Active Responses to Passive Ownership: Evidence from Corporate Disclosure

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Abstract: We document that managers strategically increase voluntary disclosure when their firms experience higher ETF ownership. This relationship holds for both the likelihood of issuing guidance and the frequency of forecasts. Exploiting Russell index reconstitution events as quasi-natural experiments, we establish the plausibly causal nature of this relationship: firms switching from the Russell 1000 to 2000 index experience a 1.5% increase in ETF ownership, accompanied by a 4.5% higher likelihood of providing management guidance. Path analysis reveals that managers primarily increase disclosure to compensate for reduced information acquisition by market participants. This strategic behavior is most pronounced among growth firms and those facing financial constraints. Importantly, we find that this voluntary disclosure strategy effectively counteracts several documented negative effects of ETF ownership: firms providing guidance experience 70% less ETF-induced volatility, and the negative impact of ETF ownership on firm-specific information incorporation is fully offset. Our findings reveal a novel strategic response by corporate managers to the growing influence of passive ownership, contributing to our understanding of how firms actively improve their information environment when faced with changes in ownership structure.

Keywords: Exchange-Traded Funds, Passive Ownership, Information Production, Information Environment, Voluntary Disclosure, Management Guidance.

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