

TOO BIG TO LEAVE: THE CASE OF ACTIVE OWNERS*

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Abstract

This paper seeks to contribute to research on active shareholders by focusing on Norway's sovereign wealth fund (NBIM). While we know that different owners have different interests in the firms they invest and how their corporate governance should look like, there is much to learn from unique institutional investors such as sovereign wealth funds. In particular, we explore if there is any governance improvement after NBIM makes an explicit and unexpected announcement in November 2012 that it will put pressure on firms they invest to improve their governance. We uncover that, relative to a matching sample, companies invested by NBIM do change their corporate governance post-announcement. Governance practices most adopted seem to be the classic ones and they are not implemented at the same speed across firms. Our findings shed light on our understanding of shareholder activism among a unique set of owners and expands the knowledge of heterogeneous principals.

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1 Introduction

“I myself own a flower,” he continued his conversation with the businessman, “which I water every day. I own three volcanoes, which I clean out every week (for I also clean out the one that is extinct; one never knows). It is of some use to my volcanoes, and it is of some use to my flower, that I own them. But you are of no use to the stars...” (Saint-Exupéry, 1943(2010): 56).

Research in corporate governance and finance has identified two main channels used by institutional investors when they disagree with their portfolio companies’ strategies and want to “assure themselves of getting a return on their investment” (Shleifer and Vishny, 1997). One of the areas of strategic concern is the firms’ corporate governance. Institutional investors, as large shareholders, have used “voice” or “exit” to express their disagreement with the governance practices of their portfolio companies (Hirschman, 1970). On the one side, they may talk directly to the management or boards to address the conflicting issues, that is the “voice” channel; on the other side, institutional investors can “vote with their feet”, that is divest and exit the company by selling shares, this being the threatening of “exit” channel (McCahery, Sautner, and Starks, 2016).

Recently, more mechanisms are available for investors to express their voice and force companies to implement certain strategies or adopt given governance practices (Connelly, Tihanyi, Certo, and Hitt, 2010). New accessible ways of communication, the ease of regulation and corporate bylaws on promoting shareholder proposals, or the role played by proxy advisors are reducing costs of stronger activism (Coffee Jr. and Palia, 2016).

It is key to continue our understanding on the goals and strategies pursued by heterogeneous institutional investors (Gillan and Starks, 2007; Hoskisson, Hitt, Johnson, and Grossman, 2002). Agency theory has been enriched by the heterogeneity of the “principals” which have different and sometimes conflicting objectives depending on their stake size (Fich, Harford, and Tran, 2015), investment horizons (Connelly, Tihanyi, Certo, and Hitt, 2010) or non-market strategies (Aguilera, Capapé, and Santiso, 2016). Assuming this heterogeneity, which has important implications in the development of an extended agency theory, some investors are receiving stronger attention. Hedge funds, for example, are now better known and the debate about their influence in the short and the long run has received renewed efforts (Bebchuk, Brav, and Wei Jiang, 2015).

Yet, the question of how state-owned investors, as a particular group of institutional investors, influence the corporate governance of their investees remains unresolved. In this paper we are interested in exploring the question “do sovereign wealth funds (SWFs, hereinafter), as state-owned institutional investors, improve the corporate governance of their portfolio companies?” And the quick answer is yes. Our results conclude that they are able to improve major governance mechanisms such as the share of independent directors in boards, the reduction of anti-takeover devices and the independence of the audit committees.

In our paper we turn into this relevant group of institutional investors: sovereign wealth funds. Indeed, SWFs have received scarce attention from the academia. They have not been specifically addressed in the literature on principal heterogeneity (Connelly, Tihanyi, Certo, and Hitt, 2010; Hoskisson, Hitt, Johnson, and Grossman, 2002) or have just been cited but not analyzed (Goranova, Abouk, Nystrom, and Soofi, 2017). Yet, their importance is undeniable. The size of the SWFs industry, in terms of assets under management, is worth three times that of the hedge funds. Also, the nature of SWFs makes them an intriguing combination of private and public institutions, a new form of state capitalism that is growing (Musacchio and Lazzarini, 2014). The influence they exert on corporations all over the planet is fundamental. In example, Norges Bank Investment Management (NBIM), the asset owner of the largest SWF and our object of analysis in this paper, controls on average 1.3% of all listed equities globally. The figure rises to 2.5% when referred to European listed companies.

In this paper we investigate the efficiency of NBIM as an active or “engaged shareholder”. To understand to which extent they are able to influence the corporate governance of their portfolio companies, we examine in detail all the equity investments made by NBIM since 2006 up to 2015. It is interesting to note, that from 2012 on, NBIM started a new “active shareholder” strategy. Taking advantage of this exogenous event to firms we analyze how efficiently NBIM plays its role as an “engaged shareholder” since then. NBIM began to engage systematically with companies, investors, regulators... to improve the value of its thousands of holdings in areas of board accountability, equal treatment of shareholders and well-functioning markets.

NBIM trusts in the empirical and theoretical arguments which defends that better governed companies deliver higher performance. This is the main reason why NBIM as minority shareholder decided to bear the costs of acting as active shareholder and raise its “voice” instead of exiting multiple minority positions when they disagree with those managers.

Our work contributes to strategy research in several ways. First, we add evidence on a different “principal” player in the heterogeneous matrix of institutional investors which currently own the majority of shares of listed companies worldwide. Second, we enhance the understanding of how SWFs, with a dual objective of maximizing financial returns and increasing global political influence, may act as “engaged shareholders” in the long run, in contrast with “activist shareholders” more focused in the short run returns. Third, we support the arguments of corporate governance as enhancer of the long term value of companies.

2 Theoretical Background

Agency theory has dominated corporate governance research in the areas of finance and management (Dalton, Hitt, Certo, and Dalton, 2007; Gompers, Ishii, and Metrick,

2003). This theory predicts that well-monitored managers to align with principals will increase firm value. The literature has also discussed extensively corporate governance practices that align principals and agents' interests such as the separation of the roles of CEO and Chairman, the independence of the board directors or an effective market for corporate control. For the most part, theoretical insights support the assumption that better governance should improve company value in the short and long run. It follows that, in general, shareholder activism to enhance managerial monitoring and enforce effective governance mechanisms, is consistent with the agency assumption of alignment of interests.

The classic dichotomy between agents and principals has been recently enriched with new boundary conditions. One of the main insights is the acknowledgment of heterogeneous principals (such as institutional investors, families and governments) acting simultaneously within a firm (Goranova, Abouk, Nystrom, and Soofi, 2017; Young, Peng, Ahlstrom, Bruton, and Jiang, 2008). With heterogeneous principals, the fundamental problem of aligning conflicting interests between owners and managers does not extend to scenarios where: different owners may have different interests (Connelly, Tihanyi, Certo, and Hitt, 2010; Hoskisson, Hitt, Johnson, and Grossman, 2002; Young, Peng, Ahlstrom, Bruton, and Jiang, 2008), managers may prioritize demands from a set of owners over the others (Bebchuk, Cohen, and Ferrell, 2009; Becht, Franks, Mayer, and Rossi, 2009; Goranova, Abouk, Nystrom, and Soofi, 2017), or that owners might dedicate monitoring efforts only on the largest stakes of their portfolios and free-ride in the smaller ones, (Fich, Harford, and Tran, 2015). Therefore, we must move beyond agency theory to account for the complexity of the actors involved in the corporate governance.

In fact, the complexity of heterogeneous owners with heterogeneous interests is reflected in the mixed empirical results. Research has shown that activism is beneficial for companies under certain circumstances (Cai and Walkling, 2011; Cuñat, Gine, and Guadalupe, 2012) whereas other results indicate that activism is value decreasing due to private tunneling of investors (Anabtawi and Stout, 2008), and misguided preferences over shareholder value: prioritizing worker rights (Agarwal, Daniel, and Naik, 2009) or investors' political gains (Woidtke, 2002). Also, identification and endogenous choices (investors prefer better governed companies with lower monitoring costs (Leuz, Lins, and Warnock, 2009)) have led to mixing results.

Institutional investors, as owners, have believed in the theory which supports shareholder value and the preeminence of principals over managers (Davis, 2009; Rappaport, 1986; Shleifer and Vishny, 1986) but have had no incentives to pursue for better governance due to the costs of monitoring. Nevertheless, the cost of having an impact in a company has decreased substantially and the potential gains of improved corporate governance are now more attainable (Del Guercio, Seery, and Woidtke, 2008; Goranova, Abouk, Nystrom, and Soofi, 2017). There are, at least, three reasons explaining why the shareholder's value view has won over managers' interests and why institutional investors feel legitimated to adopt active approaches. First, new governance codes expanded glob-

ally after the Enron scandal in 2002 and increased the awareness in multiple countries; second, media exerts a reinforced pressure on issues such as CEO compensation and director reelections; third, after the global financial crisis of 2008, more governments became owners during the bail-out process and demands from citizens for increased monitoring roles grew accordingly too (Tihanyi, Graffin, and George, 2014). We observe two interrelated consequences: lower activism costs have first accelerated activism and second increased heterogeneity.

First, the legitimation and expansion of activism have facilitated the efficacy of active investors (Del Guercio, Seery, and Woidtke, 2008). As a result, more activism implies lowering agency costs by decreasing management misalignments. The distance between managers, boards and shareholders is decreasing and the interactions are increasing. This is the positive outcome that results from more active institutional investors.

Yet, secondly, this process has also increased the heterogeneity and principal costs have grown up. Heterogeneity showed up when more diverse owners tried to achieve their (sometimes) conflicting goals. For example, demands of a given large shareholder can be at a loss of other shareholders; indeed, managers may attend some demands placating influential investors and ignoring others (Goranova, Abouk, Nystrom, and Soofi, 2017). The more frequent behind-the-scenes interactions between managers and shareholders have reduced the agency costs yet brought “new” and growing principal costs to the equation (Bebchuk, Cohen, and Ferrell, 2009).

For this reason, to understand the heterogeneity of principals seems critical. Actually, one way to understand heterogeneity is to classify shareholders according to the style of their interactions with the company when looking for improved governance in their portfolio companies. So, we differentiate between “activists” and “engaged” shareholders.

On the one hand, activists invest with a strategic plan in mind of how corporate governance of specific companies in given sectors should work out. Then, activists find the underperforming company to implement and execute the strategy, and leave the company after few years. Activist invest in a limited number of companies and aim to take controlling positions which allow them to have a short-term strong impact and implement the changes required. Activists aim for goals through intrusive interventions (i.e., fire a CEO, divest subsidiaries or spin-offs).

On the other hand, engaged shareholders, also known as stewards, form a large portfolio of multiple companies. Engaged shareholders are institutional investors which follow a buy-and-hold strategy, and look for implementing policies and strategies to better the governance of their investees and thus improve the long term value of the portfolio (Gillan and Starks, 2000). Engaged shareholders pressure firms to adopt more effective corporate governance practices. They tend to focus in governance’s main mechanisms (board independence, CEO duality) to ensure long term value of the company (Rappaport and Bogle, 2011).

In sum, reduced monitoring costs ease more institutional investors to play a more active role, and as a result the expected misalignment between shareholders and managers lowers, and thus agency costs. Yet, the participation of more shareholders in the monitoring mechanisms brought to the table principal costs via heterogeneous principal's goals (Cronqvist and Fahlenbrach, 2009). Researchers have accounted for the different types of principals/owners such as hedge funds (Agarwal, Daniel, and Naik, 2009), pension funds (Becht, Franks, Mayer, and Rossi, 2009) or mutual funds. Most of this research analyzes the indirect effect of institutional pressure on performance while we will focus on the direct effects of sovereign funds on corporate governance.

Given the heterogeneity that dominates among shareholders, we consider to focus on a yet scarcely studied class of institutional investors: sovereign wealth funds. We add value to the current stream of literature analyzing the impact on corporate governance of the heterogeneous goals of different owners.

The rest of the paper describes the characteristics of sovereign wealth funds as state-owned long term institutional investors and describes the interest of the Norway's sovereign fund in particular. We then describe our dataset, show the main results, discuss them and conclude.

3 Sovereign Wealth Funds

Sovereign wealth funds are state-owned institutional investors with typical long-term investment horizons (Aguilera, Capapé, and Santiso, 2016). The nature of SWFs is determined by its "sovereignty" (Megginson and Fotak, 2015) given these funds follow dual-objectives of financial returns and broader economic development returns. Pressures from politicians in power to obtain political gains by using the funds (Bernstein, Lerner, and Schoar, 2013; Bortolotti, Fotak, and Megginson, 2015; Megginson and Fotak, 2015) or fears of recipient countries of geopolitically-motivated investments in strategic industries (Clark, Dixon, and Monk, 2013) differentiate sovereign funds from other institutional investors. SWFs look for the long run and thus deviate from short-term oriented strategies played by certain hedge funds. They are not public pension funds because they don't face pension liabilities and so have more flexible asset allocation strategies with reduced liquidity constraints. Also, most of the SWFs are based in non-OECD countries with lower transparency and democracy index levels. All these characteristics make SWFs a different owner and principal and explain why it makes sense to focus on them separately.

So far, research has determined that the market reaction to SWFs' investment announcements is positive in the short-term (Dewenter, Han, and Malatesta, 2010; Kotter and Lel, 2011) yet lower than announcements made by investors not owned by governments (Bortolotti, Fotak, and Megginson, 2015). This difference increases in the mid- to long-run

in the cases of SWFs taking seats of boards, funds strictly controlled by their governments or under direct political influence (Bernstein, Lerner, and Schoar, 2013; Bortolotti, Fotak, and Megginson, 2015; Knill, Lee, and Mauck, 2012). This “liability of sovereign-ness” is explained and discounted by markets due to the potential conflicts between SWFs’ political goals and target firms’ financial performance. In our research we focus in a particular sovereign fund and avoid the data noise and biases of manually-collected sources. In fact, some sovereign funds are more transparent or their deals are more easily detected (startup investment rounds, large real estate transactions, investments in more easily traceable markets) than in other cases (smaller domestic acquisitions, transactions made through intermediary financial vehicles), resulting in common bias towards the largest and more transparent SWFs. The good news is that NBIM releases all its equity positions since its inception in 1998, so we can capture all effects produced by this unique investor and sovereign fund.

3.1 Norges Bank Investment Management (NBIM) as active shareholder

NBIM manages the world’s largest sovereign wealth fund: Government Pension Fund – Global by assets under management. In spite of the “pension” in its name, it does not pay pensions but instead it saves and builds financial wealth for the future generations to prepare for the rainy days when oil and natural gas reserves are depleted. As of March 2017, NBIM has assets under management worth US\$920 billion. Equity investments represent 60% of its portfolio. It owns on average 1.3% of all equities listed globally, being its largest stakes in companies such as Nestlé, Royal Dutch Shell, Apple or Alphabet, with stakes above US\$4bn respectively.

Given the size of the fund, the diversified scope (investments in 9,000 companies in 67 countries) and minority positions (few stakes above 10%), one might assume that NBIM engages in a passive way with corporate governance issues and it was the case until recently. Actually, the voting record activity starts in July 2013, some months after event we describe in detail below that changed the way NBIM relates with its investees.

More specifically, in November 2012, NBIM published a critical discussion note (“Note” hereinafter) stating that effective corporate governance has a positive, direct and long-term impact on the value of companies based on evidence from the United States (Bebchuk, Cohen, and Ferrell, 2009; Gompers, Ishii, and Metrick, 2003) and Europe (Renders, Gaeremynck, & Sercu, 2010). In that public announcement, NBIM explicitly intended to reveal that from that point onwards, NBIM would demand companies where they invest more to meet certain “corporate governance expectations” (NBIM, 2012). The language of the press release contained statements such as: “NBIM’s primary corporate-governance focus will consequently be on mechanisms shareholders can use directly and indirectly to influence companies towards sustained business success” or

“NBIM operates a corporate-governance programme. Setting out generic expectations for good corporate governance is one of several steps in this programme and the topic of this discussion note” (NBIM, 2012: 3).

We argue that the Note marks a substantial milestone in the NBIM strategy. No one could anticipate this movement by an investor which held holdings in 7,427 companies at the end of 2012. In fact, the novelty of this change is covered by financial media in the weeks that followed the Note release: “It is a big change in how the oil fund operates and signifies a more active approach to its largest investments” (Financial Times, 2013a) and “Norway has just published an important note on what it expects in terms of corporate governance from the companies it invests with” (CNBC, 2013). Affirmations of the CEO, Mr. Slyngstad, describe how they shift into active shareholders, “I think active is a fair description. We think it’s the responsibility of the larger investors to be more involved in what in the UK is referred to as stewardship and have a dialogue not just with the CEO and CFO but also the chairman of the board,” (Financial Times, 2013b). It implies a substantial change and we want to test empirically whether this new and different effort is paying out. The engagement of NBIM with its companies draws back to its origins. Yet, the efforts have been focused in the establishment of the Council on Ethics in 2004 and on setting the “ethical guidelines” for the Government Pension Fund-Global. These have allowed the Council to recommend the exclusion of companies from the fund’s investment universe, or to place companies under observation. The guidelines propose to exercise ownership rights and to make decisions on negative screening and exclusion of companies operating against the guidelines. Nevertheless, these efforts have been focused on investees involved in the production of cluster munitions, nuclear weapons, tobacco or other conduct-based violations such as severe environmental damage or serious violations of human rights. In sum, the monitoring role of NBIM has been focused in “negative screening”, yet, this new approach is global and affects every single company in which NBIM is investing, beyond those involved in harmful production or wrong-doing.

4 Data and Summary Statistics

We chose to study in this paper the data of a single sovereign wealth fund, NBIM. In this way we avoid the dataset biases towards more transparent or larger funds present in datasets collected manually or via news aggregators. NBIM dataset is comprehensive: it details all the transactions made in equities since its inception in 1998. It represents more than 90,000 firm-year data points containing information about the name of the company, equity market value in US dollars, and industry.

The second database we used is the recently launched “Environment, Social and Governance” dataset from Eikon (Thomson Reuters). It provides firm-level ESG variables for close to 6,000 public companies yearly since 2002. We focused in the “governance” section of the database for our analysis.

To build our dataset, we narrow it to the last 10 years. There are two reasons for cutting the sample at 2006. First, NBIM changed its investment strategy in 2006 and the share of equities in the portfolio grew from 40 to 60% as they started to invest in small and mid-cap equities. Second, ESG data from Eikon is substantially richer from 2006 on. Most governance variables offer poor information before 2006 and null results are above 60% while last year missing data points are below 15% for the most representative governance variables.

We collected information on governance and financial variables for each company and year of our sample. The selection of the governance variables is as follows: we conduct an analysis of the Note of November 2012 to understand which variables are the pillars of the engagement strategy outlined in the Note. We identified ten variables that matched the strategy of NBIM. Also, we add other eight frequently used variables in the literature such as board size, female on board, the existence of several board committees (audit, compensation, nomination), and the number of non-executive board members. In total, we collect 18 governance variables per company and year from 2006 to 2015.

In addition to the governance variables we add a set of financial variables such as total assets, performance measures, capital structure and profitability. Also, we constructed a variable to capture the percentage of total shares in hands of institutional investors. All these financial variables were obtained for each company from Eikon Thomson Reuters for the same period.

Crossing data from these two databases (ESG and NBIM) yielded our final sample of 3,372 companies: 2,870 companies are part of the NBIM portfolio and 502 companies will work as control group for the matching strategy explained below. We collect firm-year data for 18 measures of governance variables and seven control financial variables.

Tables 1 and 2 cover country and industry summary statistics in the Eikon data set, regarding firms in the portfolio of the Norwegian Sovereign Wealth Fund (NBIM) and control firms that are not under the NBIM.

Moreover, we constructed two separate corporate governance indexes in order to capture the “intensity” of the changes. We expect that the variables explicitly mentioned in the Note would improve more and faster than the general corporate governance variables which are not included in the NBIM expectations Note. To build the indexes we followed the anti-director index of La Porta, Lopez de Silanes, Shleifer, and Vishny (1998). The first index (NBIM index) gathers all corporate governance mechanisms explicitly cited in the Note released by NBIM. We include 10 variables in the NBIM index (described in the Appendix). The second index (General CG Index) cumulates 8 variables that are generally accepted though not explicitly mentioned by NBIM (there are described in the Appendix too).

Tables 3 and 5 report summary statistics of firm-year observations in 2010 and 2011 for our sample. Firms are classified as treated firms (column 1) if $NBIM = 1$, which implies that these firms are in the portfolio of NBIM in 2012 (year of the announcement), or as

Table 1 *Country summary statistics 2011*

	non-NBIM=0/NBIM=1		Total
	0	1	
Australia	148	176	324
Austria	2	10	12
Bahrain	8	0	8
Belgium	4	20	24
Bermuda	8	18	26
Brazil	37	44	81
Canada	81	178	259
Cayman Islands	1	1	2
Chile	4	18	22
China	77	71	148
Colombia	1	10	11
Cyprus	2	0	2
Czech Republic	0	3	3
Denmark	3	19	22
Egypt	1	10	11
Finland	0	21	21
France	11	77	88
Germany	8	70	78
Gibraltar	0	1	1
Greece	3	13	16
Guernsey	9	1	10
Hong Kong	24	89	113
Hungary	0	4	4
India	44	45	89
Indonesia	7	25	32
Ireland; Republic of	8	23	31
Isle of Man	0	1	1
Israel	3	15	18
Italy	4	34	38
Japan	28	342	370
Jersey	2	5	7
Jordan	1	0	1
Kazakhstan	1	0	1
Korea; Republic (S. Korea)	17	95	112
Kuwait	11	0	11
Luxembourg	3	7	10
Macau	0	2	2
Malaysia	13	34	47
Malta	1	0	1
Mexico	8	26	34
Morocco	1	2	3
NULL	0	3	3
Netherlands	12	28	40
New Zealand	23	14	37
Nigeria	1	0	1
Norway	16	0	16
Oman	9	0	9
Panama	0	1	1
Papua New Guinea	1	1	2
Peru	0	1	1
Philippines	3	22	25
Poland	10	19	29
Portugal	1	8	9
Puerto Rico	0	1	1
Qatar	2	10	12
Russia	15	16	31
Saudi Arabia	14	0	14
Singapore	8	32	40
South Africa	65	47	112
Spain	11	36	47
Sri Lanka	1	0	1
Sweden	11	43	54
Switzerland	10	62	72
Taiwan	5	110	115
Thailand	19	14	33
Turkey	2	16	18
Ukraine	1	0	1
United Arab Emirates	5	9	14
United Kingdom	102	236	338
United States of America	206	850	1056
Zimbabwe	1	0	1
Total	1138	3089	4227

Table 2 *Industry summary statistics 2011*

	non-NBIM=0/NBIM=1		
	0	1	Total
Accommodation and Food Services	30	45	75
Administrative, Support, Waste Management, Remediation Services	15	44	59
Agriculture, Forestry, Fishing and Hunting	10	6	16
Arts, Entertainment, and Recreation	5	20	25
Construction	41	124	165
Educational Services	4	10	14
Finance and Insurance	211	474	685
Health Care and Social Assistance	18	24	42
Information	96	206	302
Manufacturing	277	1053	1330
Mining, Quarrying, and Oil and Gas Extraction	122	271	393
Other Services (except Public Administration)	3	8	11
Professional, Scientific, and Technical Services	54	121	175
Real Estate and Rental and Leasing	90	168	258
Retail Trade	53	168	221
Transportation and Warehousing	40	132	172
Utilities	44	142	186
Wholesale Trade	25	71	96
Total	1138	3087	4225

control firms (column 2) if $NBIM = 0$, which implies these firms are not in the portfolio of the NBIM in 2012. We develop a matching strategy since treated and control groups are not similar enough.¹ Columns 3 and 4 report summary statistics after the matching is realized. In column 3 we classify treated firms on support and in column 4 all control matched firms. Numbers reported are cross-sectional averages and standard errors in parentheses.

We also show tables that report t-test results of firm-year observations in 2010 (Table 4) and 2011 (Table 6) for our sample. Column 1 of these tables analyze mean differences of the unmatched sample (columns 1 and 2 of tables 3 and 5 respectively). Column 2 analyzes mean differences of the matched sample (columns 3 and 4 of tables 3 and 5 respectively). T-statistics are shown in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

¹We have fewer firms in the control group ($NBIM=0$), so we do the matching by searching in the treated group for the nearest neighbor of each control firm. We match on size and lose many observations since some firms don't have a nearest neighbor that satisfy our requirements, or we have missing information for size.

Table 3 *Summary Stats 2010*

	(1) NBIM=1	(2) NBIM=0	(3) NBIM=1 on sup.	(4) NBIM=0 (M)
Independent Board Members	52.09 (29.08)	49.19 (25.75)	57.92 (26.04)	57.85 (24.99)
Antitakeover Devices	2.59 (2.85)	1.77 (2.43)	3.05 (2.77)	2.57 (2.79)
Female on Board	9.31 (9.91)	9.62 (11.17)	9.74 (10.38)	11.76 (12.18)
Board Cultural Diversity	0.27 (0.25)	0.32 (0.26)	0.25 (0.23)	0.31 (0.24)
Audit Board Committee	0.95 (0.21)	0.95 (0.22)	0.95 (0.21)	0.99 (0.11)
Board Size	10.49 (3.69)	10.25 (3.65)	10.27 (3.76)	9.78 (3.35)
Compensation Board Committee	0.83 (0.38)	0.86 (0.35)	0.91 (0.29)	0.94 (0.24)
Nomination Board Committee	0.74 (0.44)	0.71 (0.45)	0.84 (0.36)	0.84 (0.37)
Non Audit to Audit Fee Ratio	0.38 (3.68)	0.58 (3.69)	0.96 (10.08)	0.59 (3.86)
BoardMemberAffiliations	1.28 (0.93)	1.30 (1.00)	1.34 (0.98)	1.29 (0.93)
Board Specific Skills	59.20 (23.70)	55.83 (22.94)	60.30 (22.44)	58.33 (22.61)
CEO Chairman Separation	0.43 (0.50)	0.31 (0.46)	0.34 (0.47)	0.32 (0.47)
Director Election Majority Requirem.	0.50 (0.50)	0.50 (0.50)	0.56 (0.50)	0.54 (0.50)
Voting Rights	0.82 (0.38)	0.86 (0.35)	0.83 (0.37)	0.83 (0.37)
Shareholder Rights Policy	0.92 (0.28)	0.87 (0.34)	0.96 (0.19)	0.91 (0.28)
Succession Plan	0.62 (0.49)	0.53 (0.50)	0.73 (0.44)	0.71 (0.45)
Audit Committee Mgt Indep	0.98 (0.14)	0.94 (0.25)	0.97 (0.18)	0.95 (0.22)
Non Executive Board Members	72.02 (25.48)	77.00 (17.99)	76.34 (20.62)	79.68 (15.87)
Total Revenue (billions)	637.21 (4824.71)	282.19 (2488.86)	116.56 (555.48)	135.89 (1303.92)
Total Assets (billions)	1854.93 (15810.75)	485.32 (4012.84)	242.71 (1304.82)	283.36 (2049.30)
Performance	0.11 (0.11)	0.09 (0.16)	0.10 (0.10)	0.09 (0.13)
Capital Structure	2.13 (7.47)	2.60 (26.95)	2.71 (12.86)	4.47 (46.98)
LT-Debt over Total Liabs	0.29 (0.24)	0.30 (0.29)	0.28 (0.24)	0.31 (0.27)
EBITDA over Revenue	-10.52 (557.69)	-0.71 (10.33)	-0.30 (4.29)	-0.29 (3.35)
Institutional Investors Ownership	67.31 (24.19)	62.80 (25.84)	66.83 (23.96)	67.85 (23.01)
Observations	3077	1010	295	295

Table 4 *T-test for Summary Stats 2010*

	(1)	(2)
	Mean differences	Mean differences (Matched)
Independent Board Members	-2.900* (-2.15)	-0.0737 (-0.03)
Antitakeover Devices	-0.827*** (-6.50)	-0.482* (-2.00)
Female on Board	0.300 (0.53)	2.022* (2.05)
Board Cultural Diversity	0.0487* (2.13)	0.0569 (1.70)
Audit Board Committee	-0.00231 (-0.21)	0.0342* (2.40)
Board Size	-0.247 (-1.32)	-0.485 (-1.58)
Compensation Board Committee	0.0278 (1.54)	0.0327 (1.43)
Nomination Board Committee	-0.0255 (-1.11)	-0.00270 (-0.09)
Non Audit to Audit Fee Ratio	0.204 (0.86)	-0.368 (-0.56)
BoardMemberAffiliations	0.0220 (0.43)	-0.0517 (-0.62)
Board Specific Skills	-3.374** (-2.84)	-1.963 (-1.00)
CEO Chairman Separation	-0.125*** (-5.26)	-0.0190 (-0.47)
Director Election Majority Requirem.	-0.00102 (-0.04)	-0.0202 (-0.47)
Voting Rights	0.0394* (2.20)	0 (0.00)
Shareholder Rights Policy	-0.0473** (-2.83)	-0.0518* (-2.47)
Succession Plan	-0.0891*** (-3.52)	-0.0162 (-0.42)
Audit Committee Mgt Indep	-0.0426*** (-3.59)	-0.0197 (-1.13)
Non Executive Board Members	4.984*** (5.08)	3.349* (2.11)
Total Revenue (billions)	-355.0** (-2.91)	19.33 (0.23)
Total Assets (billions)	-1369.6*** (-4.37)	40.65 (0.29)
Performance	-0.0235*** (-4.18)	-0.00718 (-0.76)
Capital Structure	0.465 (0.52)	1.758 (0.62)
LT-Debt over Total Liabs	0.0142 (1.37)	0.0263 (1.25)
EBITDA over Revenue	9.815 (0.93)	0.0143 (0.04)
Institutional Investors Ownership	-4.513*** (-4.53)	1.017 (0.52)
Observations	4087	590

Table 5 *Summary Stats 2011*

	(1) NBIM=1	(2) NBIM=0	(3) NBIM=1 on sup.	(4) NBIM=0 (M)
Independent Board Members	53.28 (28.90)	50.24 (25.02)	58.50 (25.65)	58.87 (24.11)
Antitakeover Devices	2.65 (2.83)	1.83 (2.39)	3.04 (2.75)	2.45 (2.68)
Female on Board	10.19 (10.32)	9.98 (11.37)	10.79 (10.65)	12.33 (12.27)
Board Cultural Diversity	0.28 (0.25)	0.31 (0.27)	0.25 (0.24)	0.29 (0.24)
Audit Board Committee	0.95 (0.21)	0.97 (0.18)	0.97 (0.17)	0.99 (0.12)
Board Size	10.40 (3.61)	10.15 (3.66)	10.29 (3.58)	9.62 (3.42)
Compensation Board Committee	0.85 (0.36)	0.87 (0.34)	0.91 (0.28)	0.95 (0.23)
Nomination Board Committee	0.76 (0.43)	0.72 (0.45)	0.86 (0.35)	0.84 (0.36)
Non Audit to Audit Fee Ratio	2.82 (111.00)	0.64 (3.78)	0.37 (0.67)	0.67 (3.85)
BoardMemberAffiliations	1.33 (0.97)	1.35 (1.06)	1.39 (1.01)	1.34 (1.03)
Board Specific Skills	59.21 (23.18)	55.93 (23.40)	59.59 (21.68)	58.19 (22.53)
CEO Chairman Separation	0.41 (0.49)	0.27 (0.45)	0.28 (0.45)	0.28 (0.45)
Director Election Majority Requirem.	0.56 (0.50)	0.56 (0.50)	0.64 (0.48)	0.63 (0.48)
Voting Rights	0.82 (0.38)	0.86 (0.35)	0.83 (0.38)	0.83 (0.37)
Shareholder Rights Policy	0.88 (0.33)	0.87 (0.34)	0.94 (0.24)	0.91 (0.28)
Succession Plan	0.65 (0.48)	0.56 (0.50)	0.77 (0.42)	0.73 (0.45)
Audit Committee Mgt Indep	0.97 (0.18)	0.92 (0.27)	0.93 (0.26)	0.94 (0.23)
Non Executive Board Members	72.41 (25.42)	77.32 (17.34)	76.81 (20.68)	79.64 (15.42)
Total Revenue (billions)	663.61 (5079.44)	283.08 (2461.61)	125.93 (585.83)	87.83 (625.98)
Total Assets (billions)	2027.50 (17658.20)	727.54 (9874.86)	256.43 (1370.68)	224.36 (1197.12)
Performance	0.12 (0.11)	0.09 (0.20)	0.11 (0.10)	0.10 (0.11)
Capital Structure	2.26 (7.83)	2.90 (32.18)	2.82 (12.94)	5.41 (57.81)
LT-Debt over Total Liabs	0.29 (0.24)	0.30 (0.28)	0.29 (0.24)	0.29 (0.25)
EBITDA over Revenue	0.12 (3.61)	-0.32 (4.82)	-0.32 (5.93)	-0.30 (3.23)
Institutional Investors Ownership	67.18 (23.55)	62.43 (25.43)	66.48 (23.68)	67.07 (23.40)
Observations	3085	1061	296	296

Table 6 *T-test for Summary Stats 2011*

	(1)	(2)
	Mean differences	Mean differences (Matched)
Independent Board Members	-3.039* (-2.47)	0.365 (0.18)
Antitakeover Devices	-0.826*** (-7.01)	-0.591** (-2.65)
Female on Board	-0.211 (-0.39)	1.539 (1.63)
Board Cultural Diversity	0.0292 (1.35)	0.0436 (1.35)
Audit Board Committee	0.0110 (1.23)	0.0169 (1.40)
Board Size	-0.257 (-1.48)	-0.676* (-2.35)
Compensation Board Committee	0.0242 (1.49)	0.0338 (1.60)
Nomination Board Committee	-0.0322 (-1.52)	-0.0135 (-0.46)
Non Audit to Audit Fee Ratio	-2.170 (-0.88)	0.294 (1.29)
BoardMemberAffiliations	0.0260 (0.52)	-0.0533 (-0.64)
Board Specific Skills	-3.276** (-2.93)	-1.409 (-0.78)
CEO Chairman Separation	-0.135*** (-6.22)	0.00338 (0.09)
Director Election Majority Requirem.	-0.00127 (-0.05)	-0.00676 (-0.17)
Voting Rights	0.0344* (2.03)	0.00676 (0.22)
Shareholder Rights Policy	-0.0115 (-0.71)	-0.0270 (-1.25)
Succession Plan	-0.0883*** (-3.74)	-0.0473 (-1.33)
Audit Committee Mgt Indep	-0.0463*** (-3.77)	0.0169 (0.83)
Non Executive Board Members	4.915*** (5.45)	2.832 (1.89)
Total Revenue (billions)	-380.5** (-3.08)	-38.10 (-0.74)
Total Assets (billions)	-1300.0** (-2.93)	-32.07 (-0.30)
Performance	-0.0281*** (-4.20)	-0.00861 (-0.97)
Capital Structure	0.638 (0.62)	2.591 (0.75)
LT-Debt over Total Liabs	0.0140 (1.43)	0.00531 (0.27)
EBITDA over Revenue	-0.434* (-2.54)	0.0182 (0.04)
Institutional Investors Ownership	-4.747*** (-4.94)	0.584 (0.30)
Observations	4146	592

5 Empirical Methodology

First, we use a differences in differences procedure based on the following specification (column 1 in the regression):

$$y_{it} = POST_{(t \geq 2012)} + \delta NBIMperc_{it} + \sigma NBIMperc_{it} \times POST_{(t \geq 2012)} + Firm_i + \beta X_{it} + \varepsilon_{it} \quad (1)$$

where y_{it} is our variable of interest (corporate governance variable such as independent board members); $POST_{(t \geq 2012)}$ is a dummy variable (structural break) that takes value 1 after the NBIM's announcement (2012-2015) and zero for previous years (2006-2011); $NBIMperc_i$ is a continuous variable that captures the percentage market value of the firm in hands of the NBIM;² $NBIMperc_i \times POST_{(t \geq 2012)}$ is an interaction term; $Firm_i$ is a firm fixed effect and X_{it} is a vector of controls that includes revenue, total assets, performance, capital structure, long term debt over total liabilities, the ratio of EBITDA over revenue and a measure of institutional investors.

In column 2, we substitute $POST_{(t \geq 2012)}$ by time dummies for 2012, 2013, 2014 and 2015. We fix 2011 as our base year (omitted year) and we do not use previous years in the regression.

In column 3, we compute a similar regression to that in column 1, but instead of having a continuous measure of the NBIM's holdings, we use a binary dummy. We create a binary dummy (treatment variable) that takes value 1 if the firm belongs to the NBIM's portfolio in 2012 and zero if the firm does not belong to the NBIM's portfolio in 2012. We also use other measures for the treatment variable as robustness checks.³

$$y_{it} = POST_{(t \geq 2012)} + \sigma NBIM_i \times POST_{(t \geq 2012)} + Firm_i + \beta X_{it} + \varepsilon_{it} \quad (2)$$

where all variables are analogous to those in equation 1, except for $NBIM_i$, that takes value 1 if the firm belongs to the NBIM's portfolio in 2012 and zero if the firm does not belong to the NBIM's portfolio in 2012.

In column 4, we substitute $POST_{(t \geq 2012)}$ by time dummies for 2012, 2013, 2014 and 2015. We fix 2011 as our base year (omitted year) and we do not use previous years in the regression.

5.1 Matching strategy

The specifications in columns 5 and 6 are analogous to those in columns 3 and 4 respectively, but we only used matched firms. We use a matching approach to control

²NBIM's holdings (market value in dollars) / total market value of the firm (in dollars).

³Treatment variable takes value one if the firm ever belongs to the NBIM's portfolio in our sample years (2006-2015) or it takes value one if the firm belongs to the NBIM's portfolio for the period 2012-2015.

for potential endogeneity that arises due to differences among the treatment and control group. The purpose of this matching approach is to make both groups of firms (firms that belong to the NBIM’s portfolio and firms that don’t) as similar as possible. Specifically, we need our treated and control groups to be similar in all characteristics (observable and unobservable) that can affect the relation between the shock (the announcement) and our dependent variable (corporate governance outcomes).

For this purpose, we adopt nearest-neighbor propensity score matching. Each firm that does not belong to the NBIM’s portfolio in 2012 (control group) is matched to a unique firm from the NBIM’s portfolio (treatment group). We choose a single match and do not allow for replacement (a firm from the treatment group can only be used once as a match). We follow this procedure because our treatment group (2869 firms) is larger than our control group (481 firms), as observed in Table 5. We are more concerned on minimizing the bias at the cost of larger variance, since our sample is sufficiently large to be less concerned about variance (Abadie and Imbens (2002)). Moreover, to avoid biased coefficients, we set a caliper of 0.1.⁴ This implies that some control firms might not be matched if they do not have a treated firm within the caliper chosen. That is the reason why we observe less firms after the matching is conducted in columns 3 and 4 of Table 5.

We match the treated and control groups in size (measured by total assets), performance (measured by the ratio of EBITDA to total assets) and institutional investors (percentage of holdings in hands of institutional investors). We restrict the number of covariates since there exists a trade-off between the plausibility of the unconfoundedness assumption and common support (Black and Smith (2004)). Following Sianesi (2004), we focus on covariates that simultaneously affect the treatment status (belong to the NBIM’s portfolio) and the outcome variable (our corporate governance measures). We have chosen these covariates since they have been proven to be determinants of corporate governance decisions and are significantly different among the treatment and control groups (shown in Table 5).

We conduct the matching prior to the NBIM’s announcement to make sure that our matching procedure is exogenous to any effects caused by the shock. All variables included in the matching model must be unaffected by the treatment (NBIM’s announcement in 2012), and thus we carry out the matching by using the values of the covariates in 2011. Once a match is formed, it is kept for the following years. It is necessary that the treated and control groups follow parallel trends prior to the realization of the shock. We report the summary statistics and t-test results of 2010 and 2011 in Tables 3, 4, 5 and 6.

⁴A caliper sets a maximum distance of the propensity score for each treatment and its control.

6 Results

The results show that NBIM is effective in improving main governance mechanisms after adopting an active shareholder strategy in 2012. It is interesting how the vast majority of significant effects in our results occur in 2014 and particularly 2015. This aligns with the speed of changes in most corporate governance mechanisms.

The index strategy did not provide significant results (tables 7 and 8), despite the sign of the effects are in line with our expectations. The improvement in the “NBIM index” is higher than the experienced in the “General CG Index”; that is, NBIM tends to prioritize its efforts on the variables that are explicitly stated in the Note as “expectations”. The reason for not finding significant effects may lie in the correlations between different corporate governance mechanisms (Rediker and Seth, 1995). For example, some research (Cyert, Kang, and Kumar, 2002) argues that external corporate governance mechanisms such as a freer market for corporate control and board monitoring capabilities may exert substitution effects. This means that markets where managers can be easily disciplined through acquisitions (companies with fewer anti-takeover devices in place) have a similar effect as companies with more non-executive directors, who are supposed to hold managers more accountable. In the construction of our indexes, the “anti-takeover mechanisms” variable is included in the NBIM index, whereas “non-executive directors” belongs to the General GC index. This meaning that they both work in the same direction and reduce the differences between the two groups overall.

Given the index strategy did not help to understand the “intensity” of changes, we turn the analysis in to individual corporate governance mechanisms. Three variables reacted significantly well after NBIM set the expectations in the Note announced in 2012: the independence of the board, the number of anti-takeover devices, and the share of women on boards. The former two are explicitly outlined in the Note, whereas the latter is not. We also show a quite contradictory result regarding shareholder equality.

In 2015, the share of independent directors in firms owned by NBIM improved 4 percent points compared to those firms not owned by NBIM. Similarly, the number of non-executive board members, which is a less demanding requirement (independent directors are always non-executive directors, whereas the opposite does not hold), also grew despite the effect is insignificant.

The number of anti-takeover devices decreases significantly in firms owned by NBIM in 2015. These may include staggered boards, poison pills, supermajority vote requirements, etc. In all cases, these defensive devices lessen the ability of bidders to educate poor governed companies through acquisitions. NBIM companies have less of these defensive device and thus boards hold more accountable.

The share of women on boards increases after the NBIM Note. This third result is in line with the ability of more diverse boards to better control top-management and monitor the company strategy. The coefficient of the female on board variable is statistically

significant in all years starting in 2012 up to 2015. Moreover, the magnitude of the effect increases with time, the effect in 2014 and 2015 doubles the effects of 2012, showing a persistent effort. In 2015, the share of women on boards in NBIM-owned companies is 1.5 percent points higher on average compared to our matched sample. Interestingly, the “board specific skills” yielded a positive and strong coefficient, yet non statistically significant.

The result of the “shareholder right policy” variable goes in the opposite direction of the expectations outlined by NBIM. Indeed, NBIM companies do not have a policy defending minority rights in more occasions than the matched control group. That occurs in all years after the Note release. In particular, the effect of having NBIM as a shareholder reduces the probability of having a “shareholder right policy” by 4.8%. This result is consistent with the coefficient of the “policy equal voting right” which is significantly lower in 2014 for the NBIM companies vis-à-vis the control group. These counter intuitive results can be explained by two reasons: first, the question behind the variable is complex and ample and it includes the usage of anti-takeover devices, which works well as a separate variable as has been already shown. The second explanation relates to the lack of theoretical unanimity of treating all shareholders equally. Different owners may have different rights. This second reason would be aligned with NBIM as long-term steward contrasting with other short-term oriented shareholders.

Table 7 Results Independent Board Members

VARIABLES	(1) Continuous	(2) Contin-TDum	(3) Binary	(4) Binary-TDum	(5) Matched-Binary	(6) Matched-TDum
Post	1.443*** (0.251)		-1.529** (0.685)		-2.772*** (0.875)	
NBIMperc(%)	1.159*** (0.221)	0.923** (0.402)				
Post*NBIMperc	-0.906*** (0.178)					
Post*NBIM			2.905*** (0.735)		3.335*** (1.177)	
yeardummy2012		0.985*** (0.219)		0.462 (0.533)		0.691 (0.705)
yeardummy2013		2.203*** (0.253)		1.216** (0.575)		0.679 (0.676)
yeardummy2014		-0.280 (0.363)		-2.593*** (0.864)		-4.485*** (1.270)
yeardummy2015		-0.115 (0.414)		-3.596*** (0.979)		-6.746*** (1.549)
NBIM_hold_perc_yeardummy2012		-0.071 (0.163)				
NBIM_hold_perc_yeardummy2013		-0.160 (0.191)				
NBIM_hold_perc_yeardummy2014		-1.319*** (0.288)				
NBIM_hold_perc_yeardummy2015		-2.031*** (0.357)				
treat_yeardummy2012				0.577 (0.570)		0.552 (0.868)
treat_yeardummy2013				1.079* (0.621)		1.983** (0.934)
treat_yeardummy2014				1.384 (0.940)		2.229 (1.666)
treat_yeardummy2015				2.241** (1.061)		4.283*** (1.998)
Total Revenue (billions)	-0.000** (0.000)	0.000 (0.000)	-0.000** (0.000)	-0.000 (0.000)	-0.001 (0.002)	-0.002 (0.001)
Total Assets (billions)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.001 (0.002)	0.002* (0.001)
Performance	-0.513*** (0.114)	-0.533*** (0.065)	-0.524*** (0.104)	-0.509*** (0.059)	5.974** (2.821)	7.123** (3.304)
Capital Structure	-0.020 (0.021)	-0.024 (0.018)	-0.016 (0.019)	-0.024 (0.020)	-0.020 (0.015)	-0.051** (0.023)
LT-Debt over Total Liabs	-1.449 (1.069)	-0.435 (1.404)	-1.422 (1.071)	-0.601 (1.411)	-0.273 (2.486)	2.774 (3.918)
EBITDA over Revenue	-0.000* (0.000)	-0.001*** (0.000)	-0.000** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)
Institutional Investors Ownership	-0.041*** (0.015)	-0.030 (0.019)	-0.027* (0.016)	-0.020 (0.020)	-0.062 (0.049)	-0.005 (0.058)
Observations	23,876	15,184	23,913	15,207	4,182	2,575
R-squared	0.006	0.033	0.005	0.024	0.011	0.058
Number of id	3,803	3,798	3,808	3,803	552	552

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8 *Results Females on Board*

VARIABLES	(1) Continuous	(2) Contin-TDum	(3) Binary	(4) Binary-TDum	(5) Matched-Binary	(6) Matched-TDum
Post	3.026*** (0.149)		3.225*** (0.367)		4.014*** (0.470)	
NBIMperc(%)	0.218* (0.120)	-0.918*** (0.157)				
Post*NBIMperc	1.291*** (0.109)					
Post*NBIM			1.238*** (0.395)		1.556** (0.647)	
yeardummy2012		0.574*** (0.105)		0.848*** (0.268)		0.807** (0.359)
yeardummy2013		1.173*** (0.136)		1.619*** (0.349)		2.069*** (0.491)
yeardummy2014		2.007*** (0.163)		2.456*** (0.386)		3.117*** (0.564)
yeardummy2015		3.242*** (0.202)		4.215*** (0.456)		5.070*** (0.703)
NBIM_hold_perc_yeardummy2012		0.627*** (0.090)				
NBIM_hold_perc_yeardummy2013		1.073*** (0.101)				
NBIM_hold_perc_yeardummy2014		1.704*** (0.129)				
NBIM_hold_perc_yeardummy2015		1.990*** (0.171)				
treat_yeardummy2012				0.240 (0.284)		0.890* (0.457)
treat_yeardummy2013				0.505 (0.371)		1.198* (0.623)
treat_yeardummy2014				1.153*** (0.416)		1.600** (0.747)
treat_yeardummy2015				0.721 (0.491)		1.512* (0.911)
Total Revenue (billions)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	0.001* (0.000)	-0.001 (0.001)
Total Assets (billions)	-0.000 (0.000)	0.000 (0.000)	-0.000* (0.000)	-0.000 (0.000)	-0.001*** (0.000)	-0.001 (0.001)
Performance	0.411*** (0.020)	0.409*** (0.021)	0.419*** (0.021)	0.408*** (0.028)	-0.264 (1.565)	0.385 (2.002)
Capital Structure	0.010 (0.009)	0.011 (0.012)	0.011 (0.009)	0.011 (0.012)	-0.000 (0.009)	-0.000 (0.016)
LT-Debt over Total Liabs	-0.156 (0.500)	0.049 (0.582)	-0.269 (0.508)	-0.022 (0.591)	1.225 (1.108)	0.478 (1.547)
EBITDA over Revenue	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000 (0.000)
Institutional Investors Ownership	0.005 (0.006)	-0.001 (0.007)	0.000 (0.006)	-0.008 (0.008)	0.010 (0.015)	0.007 (0.021)
Observations	25,097	15,427	25,137	15,450	4,363	2,636
R-squared	0.162	0.165	0.134	0.131	0.152	0.152
Number of id	3,779	3,767	3,783	3,771	554	554

Robust standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Table 9 *Results AntiTakeover Devices*

VARIABLES	(1) Continuous	(2) Contin-TDum	(3) Binary	(4) Binary-TDum	(5) Matched-Binary	(6) Matched-TDum
Post	1.103*** (0.028)		0.839*** (0.056)		0.914*** (0.074)	
NBIMperc(%)	0.522*** (0.029)	0.046** (0.019)				
Post*NBIMperc	-0.297*** (0.019)					
Post*NBIM			0.191*** (0.061)		0.187* (0.104)	
yeardummy2012		0.124*** (0.015)		0.111*** (0.032)		0.088** (0.043)
yeardummy2013		0.238*** (0.020)		0.271*** (0.046)		0.229*** (0.063)
yeardummy2014		0.349*** (0.023)		0.371*** (0.052)		0.279*** (0.076)
yeardummy2015		0.326*** (0.026)		0.362*** (0.057)		0.227*** (0.086)
NBIM_hold_perc_yeardummy2012		-0.024** (0.012)				
NBIM_hold_perc_yeardummy2013		-0.023 (0.014)				
NBIM_hold_perc_yeardummy2014		-0.061*** (0.016)				
NBIM_hold_perc_yeardummy2015		-0.099*** (0.020)				
treat_yeardummy2012				-0.004 (0.035)		0.024 (0.061)
treat_yeardummy2013				-0.057 (0.050)		-0.099 (0.087)
treat_yeardummy2014				-0.083 (0.057)		-0.152 (0.105)
treat_yeardummy2015				-0.137** (0.062)		-0.228* (0.118)
Total Revenue (billions)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Total Assets (billions)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Performance	-0.016 (0.017)	-0.001 (0.001)	-0.020 (0.021)	-0.002 (0.001)	-0.388 (0.412)	0.091 (0.169)
Capital Structure	0.007** (0.004)	0.001 (0.003)	0.008** (0.004)	0.001 (0.003)	0.006 (0.005)	0.006 (0.004)
LT-Debt over Total Liabs	0.943*** (0.121)	0.101 (0.079)	1.020*** (0.124)	0.105 (0.079)	0.642** (0.262)	0.049 (0.234)
EBITDA over Revenue	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
Institutional Investors Ownership	0.003*** (0.001)	0.001 (0.001)	0.004*** (0.001)	0.002 (0.001)	0.002 (0.003)	0.001 (0.002)
Observations	25,750	15,747	25,794	15,770	4,389	2,638
R-squared	0.171	0.045	0.140	0.041	0.128	0.026
Number of id	3,837	3,835	3,841	3,839	554	554

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 10 *Results Policy Equal Voting Rights*

VARIABLES	(1) Continuous	(2) Contin-TDum	(3) Binary	(4) Binary-TDum	(5) Matched-Binary	(6) Matched-TDum
Post	-0.057*** (0.006)		-0.017 (0.012)		0.003 (0.014)	
NBIMperc(%)	-0.007* (0.004)	-0.009** (0.004)				
Post*NBIMperc	0.018*** (0.003)					
Post*NBIM			-0.030** (0.013)		-0.037* (0.019)	
yeardummy2012		-0.022*** (0.004)		-0.005 (0.008)		-0.000 (0.009)
yeardummy2013		-0.038*** (0.005)		-0.011 (0.009)		0.004 (0.010)
yeardummy2014		-0.060*** (0.006)		-0.014 (0.010)		0.006 (0.012)
yeardummy2015		-0.105*** (0.008)		-0.027** (0.011)		-0.002 (0.012)
NBIM_hold_perc_yeardummy2012		0.003 (0.002)				
NBIM_hold_perc_yeardummy2013		0.009*** (0.003)				
NBIM_hold_perc_yeardummy2014		0.019*** (0.003)				
NBIM_hold_perc_yeardummy2015		0.038*** (0.004)				
treat_yeardummy2012				-0.017* (0.009)		-0.020 (0.015)
treat_yeardummy2013				-0.022** (0.010)		-0.028* (0.016)
treat_yeardummy2014				-0.036*** (0.012)		-0.033* (0.018)
treat_yeardummy2015				-0.059*** (0.013)		-0.028 (0.020)
Total Revenue (billions)	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Total Assets (billions)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Performance	-0.001 (0.001)	0.000 (0.001)	-0.000 (0.001)	-0.000 (0.000)	-0.032 (0.038)	-0.037* (0.022)
Capital Structure	-0.001 (0.001)	-0.000 (0.000)	-0.001 (0.001)	-0.000 (0.000)	-0.001 (0.001)	-0.001 (0.001)
LT-Debt over Total Liabs	0.013 (0.016)	0.052*** (0.016)	0.012 (0.016)	0.053*** (0.016)	-0.024 (0.033)	0.031 (0.032)
EBITDA over Revenue	0.000*** (0.000)	-0.000*** (0.000)	0.000*** (0.000)	-0.000** (0.000)	0.000 (0.000)	0.000 (0.000)
Institutional Investors Ownership	-0.000 (0.000)	-0.001*** (0.000)	-0.000* (0.000)	-0.001*** (0.000)	0.000 (0.000)	-0.000 (0.000)
Observations	25,750	15,747	25,794	15,770	4,389	2,638
R-squared	0.016	0.047	0.014	0.037	0.017	0.017
Number of id	3,837	3,835	3,841	3,839	554	554

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 11 *Results Shareholder Rights Policy*

VARIABLES	(1) Continuous	(2) Contin-TDum	(3) Binary	(4) Binary-TDum	(5) Matched-Binary	(6) Matched-TDum
Post	-0.069*** (0.008)		0.027* (0.014)		0.048*** (0.012)	
NBIMperc(%)	-0.005** (0.002)	-0.003* (0.002)				
Post*NBIMperc	0.031*** (0.004)					
Post*NBIM			-0.080*** (0.015)		-0.069*** (0.017)	
yeardummy2012		-0.028*** (0.007)		0.026** (0.011)		0.025*** (0.009)
yeardummy2013		-0.026*** (0.007)		0.027** (0.013)		0.036*** (0.011)
yeardummy2014		0.001 (0.008)		0.045*** (0.014)		0.055*** (0.015)
yeardummy2015		0.035*** (0.009)		0.066*** (0.015)		0.071*** (0.016)
NBIM_hold_perc_yeardummy2012		0.010*** (0.002)				
NBIM_hold_perc_yeardummy2013		0.010*** (0.003)				
NBIM_hold_perc_yeardummy2014		0.001 (0.003)				
NBIM_hold_perc_yeardummy2015		-0.012*** (0.004)				
treat_yeardummy2012				-0.055*** (0.012)		-0.029** (0.013)
treat_yeardummy2013				-0.053*** (0.014)		-0.044*** (0.015)
treat_yeardummy2014				-0.050*** (0.016)		-0.055*** (0.019)
treat_yeardummy2015				-0.047*** (0.016)		-0.048** (0.022)
Total Revenue (billions)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
Total Assets (billions)	0.000 (0.000)	0.000** (0.000)	0.000 (0.000)	0.000*** (0.000)	-0.000 (0.000)	0.000 (0.000)
Performance	-0.001 (0.001)	-0.001** (0.000)	-0.001 (0.001)	-0.001* (0.000)	-0.014 (0.020)	0.010 (0.017)
Capital Structure	0.001*** (0.000)	0.001* (0.000)	0.001*** (0.000)	0.001 (0.000)	0.000* (0.000)	0.001 (0.001)
LT-Debt over Total Liabs	-0.046*** (0.016)	0.004 (0.015)	-0.046*** (0.016)	0.004 (0.015)	-0.015 (0.022)	0.002 (0.028)
EBITDA over Revenue	0.000** (0.000)	0.000*** (0.000)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Institutional Investors Ownership	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Observations	25,750	15,747	25,794	15,770	4,389	2,638
R-squared	0.021	0.019	0.016	0.018	0.026	0.030
Number of id	3,837	3,835	3,841	3,839	554	554

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

7 Discussion & Conclusion

Our results shed light to the literature of shareholder activism and the growing theme of heterogeneous shareholders (Goranova and Ryan, 2014; Hoskisson, Hitt, Johnson, and Grossman, 2002; Schnatterly and Johnson, 2014) by adding evidence of the monitoring role of sovereign wealth funds. Regarding the literature of sovereign wealth funds, this research may help to understand how without having a seat on the board, large funds can exert an influence (Vasudeva, 2013) and impact their investees' corporate governance. This "voice" mechanism put in place through different channels—most of them "behind-the-scenes" (McCahery, Sautner, and Starks, 2016)—turns to be effective and can be a way to circumvent the "liability of sovererigness" or discount effect detected in the literature (Aguilera, Capapé, and Santiso, 2016; Bortolotti, Fotak, and Megginson, 2015). Focusing in the direct effect of ownership on corporate governance we also add to the discussion about the effects of institutional owners as long-term patient investors, rather than driven by short-term gains (Bebchuk, Brav, and Wei Jiang, 2015; Stathopoulos and Voulgaris, 2016). Among these patient institutional investors, we add the sovereign wealth funds to the matrix of heterogeneous principals.

One of the limitations of our research is that in a single and particular sovereign wealth fund. Others have done this before: as is the case of Hermes, the fund manager owned by the British Telecom Pension Scheme (Becht, Franks, Mayer, and Rossi, 2009) or TIAA, formerly TIAA-CREF, studied by . In both cases, they also study the influence of institutions through private meetings. We have not accessed such detailed level of information at NBIM, but similarly we investigate the behind-the-scenes "voice" mechanism from the changes we observe in corporate governance mechanisms. We expect other researchers would add more clinical cases of sovereign wealth funds involved in the improvement of the corporate governance of their portfolio companies.

Our research does not use corporate governance changes to evaluate performance. We focus our attention towards an exogenous event that changes the style of engagement of an investor and check whether this strategic decision has an impact in the governance of its portfolio companies. We do not explore their post-event performance. By doing so we avoid the endogeneity present in most research designs linking governance and performance. In fact, the decision to change specific governance settings (such as the number of independent directors or the establishment of an audit committee) is normally endogenous. Corporate governance decisions are very much related to other firm-level characteristics, to say financial events or acquisition plans. If you want to understand the impact of governance of two different companies, it is very difficult to capture these governance variables while simultaneously not capturing the omitted financial or strategic variables that explain the decision of changing governance mechanisms (Cuñat, Gine, and Guadalupe, 2012).

The engagement strategy followed by NBIM after 2012 provides significant positive results in two main areas: board accountability and market for corporate control. The

percentage of independent directors of the NBIM portfolio companies (treated group) is significantly higher than in the control matched group (table 7). This keeps the boards accountable: a higher share of independent directors is associated with higher monitoring standards and lower conflicts of interests with top management teams despite there is also evidence of the benefits of well-informed and friendly boards populated by insiders (Adams and Ferreira, 2007; Chen, Cussatt, and Gunny, 2017).

Another main result in our research show how NBIM companies reduced significantly the number of antitakeover devices compared to the control group (table 9). This means that companies can be acquired when a given investor considers that the management is not doing its job properly. Managers have less instruments to entrench themselves and the incentives to increase shareholder value are reinforced.

Also, our results show that NBIM investees increase the share of women on boards significantly (table 8). This is line with the literature that assumes that more diverse boards tend to perform better its monitoring roles and more effectively take strategic decisions (Post and Byron, 2015).

We discussed previously how two variables defending shareholder equality yielded counter-intuitive results. NBIM expectations are clear in this point as stated in its Note. However, NBIM companies tend to provide less information to shareholders as they lack an explicit policy to defend the “one-share, one-vote” principle. It is interesting how this result is under big discussion among institutional investors among practitioners (Barton, 2011). Those defending long-term capitalism do not defend this principle. They consider how most owners nowadays stay for shorter periods as shareholders, and those who stay longer should have higher voice and voting power. This conflicting views of different large shareholders may explain why we obtain a confounding result in this variable. It also relates to the “case by case” approach prudently described by the Note. Generally accepted principles are not “one-size-fits-all” valid approaches and the need for context may explain why this disputed variable leads to the results we had.

In the end, institutional investors may choose between exiting a firm or talk to corporate managers and boards when they disagree with investees. NBIM decided in 2012 to talk and engage more with companies. The results of this “engagement strategy” have yielded positive results in a short period of time. Key corporate governance mechanisms such as the share of independent directors, the number of antitakeover devices and board diversity (females on board), improved after 2012. We shed light in a different class of investor, sovereign wealth funds, and show how these particular state-owned long-term investors can play a relevant role in the configuration of the new capitalism where investors secure and increase value by engaging and not only investing.

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