**[14]

*More than 350 Amazon employees defied a company ban on unapproved external communications to call out what they see as the retail and technology giant's still-inadequate approach to the climate crisis.*

[13] https://www.bofaml.com/content/dam/boamlimages/documents/articles/ID19_1119/esg_matters.pdf

[14] https://www.seattletimes.com/business/amazon/amazon-employees-cite-moral-responsibility-in-speaking-out-on-climate-despite-risk-of-losing-their-jobs/

**Google employees protest the company's "attempt to silence workers"**[15]

*Particularly in light of revelations earlier this week that the company has been in talks with a consulting firm known for union-busting, today's protest was a strong sign of continued worker activism on a broad range of issues*

**Conclusions:**

It is anticipated that the proposed rule changes would eliminate more than a third of ESG-oriented shareholder proposals. This would sharply reduce access by companies to the free flow of valuable information contained in the hundreds of resolutions currently being filed annually. Therefore, should the Proposal be enacted, measurable outcomes to expect would include:

**a.** Companies will be more likely to ignore (and thus score poorly on) ESG rankings.

**b.** Current and prospective employees will feel less attraction, lower motivation, and will therefore be less loyal.

**c.** Seeing reduced operating incomes along with reduced earnings per share outcomes.

**d.** Deterioration in employee recruitment and retention for companies that will feel encouraged (if not emboldened) by this Proposal to ignore ESG issues.

---

**(E)**
**Ownership Thresholds are Unfair**

The Revision under consideration would fundamentally impair the ownership and governance rights of investors, but to what end? The only certain outcome would be to unfairly impair the rights of the very Main Street investors it is the SEC's mission to support and protect.

These rights-of-property impairments take the form of two specific provisions which infringe on the rights we have used to protect our investments and to enhance their earning potential:

[15] https://www.vox.com/recode/2019/11/22/20978537/google-workers-suspension-employee-activists-protest

**Unreasonably high ownership thresholds**

Under Rule 14a-8, stockholders who own 1% or $2,000 worth of outstanding shares for at least one year can submit a proposal to be included in a company's proxy statement. The current ownership threshold is reasonable, and entirely commensurate with a geometric line between its historical value and today's figure.

The proposed rules would instead require owning $25,000–$15,000–$2,000 worth of company stock, linked to 1–2–3 year holding periods, which would distinctly favor large shareholders while clearly disenfranchising and harming small investors.

The current one-year period represents a reasonable and well-working compromise between providing investors adequate flexibility and protection in a time of fast-moving markets, while ensuring that a stockholder has a sufficiently long-term interest in the enterprise to be granted a voice.

Echoing back to the "revise" versus "review" discussion above, this threshold has been reviewed multiple times over the decades and found be workable, reasonable, and fair to all shareholders. To change it as contemplated would not reduce barriers to equal participation, it would create them – harming small shareholders.

**Unreasonably large resubmission thresholds**

Proposals must garner increasing support year-over-year in order to qualify for resubmission in the following year. Currently, Rule 14a-8 establishes the first year threshold at 3%, the second year at 6%, while in the third and all subsequent years the resubmission threshold rises to 10%.

The proposal would nearly double the first year threshold to 5%, the second year would more than double to 15%, and year three would rise to 25%.

Change can come slowly to large and complex entities like corporations, and good ideas often require years of consideration before they become accepted and move into the mainstream. In this light, current resubmission thresholds have proven effective in allowing an appropriately deliberative and educational process to unfold – for shareholders and companies alike – while this and other aspects of Rule 14a-8 have ensured that frivolous or inconsequential resolutions get discarded.

Historically, quite a number of proposals that started out with seemingly low votes went on to win majority votes and eventually to be deemed corporate governance best-practices.

Therefore, in our estimation, existing resubmission thresholds are well-functioning, balance all interests, and create an appropriate time-frame within which new and emerging ideas and risks can be surfaced, vetted, and properly evaluated.

---

**(F)**
**Small Votes are Not Small Potatoes**

By broadly eliminating or significantly postponing the right to file shareholder proposals, the Release would eliminate or condition the ability of essentially any shareholder to offer ideas to or posit valid observations about companies, their activity, the inadvertent risk that may attend their activities, or the opportunities they may be failing to capitalize on.

In more than two decades, not once has a Newground shareholder client owned a value in shares that remotely approached 1% of a company's capitalization – even when the undersigned represented a $70 billion State pension system. Thus, every one of the hundreds of shareholder proposals we have filed on behalf of clients during the past quarter century were enabled by the $2,000 provision of the existing Rule.

This history demonstrates the efficacy of the Rule 14a-8 process and the highly generative nature of the ideas that have been brought to companies' attention by the existing procedures and protocols that define shareholder engagement.

- **A key takeaway is that the quality of a shareholder's ideas bears no relation to the size or value of their stockholding.**

To assert otherwise (which this Proposal clearly does by restricting small while facilitating large investors) – that only the wealthy can have worthwhile opinions – flies in the face of common experience, common decency, and our country's most revered democratic ideals and assumptions about the innate equality of persons.

- **Less obvious, a second key takeaway is that the quality of a stockholder proposal's ideas bears little relation to the size of vote outcomes.**

In essentially every instance our experience has been that companies have found merit in shareholder thinking, which resulted in their taking constructive steps – even when vote outcomes were quite low – though in roughly two-thirds of the filings a meeting of the minds eventually occurred and the proposal was withdrawn before ever going to a vote.

At DuPont for example, described in Case Study #4 above, during the three year period of that engagement the resolution went to a vote only once, in the first year, and the vote barely cleared the Rule's 3% first-year threshold. Yet, that engagement went on to be mutually beneficial and highly productive.

Only once during a 25-year filing history so far have we achieved an outright majority vote; in fact, in the vast majority of instances proposals have earned only single-digit or low-to-moderate two-digit outcomes. Many, if not most, of Newground's most celebrated outcomes (which the companies involved celebrate too) would not have been possible under the imbalanced, capricious, and arbitrary restrictions the Release will place on shareholders.

## (G)
## Structural Bias
## Against Shareholders

There are nine (9) structural biases against shareholders that always result in reduced vote outcomes. Rather than create protection and relief for small stockholders, the Proposal would add additional strictures that further handicap Main Street investors. The baked-in biases that lower votes on shareholder items include:

1. Management, founders, and descendants of founding families often own, control, or influence sizable portions of stock. And ESOP plans – though owned on behalf of employees – are voted by management, typically as AGAINST all shareholder proposals.

2. It is reported that a majority of independent shareholders recycle their ballots and do not vote at all, which means the concentrated shares of management weigh more heavily on the voting scale.

3. The major proxy reporting services (the subject of an equally ill-advised rulemaking proposal) routinely recommend AGAINST shareholder proposals in their first few years of introduction until they have a chance to become familiar with the new topic or issue.

4. Proxy ballots offer multiple opportunities to "vote with management on all items" (which will be AGAINST any shareholder proposal). If a shareholder doesn't do that, there is an additional management or Board exhortation at each individual item to vote AGAINST shareholder-sponsored items.

   Shareholders who don't have time to study the proxy will often take the easy path and (conditioned by #7 below) side with management by default.

5. If an investor marks any one item on the proxy but leaves other items blank, management will vote the blank items in its favor. If there's anything the shareholder is unsure of or would like to ABSTAIN from or not express an opinion on, more often than not (because of this provision #5 in conjunction with #6 below) that vote will get counted as management wants.

6. Under Delaware State Law (and in other States), companies are allowed to choose how votes are counted, i.e., which formula to use. When companies include ABSTAIN votes in the formula for shareholder proposals, it automatically lowers the vote outcome.

   Newground has studied nearly 100,000 votes taken since 2004 and found more than 100 proposals which won a true majority when just FOR and AGAINST were counted, but which 'failed' when under the company's variant formula that included ABSTAIN votes in the tally.

**7.** Investors typically purchase stock because they trust or have confidence in management; thus, management enjoys a decidedly powerful '**bully pulpit**' when it comes to recommending a vote AGAINST shareholder items.

Only an intrepid or particularly dedicated shareholder will conduct enough study on a proposal or issue (especially if it's a new topic) to actively support it in the face of management's repeated recommendations to vote AGAINST.

**8.** Shareholders are strictly limited to 500 words in writing their shareholder proposals, whereas a company is not limited at all in the length of its Statement in Opposition.

This presents shareholders with limited access to information on the FOR side, but essentially an unlimited amount of information available on the AGAINST side. This asymmetry of information flow works to disadvantage shareholders.

**9.** Companies, being privy to the count as proxies come in, can initiate additional proxy solicitations (at shareholder expense) to boost their edge.

These go to shareholders who have not yet responded, who are the ones most likely to be busy or disinterested, and the ones most likely to choose marking a single box to vote with management on all items.

In light of the numerous factors like these that inexorably work to hold shareholder votes down, a seemingly small vote may in reality be deemed to be much larger – considering the factors above and how few shareholders are both independent and fully informed.

- **Votes that are consistently and systematically diminished due to a myriad of structural inequities such as these should not be doubly handicapped by the imposition of the unreasonably large ownership and resubmission thresholds this Proposal contemplates.**

---

**(H)**
**Representation and Agency**

As a co-author and signatory to a January 27, 2020 letter on "Proposed Limitations on Representation of Shareholders"[16] submitted jointly by Boston Trust Walden, the Treasurer of the State of Illinois, the New York City Comptroller, SHARE, As You Sow, Mercy Investment Services, the AFL-CIO, and Newground Social Investment[17], we will not reiterate here all that was so ably presented in that comment

[16] IWG letter: https://www.sec.gov/comments/s7-23-19/s72319-walden-012720.pdf

[17] And openly cc'ed to: the American Baptist Home Mission Society, Bon Secours Mercy Health, Boston Common Asset Management, The Episcopal Church, First Affirmative Financial Network, Harrington

letter, and commend it to the Commission for close scrutiny.

However, we will add that throughout the investing marketplace investors necessarily, and by right, rely on and delegate to an array of agents the responsibility for implementing their intentions.

The ability to appoint an agent is a matter of state law. As such, it would constitute an inappropriate and gross overreach were the Commission to encroach on state law by placing artificial constraints on the wide latitude a property owner righty enjoys to appoint others in the disposition of his or her interests. The Commission's design, as outlined in the Proposal and if implemented, could clearly be defined as an act of tortious interference.

- What is absurd, imbalanced, and grossly unfair about the Release's proposed limitations on shareholder agency is that companies are granted a free hand to hire outside counsel or agents – of any description, in any number, at any time, for any purpose, and at any cost (while spending shareholder dollars to do so).

---

**(I)**
**In Closing**

We appreciate the opportunity to comment, and stand ready to provide further input or to answer questions that may arise.

Shareholder proposal Rule 14a-8 was established by the SEC to allow individual investors to participate in corporate governance matters involving the companies they own. The process has evolved over seven decades to represent an important element of value in the bundle of rights that are associated with share ownership.

The Rule was created to support the ownership interests of all shareholders – but especially those of minority shareholders. It has created an efficient means by which shareholders can communicate with each other, and for corporate management teams and Boards to hear from and to address shareholder concerns as they may relate to sustainability, risk mitigation, equity, and good-governance issues.

The Rule can be viewed as a pinnacle of collective achievement which reflects many years of SEC and other stakeholder deliberation, guidance, and use. It now stands as an important, well-functioning, and integral process for ensuring corporate democracy.

---

Investments, the Investor Advocates for Social Justice, Investor Voice, NorthStar Asset Management, Trillium Asset Management, and Wespath.

In stark contrast, this Release represents a radical and dramatic departure from these established, vetted, and well-functioning norms. It would impose capricious and arbitrary new rules that would interfere with critical shareholder rights, hobble the existing Rule, and dim its high purpose and investor-focused intent. It would limit company share owners – especially small Main Street investors – in the free exercise of fundamental rights that should rightly attach to their share ownership.

In addition, the Proposal would constrict the future free flow of a panoply of benefits that historically have served a wide array of stakeholders. The existing proposal process has catalyzed thousands of constructive engagements with companies – engagements whose tangible benefits have accrued to shareholders, corporations, and society at large.

Multiple aspects of the Release would radically and dramatically interfere with important shareholder rights and significantly weaken the role investors now play in the good governance of U.S. companies. This, in turn, could jeopardize long-term value-creation, and undermine the collaborative relationship of trust that exists between capital providers and capital recipients – perhaps eroding support for the capital markets themselves.

Therefore, in light of all this, we respectfully urge the Commission to reject the Release, and to oppose any attempt to modify, limit, supplant, or weaken the SEC shareholder proposal rule, Rule 14a-8. Thank you.

Sincerely,

Bruce T. Herbert, AIF
Chief Executive *and* ACCREDITED INVESTMENT FIDUCIARY

**PS:** I commend to the Commission's attention two additional items:

- An in-depth briefing document: The Business Care for the Current SEC Shareholder Proposal Process[18] and:
- A joint letter[19] from organizations representing $65 trillion in assets who oppose making any changes to SEC Rule 14a-8. The letter was written during an earlier assault on these very same Main Street investor rights by the very same cohort of actors: the Business Round Table, the U.S. Chamber of Commerce, and the National Association of Manufacturers.

enc: Exhibit A, Exhibit B

cc: The Honorable **Jay Clayton**, Chairman
The Honorable **Robert J. Jackson, Jr.**, Commissioner
The Honorable **Hester M. Peirce**, Commissioner
The Honorable **Elad L. Roisman**, Commissioner
The Honorable **Allison Herren Lee**, Commissioner

[18] http://bit.ly/Business-Case-for-SEC-Rule-14a8

[19] http://bit.ly/Joint-Letter-Supporting-Rule-14a8

# Exhibit A

| | A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|---|
| # | Estimate of MCD's total chemical cost on potatoes | Projected IPM savings % | Annual saving for MCD | No. of R3000 companies benefitting | = what % of the R3000 | Calculated benefit over range of R3000 companies in column D | HIGH SEC estimate of annual savings | Benefit multiple for shareholder engagement in SEC high est. | LOW SEC estimate of annual savings | Benefit multiple for shareholder engagement in SEC low est. |
| 1 | $ 43,562,598 | 15% | $ 6,534,390 | 3,000 | 100% | A $ 19,603,169,100 | $ 70,600,000 | B 277.67 | $ 1,400,000 | C 14,002 |
| 2 | $ 43,562,598 | 15% | $ 6,534,390 | 1,500 | 50.0% | $ 9,801,584,550 | $ 70,600,000 | 138.83 | $ 1,400,000 | 7,001 |
| 3 | $ 43,562,598 | 15% | $ 6,534,390 | 1,000 | 33.3% | $ 6,534,389,700 | $ 70,600,000 | 92.56 | $ 1,400,000 | 4,667 |
| 4 | $ 43,562,598 | 15% | $ 6,534,390 | 500 | 16.7% | $ 3,267,194,850 | $ 70,600,000 | 46.28 | $ 1,400,000 | 2,334 |
| 5 | $ 43,562,598 | 15% | $ 6,534,390 | 100 | 3.3% | $ 653,438,970 | $ 70,600,000 | 9.26 | $ 1,400,000 | 466.7 |
| 6 | $ 43,562,598 | 15% | $ 6,534,390 | 50 | 1.7% | $ 326,719,485 | $ 70,600,000 | 4.63 | $ 1,400,000 | 233.4 |
| 7 | $ 43,562,598 | 10% | $ 4,356,260 | 3,000 | 100% | $ 13,068,779,400 | $ 70,600,000 | 185.11 | $ 1,400,000 | 9,335 |
| 8 | $ 43,562,598 | 10% | $ 4,356,260 | 1,500 | 50.0% | $ 6,534,389,700 | $ 70,600,000 | 92.56 | $ 1,400,000 | 4,667 |
| 9 | $ 43,562,598 | 10% | $ 4,356,260 | 1,000 | 33.3% | $ 4,356,259,800 | $ 70,600,000 | 61.70 | $ 1,400,000 | 3,112 |
| 10 | $ 43,562,598 | 10% | $ 4,356,260 | 500 | 16.7% | $ 2,178,129,900 | $ 70,600,000 | 30.85 | $ 1,400,000 | 1,556 |
| 11 | $ 43,562,598 | 10% | $ 4,356,260 | 100 | 3.3% | $ 435,625,980 | $ 70,600,000 | 6.17 | $ 1,400,000 | 311.2 |
| 12 | $ 43,562,598 | 10% | $ 4,356,260 | 50 | 1.7% | $ 217,812,990 | $ 70,600,000 | 3.09 | $ 1,400,000 | 155.6 |
| 13 | $ 43,562,598 | 5% | $ 2,178,130 | 3,000 | 100% | $D 6,534,389,700 | $ 70,600,000 | E 92.56 | $ 1,400,000 | 4,667 |
| 14 | $ 43,562,598 | 5% | $ 2,178,130 | 1,500 | 50.0% | $ 3,267,194,850 | $ 70,600,000 | 46.28 | $ 1,400,000 | 2,334 |
| 15 | $ 43,562,598 | 5% | $ 2,178,130 | 1,000 | 33.3% | $ 2,178,129,900 | $ 70,600,000 | 30.85 | $ 1,400,000 | 1,556 |
| 16 | $ 43,562,598 | 5% | $ 2,178,130 | 500 | 16.7% | $ 1,089,064,950 | $ 70,600,000 | 15.43 | $ 1,400,000 | 777.9 |
| 17 | $ 43,562,598 | 5% | $ 2,178,130 | 100 | 3.3% | $ 217,812,990 | $ 70,600,000 | 3.09 | $ 1,400,000 | 155.6 |
| 18 | $ 43,562,598 | 5% | $ 2,178,130 | 50 | 1.7% | $ F 108,906,495 | $ 70,600,000 | G 1.54 | $ 1,400,000 | 77.8 |

**Examples:**

**A** (F1) = Annual benefit of shareholder engagement if projected 15% savings applies to all R3000 companies.
**B** (H1) = The number of times more beneficial Rule 14a-8 is for investors than the SEC's high figure for curtailing it.
**C** (J1) = The number of times more beneficial Rule 14a-8 is for investors than the SEC's low figure for curtailing it.
**D** (F13) = Annual benefit of shareholder engagement if only 5% savings applies to all R3000 companies.
**E** (H13) = The number of times better Rule 14a-8 is than the SEC's estimated low figure for curtailing it.
**F** (F18) = Minimum annual benefit of shareholder engagement if only 5% savings applies to only 1.7% R3000 companies.
**G** (H18) = The minimum number of times better Rule 14a-8 is than the SEC's estimated high figure for curtailing it.

**A** = Annual cost for McDonald's (ticker MCD) of chemical inputs on potatoes (USDA/Manitoba estimates).
**B** = Estimated reduction in chemical inputs from use of Integrated Pest Management (IPM). Choose 15%, 10%, or 5%.
**C** = Reading across row, this would be the annual $$ savings for McDonald's (AxB).
**D** = Number of R3000 companies one assumes the annual cost savings will apply to.
**E** = What % the number of compannies in D represents of the total R3000.
**F** = Reading across row (using the SEC's methodology), total annual savings, aggregated across R3000 company sample (CxD).
**G** = SEC Release's high estimate, including all R3000 companies, of benefit of curtailing shareholder engagement activity.
**H** = Order of magnitude improvement (over SEC's high estimate) from allowing shareholder engagement unchanged by proposed new rules.
**I** = SEC Release's low estimate, including all R3000 companies, of benefit of curtailing shareholder engagement activity.
**J** = Order of magnitude improvement (over SEC's low estimate) of allowing shareholder engagement unchanged by proposed new rules.

Prepared 2/3/2020 by Newground Social Investment

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Workplace | Patric Verwijmeren and Jeroen Derwall | 2009 | Employee well-being, firm leverage, and bankruptcy risk | Employees of liquidating firms are likely to lose income and non-pecuniary benefits of working for the firm, which makes bankruptcy costly for employees. This paper examines whether firms take these costs into account when deciding on the optimal amount of leverage. We find that firms with leading track records in employee well-being significantly reduce the probability of bankruptcy by operating with lower debt ratios. Moreover, we observe that firms with better employee track records have better credit ratings, even when we control for differences in firm leverage. | positive | Companies | 2001-2005 | US | regression | 7,494 observations | leverage, credit ratings | http://www.researchgate.net/profile/Jeroen_Derwall/publication/46497118_Employee_well-being_firm_leverage_and_bankruptcy_risk/links/0fcfd5141fc436f22d000000.pdf |
| 2 | Workplace | M Ward and C Miller | 2009 | The Long-term Share Price Reaction to Black Economic Empowerment Announcements on the Johannesburg Securities Exchange | Black Economic Empowerment has been the South African government's primary mechanism for addressing the economic injustices of the *apartheid* era. Voluntary sector "charters", and more recently legislation, have required the largely white owned business enterprises to become more inclusive across key areas of economic empowerment. This research employs event study methodology to examine the long-term impact on the share prices of 60 listed companies after announcements are made relating to black empowerment deals which impact ownership. The research finds that positive (although insignificant) returns are made in the three days preceding the announcement, but these quickly dissipate. Over the next 240 trading days however, a positive cumulative average abnormal return of around 15% is evident. | positive | Companies | 2000-2003 | South Africa | event study | 60 | abnormal returns | http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1261283&download=yes |
| 3 | Workplace | reo Research | 2009 | Factory Labour Standards in Emerging Markets: An Investor Perspective | There is a significant gap between leaders and laggards on factory labour standards. Beyond the leading companies with established labour standards programmes, many companies have not adopted codes based on international labour standards, undertaken factory audits or reviewed their purchasing practices. Adoption of labour standards codes is less prevalent outside of Europe, among medium-sized companies and brands that have not been targeted by campaign groups. F&C's engagement indicates that such companies may be underestimating the extent to which labour standards could present both risks from business disruption and opportunities relating to enhancing productivity. | n/a | Companies | n/a | global | discussion | n/a | n/a | https://www.responsible-investor.com/images/uploads/resources/research/11232457241FandC_Factory_Labour_Standards_in_Emerging_Markets.pdf |
| 4 | Workplace | E. Han Kim | 2009 | Corporate Governance and Labor Relations | The corporation is where capital meets labor, a symbiotic relationship in which one cannot function without the other. Workers influence governance through various channels, as those who are governed inevitably influence the process of governing through their actions. To illustrate, I describe cases in which workers forced transparency, restrained managerial compensation, and impacted corporate performance. I summarize empirical evidence that properly motivating labor through employee stock ownership plans increases worker productivity, benefitting both shareholders and workers. However, socio-political and legal institutions bestowing workers with excessive influence vis-à-vis investors induces underperforming management to form an alliance with labor, wherein the management engages in value-destroying decisions to garner worker support. American firms may not be immune from harmful effects of such alliances, especially those past their glory days. I conclude by calling for a balanced governance system geared toward shareholder value enhancement, which at the same time encourages worker participation and remains cognizant of their welfare. Such a system, I believe, will lead to greater welfare for all stakeholders. | positive | Companies | n/a | global | literature review | n/a | n/a | http://webuser.bus.umich.edu/ehkim/articles/CorpGovWtr2009.pdf |
| 5 | Workplace | Rob Bauer, Jeroen Derwall and Daniel Hann | 2009 | Employee Relations and Credit Risk | Consistent with the theory that human capital management influences organizational performance and risk, we find that employee relations explain the cross-sectional variation in credit risk. We construct an aggregate measure for the quality of employee relations based on the firm's engagement in employment practices and policies, and document that firms with stronger employee relations enjoy a statistically and economically lower cost of debt financing, higher credit ratings, and lower firm-specific risk. These findings are robust to the inclusion of a comprehensive set of controls and to alternative explanations. | positive | Companies | 1990-2006 | US | regression | S&P 500, S&P 1000 | cost of debt financing, bond rating, credit ratings | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1483112 |
| 6 | Workplace | Zenyep Ton | 2009 | The Effect of Labor on Profitability: The Role of Quality | Determining staffing levels is an important decision in retail operations. While the costs of increasing labor are obvious and easy to measure, the benefits are often indirect and not immediately felt. One benefit of increased labor is improved quality. The objective of this paper is to examine the effect of labor on profitability through its impact on quality. I examine both conformance quality and service quality. Using longitudinal data from stores of a large retailer, I find that increasing the amount of labor at a store is associated with an increase in profitability through its impact on conformance quality but not its impact on service quality. While increasing labor is associated with an increase in service quality, in this setting there is no significant relationship between service quality and profitability. My findings highlight the importance of attending to process discipline in certain service settings. They also show that too much corporate emphasis on payroll management may motivate managers to operate with insufficient labor levels, which, in turn, degrades profitability. | positive | Companies | 1999-2002 | US | case studies | n/a | profitability | https://www.hbs.edu/faculty/Publication%20Files/09-040_146640ac-c502-4c2a-9e97-f8370c7c6903.pdf |

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | Workplace | Alex Edmans | 2007 | Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices | This paper analyzes the relationship between employee satisfaction and long-run stock performance. A portfolio of stocks selected by Fortune magazine as the Best Companies to Work For in America in January 1998 earned over double the market return by the end of 2005, and a monthly four-factor alpha of 0.64%. The portfolio also outperformed industry- and characteristics-matched benchmarks. These findings have two main implications. First, they suggest that employee satisfaction improves corporate performance rather than representing inefficiently excessive non-pecuniary compensation. Second, they imply that the stock market does not fully value intangibles, even when they are made visible by a publicly available survey. This suggests that intangible investment generally may not be incorporated into short-term prices, providing support for managerial myopia theories. | positive | Companies | 1984-2009 | US | regression | 244 firms, 1,616 firm-years | long-run stock returns | http://faculty.london.edu/aedmans/Rowe.pdf |
| 8 | Workplace | Anne Moore O'Dell | 2007 | Engaged Employees Equal Increased Earnings | Companies with the highest percentage of engaged workers, the study reports, make more money. In a 12-month study across 50 companies, companies with the highest percentage of engaged workers had a 19% increase in operating incomes and a 28% increase in earnings per share. On the other hand, over the same year period, companies with the lowest employee engagement rates showed a 33% decline in operating incomes and an 11% decline in earnings per share. A three year study that followed 41 companies showed a 3.7% rise in operating margins in companies with engaged workers versus a 2% drop in operating margins in companies with less engaged workers. | | | | | | | | |
| 9 | Workplace | Olubunmi Faleye and Emery Trahan | 2006 | Is What's Best for Employees Best for Shareholders? | We study the effect of labor-friendly corporate practices on shareholder outcomes using firms selected by *Fortune* magazine as the "Best 100 Companies to Work for in America" over 1998-2004. We find that investors react positively to the list's announcement and that list firms subsequently outperform a size- and industry-matched control group on productivity, profitability, and value creation. Human capital dependent firms are more likely to make the list and the benefits of improved performance accrue mostly to such firms. Our analysis of excess executive compensation and forced turnover suggests that top management derives no pecuniary benefits from labor-friendly practices. We therefore interpret our results as consistent with rational choice, noting that the benefits of devoting significant resources to employee welfare appear to outweigh the costs, especially for firms that depend more on human capital. | | | | | | | | |
| 10 | Workplace | Paul Boselie, Graham Dietz, and Corine Boon | 2005 | Commonalities and Contradictions in HRM and Performance Research | This is an overview of what the authors believe to be every empirical research article into the linkages between HRM (human resources management) and performance published in pre-eminent international refereed journals between 1994 and 2003. The analysis covers the design of the study, including the primary level of analysis and the identity of the respondents; the dominant theoretical framework(s) informing the article; how HRM is conceived and operationalised; how performance is conceived and operationalised; and which control and/or contingency variables are incorporated. Finally, the article examines how each study depicts the so-called 'black box' stage between HRM and performance | | | | | | | | |
| 11 | Workplace | Leonardo Becchetti, Stafania Di Giacomo and Damiano Pinnacchio | 2005 | Corporate Social Responsibility and corporate performance: evidence from a panel of US listed companies | We investigate whether inclusion and permanence in the Domini social index affects corporate performance on a sample of around 1,000 firms in a 13-year interval by controlling for size, industry, business cycle and time invariant firm idiosyncratic characteristics. Our results find partial support to the hypothesis that corporate social responsibility is a move from the shareholders wealth to a multistakeholders welfare target. On the one side, permanence into the Domini index is shown to increase (reduce) significantly total sales per employee (returns on equity but not when large and R&D investing firms are excluded from the sample). On the other side, lower returns on equity for Domini firms seem nonetheless to be accompanied by relatively lower conditional volatility and lower reaction to extreme shocks with respect to the control sample. An explanation for these findings, suggested by the inspection of Domini criteria, is that social responsibility implies, on the one side, decisions leading to higher cost of labour and of intermediate output, but may, on the other side, enhance involvement, motivation and identification of the workforce with company goals with positive effects on productivity. | | | | | | | | |
| 12 | Workplace | CBS MarketWatch | 2004 | The workplace case for csr | Firms that don't address workers' perceptions of disparate pay face higher turnover rates. | | | | | | | | |
| 13 | Workplace | Paul Fronstin | 2004 | The Business Case for Investing in Employee Health: A Review of the Literature | Employers that offer health insurance to their workers generally believe that offering this benefit helps to create a more satisfied and productive work force. The fairly large, sophisticated employers discussed in this report have found that by aligning preventive health services and work place education programs with their health benefit programs, they can improve work force health and productivity and manage their employees' use of health care. | | | | | | | | |

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14 | Workplace | Janell L. Blazobich, Kirsten A. Cook, Janet H. Huston and William R. Strawser | 2013 | Do Gay-Friendly Corporate Policies enhance Firm Performance? | Prior research provides evidence that gay-friendly corporate policies (e.g., inclusion in anti-discrimination provisions, extension of benefits to same-sex domestic partners, etc.) improve employee recruitment and retention, make gay employees feel more welcome and accepted in the workplace, and enhance consumer perception. In addition, investors view the adoption of such policies positively. In this study, we examine the firm-performance mechanisms underlying this favorable stock-market reaction. Specifically, we find that (1) the presence of gay-friendly policies is associated with higher firm value and productivity, (2) firms implementing (discontinuing) these policies experience increases (decreases) in firm value, productivity, and profitability, and (3) the firm-value and profitability benefits associated with gay-friendly policies are larger for companies with demand for highly skilled labor. These results are robust to various methods of addressing endogeneity. | positive | Companies | 1996-2009 | unknown | regression | 4619 firm-years | Tobin's Q, firm value, net sales/employee, ROA | |
| 15 | Workplace | Janell L. Blazovich, Katherine Taken Smith and L. Murphy Smith | 2013 | Employee-Friendly Companies and Work-Life Balance: Is There an Impact on Financial Performance and Risk Level? | Companies and individuals are increasingly concerned about employee-friendly work environments and work-life balance. Past research shows that employee-friendly work environments and particularly work-life balance contribute to employee satisfaction. The present study addresses two important related research questions. First, while employee-friendly companies may have greater worker satisfaction, do employee-friendly companies have superior financial performance? Second, do employee-friendly companies have lower levels of risk? Results of our analysis indicate that employee-friendly companies, compared to other companies, do indeed have better financial performance and lower risk levels. This is an important finding, as it affirms corporate efforts to offer employee-friendly work environments, including facilitating work-life balance for employees. Such efforts pay off, not only with worker satisfaction, as demonstrated in prior studies, but also as shown in this study, with improved company financial performance and risk level. | positive | Companies | 2006-2012 | US | | 76 firms, 271 firm-years | sales divided by total assets, return on total assets (computed as net income divided by total assets), return on equity (computed as net income divided by total equity), and market value of equity (computed as stock price per share multiplied by total number of shares outstanding); and for risk (a) two balance-sheet liquidity measures, current ratio (computed as current assets divided by current liabilities) and leverage (computed as long-term debt divided by assets); and (b) the Altman-Z score, a credit score | |
| 16 | Workplace | Alex Edmans, Lucius Li and Chendi Zhang | | Employee Satisfaction, Labor Market Flexibility, and Stock Returns Around the World | We study the relationship between employee satisfaction and abnormal stock returns around the world, using lists of the "Best Companies to Work For" in 14 countries. We show that employee satisfaction is associated with positive abnormal returns in countries with high labor market flexibility, such as the U.S. and U.K., but not in countries with low labor market flexibility, such as Germany. These results are consistent with high employee satisfaction being a valuable tool for recruitment, retention, and motivation in flexible labor markets, where firms face fewer constraints on hiring and firing. In contrast, in rigid labor markets, legislation already provides minimum standards for worker welfare and so additional expenditure may exhibit diminishing returns. The results have implications for the differential profitability of socially responsible investing ("SRI") strategies around the world. In particular, they emphasize the importance of taking institutional features into account when forming such strategies. | mixed | Companies | 1998-2013 | global | regression | 500-840 | portfolio returns | |
| 17 | Workplace | Huasheng Gao and Wei Zhang | 2014 | Does Workforce Diversity Pay? Evidence from Corporate Innovation | We examine the impacts of workforce diversity on business success from the perspective of corporate innovation. Our baseline results reveal that firms with greater workforce diversity generate more patents and patent citations. To establish causality, we apply an instrumental variable approach and use a difference-in-differences test based on the multiple exogenous shocks from the adoption of state-level employment law that prohibits discrimination based on sexual orientation and gender identity. Our identification strategies suggest a positive causal effect of workforce diversity on firm innovation. Overall, our findings are consistent with the view that a diverse and inclusive workforce provides a greater range of perspectives and ideas that spur innovation. | positive | Companies | 2003-2010 | US | regression | 8834 firm-years | patents | |
| 18 | Workplace | Boston Consulting Group | 2014 | Creating People Advantage 2014-2015: How to Set Up Great HR Functions | We found that companies that are stronger in people management have a correspondingly higher financial performance. …In contrast, companies with the worst financial performance show a greater need for action across virtually all 27 HR subtopics, with seven clearly in the red zone and three more at the border. (See page 12 of the report) | positive | Companies | 2014 | global | survey | 3,501 respondents, 101 countries | share price | https://www.bcgperspectives.com/Images/Creating_People_Advantage_2014_2015_Dec_2014_tcm80-177846.pdf |

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 19 | Workplace | Chen Lin, Thomas Schmid, and Yuhai Xuan | 2014 | Employee Representation and Financial Leverage | German law mandates that firms' supervisory boards consist of an equal number of employees' and owners' representatives. This law, however, applies only in firms with over 2,000 domestic employees. Exploiting this discontinuity for identification, we find that employee power increases financial leverage. We explain this by a supply side effect: as banks' interests are similar to those of employees, higher employee power reduces agency conflicts between firms and debt providers. Supportive evidence comes from bank ownership: using the capital gain tax reform as exogenous shock, we find that equity holdings of banks and employee co-determination are substitutes. Lower cost of debt, longer debt maturities, smaller loan syndicates, fewer covenants, and less financial constraints of co-determined firms also point towards an alignment effect. Analyzing M&A decisions, cash flow and profit stability, and idiosyncratic risk reveals lower firm risk as a possible channel for this alignment. | positive | Companies | 2005-2013 | Germany | regression | 817 firm-years for 164 firms | leverage, interest rate, loan characteristics, cash flow sensitivity | http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2544223 |
| 20 | Workplace | Aaron Bernstein and Larry Beeferman | 2015 | The Materiality of Human Capital to Corporate Financial Performance | A new research study connects the dots on the relationship between corporate human resources (HR) policies and investment outcomes such as return on equity, return on investment and profit margins. Of the many studies of human capital policies, the new paper examines 92 that focus on the links to corporate financial performance. The authors find that a large majority of the studies - conducted over several decades and encompassing dozens of countries and industries - reported positive correlations. | mixed | Companies | n/a | n/a | meta-analysis | 92 studies | n/a | http://irrcinstitute.org/pdf/FINAL-Human-Capital-Materiality-April-23-2015.pdf |
| 21 | Workplace | MSCI | 2015 | Human Capital and Employee Performance: The Invisible Hand or the Extended Hand? | We found that companies offering strong talent management programs were more cost efficient than peers, though we noted generally lower levels of responsibility on a per employee basis. § Higher paying companies with strong talent management were less cost efficient but generated higher output and gave employees more responsibility. § Companies with strong human capital strategies that are salary competitive but not top payers in comparison to peers are more likely to maximize employee performance. § Lower paying companies who adopted strong human capital strategies correlate to higher levels of employee responsibility. § Strong human capital strategies may limit downturns in employee output during times of high employee turnover. | mixed | Companies | 2011-2013 | global | unknown | 127 | average equity/employee, average assets/employee, ave equity/usd compensation, average earnings/employee, average earnings/usd compensation | https://www.msci.com/documents/10199/aa995278-c706-4caa-bf4e-fae523bb9579 |
| 22 | Workplace | V. Kumar and Anita Pansari (MIT Sloan Management Review) | 2015 | Measuring the Benefits of Employee Engagement | It's well known that employees' attitudes toward the organization have a significant effect on how they approach their jobs and how they treat customers. But recent research also suggests that high levels of employee engagement are associated with higher rates of profitability growth. | positive | Companies | 2014-15 | global | custom | 75 companies | EPS | http://sloanreview.mit.edu/article/measuring-the-benefits-of-employee-engagement/ |
| 23 | Workplace | Nick Bloom, Tobias Kretschmer and John Van Reenen | 2011 | Are Family-Friendly Workplace Practices a Valuable Firm Resource? | We study the determinants and consequences of family-friendly workplace practices (FFWP) using a sample of over 450 manufacturing firms in Germany, France, U.K., and U.S. We find a positive correlation between firm productivity and FFWP. This association disappears, however, once we control for a measure of the quality of management practices. We further find that firms with a higher proportion of female managers and more skilled workers, as well as well managed firms, tend to implement more FFWP. Conversely, a firm's environment does not have a significant impact on the FFWP it provides | positive/mixed | Companies | | | | | | http://eprints.lse.ac.uk/33892/1/__lse.ac.uk_storage_LIBRARY_Secondary_libfile_shared_repository_Content_Bloom%2C%20N_Bloom_Are_%20family_friendly_2011_Bloom_Are_%20family_friendly_2011.pdf |
| 24 | Workplace | Nick Bloom, Tobias Kretschmer and John Van Reenen | 2007 | Work-Life Balance, Management Practices and Productivity | Many critics of free-market liberalism argue that higher product-market competition and the "Anglo-Saxon" management practices it stimulates increases productivity only at the expense of employees' work-life balance (WLB). The empirical basis of these claims is unclear. To address this issue we use an innovative survey tool to collect the first international data on management practices and work-life balance practices, surveying 732 medium sized manufacturing firms in the US, France, Germany and the UK. We find that WLB outcomes are significantly associated with better management, so that well run firms are both more productive and better for their employees. After controlling for management practices, however, we find no additional relationship between WLB and productivity. WLB practices are also not reduced by tougher competition, suggesting no deleterious effect of competition on employees' working environment. Finally, looking at multinationals we find that US subsidiaries in Europe adopt the superior management practices of their US parent firms but the local WLB practices of their European competitors. | positive | Companies | n/a | US, France, Germany and the UK | regression | 732 | productivity | http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1309575 |
| 25 | Workplace | Seajin Chang, Ji Yeol Jimmy Oh, and Kwangwoo Park | 2016 | The power of silent voices: Employee satisfaction and acquirer stock performance | Employees are the most valuable asset of a firm. To test whether this statement is more than rhetoric, we assemble a novel social media dataset that captures the level of employee satisfaction in S&P 500 firms, and explore its relationship with stock returns in the aftermath of mergers and acquisitions. Our results show that employee satisfaction has a strong long-run positive effect on acquirers' stock performance, even though its short-run effect on cumulative abnormal returns is largely insignificant. This is in contrast with previous studies wherein the external evaluations of corporate social responsibility have had significant short-run but weaker long-run effects on equity prices. Our results suggest that the stock market is unable to fully incorporate the value of employee satisfaction. | positive | Companies | | | | | | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2827397 |

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 26 | Workplace | Hao Liang, Luc Renneboog and Cara Vansteenkiste | 2017 | Corporate Employee-Engagement and Herger Outcomes | Extending the theories of employee incentives and inalienability of human capital, we investigate the link between a firm's engagement in employee issues and the returns to shareholders around mergers and acquisitions (M&As) and analyze an international sample of 4,565 M&A deals from 48 countries. We find that stronger employee-engagement — especially in terms of monetary benefits — by the acquiring firm is positively related to shareholder returns in domestic deals, but this positive effect is attenuated in cross-border deals, whereas workforce diversity, training and development, or health and safety do not affect shareholder value. The attenuating effect of cross-border deals is stronger when uncertainty about post-merger labor integration is higher and when economic nationalism in the target's country is stronger, consistent with an explanation based on the inalienability of human capital and employment policies. Moreover, we find that most effects of employee-engagement on shareholder returns are driven by the acquirer rather than the target, and that they persist in the long run post-merger. | mixed | | | | | | | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2932021 |
| 27 | Workplace | Achyuta Adhvaryu, Namrata Kala and Anant Nyshadham | 2016 | Soft Skills to Pay the Bills: Evidence from Female Garment Workers | Non-cognitive ("soft") skills – allocating time and money effectively, teamwork, leadership, relationship management, acquiring and assimilating information – account as much for long-term economic success as cognitive ability and educational attainment. But these skills may be very difficult to teach in adulthood, especially to those with low baseline skill sets. Moreover, firms may be reluctant to invest in workers' skills if attrition rates are high, which is particularly the case for frontline workers. We carried out a randomized experiment with female garment workers in Bengaluru, India to test whether it is possible to impart soft skills to frontline workers, and evaluate the labor productivity, retention, and profitability consequences for firms. Treated workers are less likely to leave during the program, and exhibit substantially higher productivity up to nine months after program completion. This leads to being assigned to more complex tasks and a greater likelihood of promotion. Treated workers are also more likely to enroll in workplace skill development and production incentive programs. Survey evidence supports the hypothesis that the stocks of soft skills improved in key dimensions. Two-stage randomization allows us to estimate spillovers within production teams; spillovers in productivity are substantial and persistent. Using actual costing data we find that the program pays for itself several times over by the end of the evaluation period, implying that teaching soft skills in the workplace can be profitable for firms even in high turnover environments. | | | | | | | | http://jobsanddevelopmentconference.org/wp-content/uploads/2016/10/ADHVARYU-Namrata-Kala-Anant-Nyshadham-PACE_aug2016.pdf |
| 28 | Workplace | Claudine Gartenberg, Andrea Prat and George Serafeim | 2018 | Corporate Purpose and Financial Performance | We construct a measure of corporate purpose within a sample of US companies based on approximately 500,000 survey responses of worker perceptions about their employers. We find that this measure of purpose is not related to financial performance. However, high purpose firms come in two forms: firms that are characterized by high camaraderie between workers and firms that are characterized by high clarity from management. We document that firms exhibiting both high purpose and clarity have systematically higher future accounting and stock market performance, even after controlling for current performance, and that this relation is driven by the perceptions of middle management and professional staff rather than senior executives, hourly or commissioned workers. Taken together, these results suggest that firms with employees that maintain strong beliefs in the meaning of their work experience better performance. | | | | | | | | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2840005 |
| 29 | Workplace | E. Han Kim, Ernst G. Maug and Shristoph Schneider | 2018 | Labor Representation in Governance as an Insurance Mechanism | We hypothesize that labor participation in governance helps improve risk sharing between employees and employers. It provides an ex-post mechanism to enforce implicit insurance contracts protecting employees against adverse shocks. Results based on German establishment-level data show that skilled employees of firms with 50% labor representation on boards are protected against layoffs during adverse industry shocks. They pay an insurance premium of 3.3% in the form of lower wages. Unskilled blue-collar workers are unprotected against shocks. Our evidence suggests that workers capture all the gains from improved risk sharing, whereas shareholders are no better or worse off than without codetermination. | | | | | | | | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2399399 |

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 30 | Workplace | Benjamin Colton | 2018 | What are the Effects of Employee Voice Mechanisms on Performance, Diversity, and Employee Satisfaction Dimensions in Public Corporations? | This study explores the impact of employee voice by comparing the characteristics between public corporations with and without employee engagement surveys in place. First, it provides evidence of the relationship between companies utilizing employee engagement surveys and various long-term performance indicators. Companies with employee engagement surveys are expected to generate significantly higher returns with lower volatility and display a lower probability of default. Second, it demonstrates correlations between companies with established employee engagement survey programs and dimensions of diversity, including director independence and gender diversity, at the senior management and board levels. Third, it extends organizational justice (OJ) literature by confirming a positive relationship between employee voice opportunities and their satisfaction level with leadership. Finally, the study suggests that the existence of employee engagement surveys provides an additional, robust proxy to gauge the level of diversity in thought within an organization. Performance dimensions in companies utilizing employee engagement surveys differ significantly compared to those without them. Companies with employee engagement surveys have an average annual rate of return of 11.36% compared to 4.82% in companies without. The outperformance is most pronounced among the North American subset (12.72% vs. 4.48%). Companies utilizing employee engagement surveys have significantly lower implied volatility measuring at 29.44 compared to 45.29 in companies without them. Companies with employee engagement surveys are also significantly less risky with a ten-year default probability of 0.7% vs. 2.8% otherwise. The differences are statistically significant across regions. Dimensions of diversity are significantly higher in companies with employee engagement surveys in place. Across the sample, the percentage of women on the board in companies with employee engagement surveys is 21.95% compared with 17.06% in companies that do not. The gap is most pronounced in North American companies where female director representation is 20.32% compared to 12.78% in companies without them. | positive | Companies | 2014 | North America and Europe | regression | 73 observations based on survey response | returns, forward imlied volatility, default risk probability | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3178382 |
| 31 | Workplace | Agne Lajackaite and Dirk Sliwka | 2018 | Prososial Managers, Employee Motivation, and the Creating of Shareholder Value | Milton Friedman has famously claimed that the responsibility of a manager who is not the owner of a firm is "to conduct the business in accordance with their [the shareholders'] desires, which generally will be to make as much money as possible." In this paper we argue that when contracts are incomplete it is not necessarily in the interest even of money maximizing shareholders to pick a manager who pursues this goal. We show in a formal model and in a series of lab experiments that choosing a manager who has a preference to spend resources for social causes can increase employee motivation. In turn, ex-post losses in shareholder value may be offset by ex-ante gains in performance through higher employee motivation. | positive | Companies | 2014-2016 | Germany | regression | 6.557 employees x 947 establishments | employee engagement | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3249903 |
| 32 | Workplace | Denise Potosky, Pornsit Jiraporn and Sangmook Lee | 2018 | Corporate Governance and LGBT-Supportive HR Policies from CSR, Resource-based, and Agency Perspectives | Corporate boards are responsible for ensuring that managers enact policies that are in shareholders' best interests, and managers are responsible for implementing strategies that are not only profitable, but responsive to changing legal and societal demands and the resource needs of the firm. In this paper, we use the theoretical lenses of corporate social responsibility (CSR), the resource-based view (resource-based view), and agency theory to investigate the relationship between corporate governance structure and the implementation of supportive lesbian, gay, bisexual, and transgender (LGBT) policies. We analyze 10,233 firm-year observations and 1,594 unique firms, and our results demonstrate that LGBT-supportive policies are positively associated with firm performance. We also offer new insight into why not all firms adopt such policies. We exploit the passage of the Sarbanes-Oxley Act as an exogenous shock that increased board independence, and our difference-in-difference estimation shows that firms forced to raise board independence in 2002 were less likely to invest in LGBT-supportive policies. Results suggest that HRM policies can be guided by CSR and resource-based view in pursuit of wealth maximization, but agency conflict may also be a concern for external majority boards. We discuss implications for HRM research practice, and corporate governance regarding LGBT policies in organizations. Electronic copy ava | positive | Companies | 1996-2011 | US | regression | 10,233 firm-year observations | Tobin's Q, ROA, operating cash flow | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3303647 |
| 33 | Workplace | Agne Lajackaite and Dirk Sliwka | 2018 | Prosocial Managers, Employee Motivation, and the Creation of Shareholder Value | Milton Friedman has famously claimed that the responsibility of a manager who is not the owner of a firm is "to conduct the business in accordance with their [the shareholders'] desires, which generally will be to make as much money as possible." In this paper we argue that when contracts are incomplete it is not necessarily in the interest even of money maximizing shareholders to pick a manager who pursues this goal. We show in a formal model and in a series of lab experiments that choosing a manager who has a preference to spend resources for social causes can increase employee motivation. In turn, ex-post losses in shareholder value may be offset by ex-ante gains in performance through higher employee motivation. | positive | Companies | 2014-2016 | Germany | regression | 1,363 survey responses | work effort | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3249903 |

# Exhibit B

| # | Category | Author(s) | Year | Title | Abstract | Performance effect | Funds or Companies | Time period covered | Geographic coverage | Type | Sample size | Dependent variable | URL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 34 | Workplace | George Serafeim | 2019 | How purpose-driven employees help power profitable companies | A recent research study finds a link between purpose, corporate profitability and significant positive risk adjusted stock returns, based on a private survey of about 500,000 employees in 429 firms. | positive | Companies | 2005-2011 | US | regression | over 500,000 employees, 429 firms, identified by Great Places to Work Institute | future ROA | https://www.savvyinvestor.net/sites/default/files/node/paper/file/Managing%20human%20capital%20for%20value%20creation.pdf |
| 35 | Workplace | Alison Omens | 2019 | Reskilling America's Workforce for the Future of Work | What we found is that 72% of companies disclosed that they offer career development – and what's more, those companies boast an ROE advantage 1.4 percentage points higher than their peers, showing that skills training is not just a win for workers, but a win for companies. | positive | Companies | | | | | | https://justcapital.com/news/reskilling-americas-workforce-for-the-future-of-work/ |
| 36 | workplace | Just Capital | 2019 | The Win-Win of Just Jobs | Analyzes (and good tables) relationship between gender pay equity analysis, diversity policy, diversity targets, paid time off policies, paid parental leave policies, day care services, flexible work hours, career development policy, and tuition reimbursement policy and ROE,, comparing companies that have these things, and breaking that down into those that have made it public and those that haven't, and companies that don't have these things. IN every case, the companies that have these policies and make the results public have higher 5-year ROE | positive | Companies | 2013/2018 | US | n/a | 890 companies | ROE | https://justcapital.com/wp-content/uploads/2019/04/Win-Win-of-JUST-Jobs-Report_041619.pdf |
| 37 | Workplace | Savita Subramanian, Toby Wace, James Yeo, Jill Carey Hallo, Alex Makedon, Jimmy Bonilla and Ohsung Kwon | 2019 | Extracting Alpha from Glassdoor | In previous work, we found that Glassdoor ratings were effective signals of social scores within an Environmental, Social and Governance (ESG) framework. Here we find that employee ratings can lead to better risk-adjusted returns. Stocks with high ratings would have outperformed those with low ratings by almost 5ppt per year from 2013 to 2018, and would have offered a Sharpe Ratio of 1.18 vs. 0.53. Moreover, incorporating text sentiment from employee reviews combined with longer reviews would have produced a higher Sharpe Ratio of 1.52 (more details below). See Table 3 for current stock screens. | positive | Companies | 2008-2018 | n/a | attribution | 20,000 reviews | risk-adjusted returns | https://rsch.baml.com/r?g=BscCrcwgrLhLumH7x0gN5Q&ps=true&pv=validated |
| 38 | Workplace | Xi Li and Aneesh Raghunandan | 2019 | Institutional Ownership and Labor-Related Misconduct: Evidence from U.S. Federal Violations | Using a novel, comprehensive dataset on penalties assessed by U.S. federal agencies for labor-related misconduct, we examine the effect of institutional investors on firms' employee practices. We find that ownership by institutions is associated with a lower likelihood of firms receiving federal penalties for labor-related violations, especially those pertaining to workplace safety. We also find evidence consistent with institutional investors inducing anti-union behavior in portfolio firms. Although the direct penalty amounts are typically immaterial for violating firms, we find that firms receiving such penalties face a higher likelihood of employee lawsuits in subsequent years, a decrease in employee productivity, and a negative contemporaneous stock returns. These findings suggest that labor-related misconduct is potentially value-destroying. We also document evidence suggesting that reputational damage may also explain institutional investors' aversion to labor violations. Finally, we explore shareholder voice via board influence and voting on shareholder proposals as channels through which institutional investors can exert influence over portfolio firms to reduce labor-related misconduct. | positive | Companies | 2004-2016 | US | regression | 20,520 firm-years, 2,107 firms | reputational loss, likelihood of future employee lawsuits, productivity | https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3460126&dgcid=ejournal_htmlemail_corporate:governance:finance:ejournal_abstractlink |