

# Legal Origins and Institutional Investors' Support for Corporate Social Responsibility

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## ABSTRACT

Using data on approximately 2,500 environmental and social shareholder proposals, we show that institutional investors from civil law countries use their voting power to positively influence the CSR of common law firms. A one percentage point increase in civil law institutional ownership increases the percentage of votes in favor of US environmental and social proposals by 0.66 percentage points. Exploring their motive for doing so, we provide evidence that institutional investors from civil law countries are more likely to support CSR for financial rather than social reasons. In comparison to institutional investors from common law countries, we argue that institutional investors from civil law countries have a more enlightened view of value maximization: they believe that the creation of stakeholder value ultimately benefits shareholder value.

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## PRELIMINARY VERSION, NOT FOR CITATION

*Comments are welcome*

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## I. Introduction

Corporate social responsibility (CSR) is of increasing importance to institutional investors. In 2018, more than 70% of large U.S. institutional funds claimed to incorporate environmental, social, and governance (ESG) factors into their financial decision making, while this was just 35% in 2015 (Callan Institute, 2018). Additionally, institutional investors positively drive the environmental and social (E&S) performance of the firms in which they invest (Dyck, Lins, Roth, & Wagner, 2018). Potential mechanisms for doing so are to engage with firm management privately or to file a shareholder proposal publicly. Since the E&S conduct of a firm can have a substantial impact on its performance, it is essential to understand which characteristics determine whether an institutional investor aims to drive CSR. By understanding the preferences of their investors, firms can anticipate and adapt to future engagements.

Institutional investors' support for CSR is dependent on several country characteristics. Dyck et al. (2018) find that the effect of institutional ownership on CSR is entirely driven by foreign investors from countries with high social norms. It follows that investors transplant their local social norms and as a result, influence the CSR adoption of foreign firms. However, instead of social norms, a stronger predictor of CSR adoption is a country's legal origin. Liang and Renneboog (2017) show that firms in civil law countries have higher CSR compared to firms in common law countries. This conclusion holds after controlling for political institutions, regulations, social preferences, a firm's financial and operating performance, and a broad set of country- and firm-level control variables.

In this paper, we consolidate the findings of Dyck et al. (2018) and Liang and Renneboog (2017). First, we examine whether civil law institutional investors use their voting power on public E&S shareholder proposals to drive the CSR of US (common law) firms. Second, we test whether institutional investors' support for CSR is motivated by social norms or financial value. Following Liang and Renneboog (2017), we make a distinction between civil law and common law institutional investors and test whether the motive for supporting E&S issues depends on the legal origin of an investor.

On the one hand, an institutional investor can be value-seeking; the support for responsible business behavior is a result of the investor's belief that investments in CSR create financial value. The value-seeking, or value-enhancing, investor believes that meeting the demands of stakeholders

is an integral part of a firm's long-term market value maximization (Jensen, 2002). This investor does not consider CSR as a cost imposed on shareholders, but as an opportunity for firms to invest in its relationship with stakeholders (Martin, Petty, & Wallace, 2009). On the other hand, an institutional investor can be values-driven; the support for responsible business behavior is a result of the investor's social norms. The values-driven investor is willing to take on some costs in order to create or prevent the destruction of social value (Derwall, Koedijk, & Ter Horst, 2011).

Whether an investor is value-seeking or values-driven possibly depends on the investor's legal origin. Common law countries have a shareholder-oriented view; the corporation is a private entity, and its primary purpose is to maximize shareholder wealth. Practicing CSR in these countries is an *explicit*, deliberate, and often strategic decision (Matten & Moon, 2008). In contrast, civil law countries have a stakeholder-oriented view; the corporation has both public and private roles, and its primary purpose is to serve the interests of a broader range of stakeholders (Harper Ho, 2009). CSR in civil law countries is a more *implicit* reaction to a corporation's institutional environment (Matten & Moon, 2008).<sup>1</sup>

Based on the distinction between explicit and implicit CSR, one might argue that CSR in common law countries is more closely tied to financial value. However, we hypothesize that the implicit CSR system in Europe (civil law) provides managers with a better understanding of the strategic benefits of CSR by forcing them to closely collaborate with stakeholders. For example, the system of co-determination, popular in northern Europe, allows employees and trade-unions to participate in firm decision-making (Jurgens, Berthon, Papania, & Shabbir, 2010), granting the firm valuable information on stakeholder interests.

According to the enlightened value maximization theory of Jensen (2002), taking stakeholder interests into account in firm decision-making is ultimately beneficial for shareholder value. By creating and maintaining good relations with important stakeholders, the total long-term firm market value is maximized. In line with this enlightened value maximization approach, anecdotal evidence suggests that firms and investors in Europe believe that investing in CSR is financially material for firm performance.

CEO's of large European companies have stated that sustainability is an integral part of their

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<sup>1</sup>Matten and Moon (2008) base their paper on a comparison of CSR between Europe and the US. However, their argument is based on the stakeholder and shareholder models, which result from a country's legal origin. Moreover, European and US ownership is by far the largest in our dataset.

business operations. For example, Alan Jope, CEO of Unilever, says that his company’s commitment to responsible business “*is not about putting purpose ahead of profits, it is purpose that drives profits.*” Moreover, European institutional investors are more likely to believe that ESG is financially material for investment performance compared to US investors (Amel-Zadeh & Serafeim, 2017; van Duuren, Plantinga, & Scholtens, 2016; CFA Institute, 2017). For instance, in a global sample of 126 fund managers, 67% of European managers believe that socially responsible investing has a positive impact on financial performance, compared to only 17% of US managers (van Duuren et al., 2016).

These observations lead to two hypotheses. First, we hypothesize that vote support for E&S shareholder proposals targeting US firms is higher when a larger share of institutional investors owns the firm. Additionally, when we distinguish by legal origin, we expect that the positive effect of civil law institutional ownership on vote support is higher compared to the positive effect of common law institutional ownership. Second, we hypothesize that, compared to common law institutional investors, civil law institutional investors are more likely to be driven by financial, rather than social motives.

We obtain data on approximately 2,500 shareholder proposals that target S&P1500 firms between 2000 and 2013 from Institutional Shareholder Services. Using a fractional logit model, we find that the percentage of votes in favor of a proposal increases by 0.66 (0.06) percentage points when ownership from civil law (common law) institutional investors increases by one percentage point. This indicates that civil law institutional use their voting power to improve the CSR performance of US firms.

To test whether value-seeking or values-driven behavior motivates the support for E&S proposals, we interact civil and common law institutional ownership with the target firm’s ESG score. The value-seeking approach implies that there is a level of CSR investment at which its contribution to long-term firm value is optimal: a firm that underinvests in CSR does not reap the full benefits that CSR can provide, while a firm that overinvests in CSR destroys firm value since the marginal financial benefits do not outweigh the marginal costs. Hence, the implied relation between CSR investments and long-term firm value is positive and concave. Based on this relation, we assume that the expected financial value of a CSR proposal is higher when the ex-ante CSR score of the target firm is lower. Empirical evidence from Flammer (2011), Krüger (2015) and Harjoto, Jo, and

Kim (2017) supports this assumption.

To calculate a firm’s ESG score, we use the MSCI KLD database. This data includes binary indicators for a multitude of ESG strengths and concerns and is often used in academic work (David, Bloom, & Hillman, 2007; Grewal, Serafeim, & Yoon, 2016; Hillman & Keim, 2001; Statman & Glushkov, 2009). Following the conclusion of Mattingly and Berman (2006) that positive and negative social action are distinct constructs that should not be combined, we include KLD strengths and concerns separately in our analyses.

After controlling for several firm and proposal-specific control variables, we find a negative interaction effect between civil law institutional ownership (*Civil*) and the KLD strengths score. Plotting the marginal effect of *Civil* on vote support at different levels of KLD strengths shows that the effect is significantly positive at low levels of strengths and becomes significantly negative at high levels of strengths. These results hold when examining the total KLD score (strengths minus concerns). In contrast, there is no significant interaction effect between *Common* and KLD strengths, concerns, or the total score.

We examine the robustness of our results by taking into account two additional considerations: the materiality of the proposal topics, and the influence of proxy advisors. We base the expected financial value of a proposal on the ex-ante ESG score of the target firm; an alternative way to determine the financial relevance of a proposal is to determine its financial materiality. Following Grewal et al. (2016) and Schopohl (2017), we use the SASB Materiality Map, to classify each proposal as material or immaterial based on its topic description. We find that material proposals do not receive higher vote support compared to immaterial proposals. Moreover, there is no significant interaction effect between civil law institutional ownership and the materiality indicator.

Two complications explain the lack of a significant finding. Even though a proposal *topic* is material, the proposal *content* might be immaterial. Detailed textual analyses of proxy statements to more closely examine the proposal content go beyond the scope of this paper. Moreover, our results depend on the beliefs of shareholders concerning the materiality of each topic, and these might not be consistent with SASB’s beliefs.

The second robustness test accounts for proxy recommendations. Institutional investors hold a large number of securities, and because it is costly to be informed on each proposal, they often rely on proxy advisors. These proxy advisors perform independent research and provide their

clients with a vote recommendation. Previous research indicates that these recommendations can substantially steer voting outcomes (Aggarwal, Erel, & Starks, 2014; Ertimur, Ferri, & Oesch, 2013). We obtain data from ProxyInsight on the vote recommendations of ISS and Glass Lewis for a small subset of our sample and find that our findings remain robust to the inclusion of vote recommendations.

Our paper makes several contributions. We contribute to the literature on CSR and shareholder activism by obtaining new insights regarding the influence of institutional investors on E&S proposals. Gillan and Starks (2000) examine the support for corporate governance proposals and find a significantly positive effect of institutional ownership. We are the first to show that this result holds for E&S proposals; previous studies did not find any significant relation between institutional ownership and support (Schopohl, 2017; Thomas & Cotter, 2007).<sup>2</sup> Furthermore, we add to the literature by showing that civil law institutional investors have an economically meaningful positive impact on the success of public shareholder engagements.

We also add to the literature on investors' motives to invest socially responsible. Riedl and Smeets (2017) show that social preferences and social signaling explain the socially responsible investment decision of individual investors. Norm-constrained institutions, such as pension plans, also base their investment decision on social preferences (Hong & Kacperczyk, 2009). Furthermore, Dyck et al. (2018) find that social norms play a significant role in the decision of institutional investors to drive CSR. In contrast, we show that financial motives better explain the support of institutional investors from civil law countries for CSR. The importance of financial motives is consistent with the belief of European investors that ESG information is financially material for investment performance (Amel-Zadeh & Serafeim, 2017; van Duuren et al., 2016; CFA Institute, 2017).

Lastly, we contribute to the literature on corporate ownership and CSR. Barnea and Rubin (2010) show that insider ownership is negatively related to the social rating of US firms. They do not find a correlation between institutional ownership and social ratings. In an international study, Dyck et al. (2018) provide evidence of a positive association between institutional ownership and a firm's E&S performance. This result also holds for US firms, but it is mostly foreign ownership

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<sup>2</sup>Thomas and Cotter (2007) only use data on 403 E&S proposals, while Schopohl (2017) loses part of her observations because not all proposals can be linked to the SASB Materiality Map that she uses.

from countries with high social norms that drives this result. We show that civil law institutional investors aim to improve the CSR performance of US firms by using their voting power to support E&S shareholder proposals. Hence, there is a potential positive relationship between civil law ownership of US firms and their CSR performance.

We continue our paper as follows. In section II, we discuss which institutional investors support CSR. Moreover, we examine why and how they do this. In section III, we introduce our data and explain our methodology. In section IV, we provide an overview of E&S proposals and present our main results. In section V, we discuss two additional considerations: financial materiality and proxy advisors. In section VI, we summarize our findings.

## II. The Support for CSR

Dyck et al. (2018) demonstrate that institutional investors improve the E&S performance of firms worldwide. On the one hand, they find that financial reasons motivate this; the effect of institutional ownership on E&S performance increased after the financial crisis. On the other hand, they find that social reasons motivate this; cross-sectional evidence of investors indicates that the positive effect of institutional ownership on E&S performance is driven by institutional investors domiciled in countries with strong social norms. In contrast to social norms, Liang and Renneboog (2017) find that legal origin is the most essential driver of CSR. Their cross-sectional evidence of firms, rather than investors, shows that firms in civil law countries have higher CSR than firms in common law countries. The authors controlled for multiple factors that potentially influence CSR performance (political institutions, regulations, social preferences, a firm's financial and operating performance, and a broad set of country- and firm-level control variables) but legal origin appears to be the strongest predictor.

Accordingly, this paper focuses on the legal origin of institutional investors and aims to consolidate the findings of Dyck et al. (2018) and Liang and Renneboog (2017) by answering three questions. First, *who* drives CSR? More specifically, do institutional investors from civil law countries transplant their view on CSR by driving the E&S performance of common law firms? Second, *why* do institutional investors drive CSR? Dyck et al. (2018) found evidence for both financial and social reasons but did not examine whether the motive is dependent on the legal origin of an

investor. Lastly, *how* do institutional investors drive CSR? To answer this question, we empirically examine vote support for E&S shareholder proposals.

#### A. *Who?*

There are two main legal traditions: common law and civil law. Traditionally, corporate law in common law countries is shareholder oriented (La Porta, Lopez de Silanes, Shleifer, & Vishny, 1998). Private market outcomes are preferred and there is limited interference by the government. Because of the shareholder orientation, small shareholders are well-protected, and this results in dispersed ownership and more transaction-driven behavior. Ultimately, this can lead to a focus on short-term profit maximization (La Porta & Lopez-de silanes, 1999; Jacoby, 2001; Kim, Park, & Ryu, 2017).

In contrast, civil law countries are stakeholder oriented. Firms in these countries typically have concentrated ownership structures (La Porta et al., 1998), with a high level of ownership by managers (Kim et al., 2017). Moreover, Liang and Renneboog (2017) show that the stricter regulatory protection of stakeholders reflects stronger social preferences for good corporate behavior and a stakeholder orientation. Both the ownership structure and the social preferences of investors increase incentives for firms in civil law countries to focus on long-term value maximization. Empirical evidence shows that institutional investors transplant norms, resulting from their regulatory environment, to foreign firms. Aggarwal, Erel, Ferreira, and Matos (2011) find that foreign institutions from countries with strong shareholder protection (common law countries) improve the corporate governance of firms in countries with weak shareholder protection (civil law countries). Following the finding of Liang and Renneboog (2017) that CSR is higher in civil law countries compared to common law countries, we expect that foreign institutions from civil law countries improve the E&S performance of firms in common law countries.

We are not arguing that institutional investors from common law countries do not perceive CSR as important. We must distinguish between two different effects: the effect of being an institutional investor and the effect of the investor's legal origin on the perception of CSR. Hence, depending on their legal origin, institutional investors have different motives for promoting CSR, and this ultimately impacts the amount of CSR in their respective countries. The following section first discusses the reasons why institutional investors drive CSR, and subsequently considers differences



based on the legal origin of these investors.

### *B. Why?*

Kinder (2005) argues that socially responsible investing can be values-based, value-seeking, or value-enhancing. Values-based investors adjust their portfolio based on religious or ethical beliefs. They are willing to incur financial costs in exchange for an increase in non-financial personal utility. In contrast, value-seeking investors believe that investing socially responsible can lead to improved financial returns while value-enhancing investors actively seek value by using shareholder engagement to influence firm behavior. Hence, the primary motive for investing socially responsible is either social or financial.

While Riedl and Smeets (2017) find that individual investors primarily hold socially responsible mutual funds because of social preferences and social signaling, institutional investors have conceivably less room to consider these preferences in their investment behavior. Fiduciary duty dictates that institutional investors act in the best interest of their beneficiaries and some investors argue that this fiduciary duty and the need to deliver financial returns restricts them from investing socially responsible (CFA Institute, 2017). However, Sullivan, Martindale, Feller, and Bordon (2016) argue that the consideration of ESG information by institutional investors is entirely in line with their fiduciary duty because ESG issues are long-term investment value drivers. Hence, failing to consider these issues is not in the best interest of beneficiaries.

From a theoretical perspective, this is consistent with the enlightened value maximization theory of Jensen (2002) which combines the classic shareholder wealth maximization proposition (Berle & Means, 1932) with the stakeholder theory that was popularized by Freeman (1984). Stakeholder theory states that managers should take the interests of all of the firm's stakeholders into account in their decision making. Specifically, managers need to pay attention to the "interests and well-being of those who can assist or hinder the achievement of the organization's objectives" (Phillips, Freeman, & Wicks, 2003, p. 481). However, it is difficult to define and achieve these organizational objectives when managers aim to satisfy the needs of a multitude of stakeholder groups simultaneously. Jensen (2002) argues that the lack of a single-valued objective function will lead to managerial confusion that could result in competitive failure. His solution is to combine the well-defined corporate objective function of shareholder value maximization with the structure

of stakeholder theory: corporations should maximize total long-term firm market value by creating and maintaining good relations with its essential stakeholders (customers, employees, financial backers, suppliers, regulators, and communities).

The enlightened value maximization theory suggests that the creation of stakeholder value is ultimately beneficial for shareholder value: investing in material social issues leads to improved firm financial performance. This is consistent with the current way of thinking of institutional investors worldwide, as becomes evident when examining recent survey evidence (BNP Paribas, 2017; Callan Institute, 2018; CFA Institute, 2017; RBC Global Asset Management, 2018; Morgan Stanley, 2018; Russell Investments, 2019; State Street Global Advisors, 2017). All survey reports point out that a large proportion of institutional investors claims to incorporate ESG information in their financial decision making, ranging from 43 (Callan Institute, 2018) to 80 (State Street Global Advisors, 2017) percent of surveyed investors. More importantly, when asked about their motives for doing so, investors frequently mention that taking ESG information into account is consistent with their fiduciary duty and can lead to improved financial returns. Moreover, many investors use engagement strategies, indicating that these investors do not solely aim to be value-seeking, but also value-enhancing.<sup>3</sup>

The discussed survey results treat institutional investors as a homogeneous group while there is heterogeneity in views regarding ESG between institutional investors from different countries. A crucial determinant of these cross-country differences is the regulatory environment. We hypothesize that institutional investors from civil law countries have a more enlightened view of value maximization compared to institutional investors from common law countries and have several arguments for this hypothesis. Most literature focuses on geography instead of legal origin, with Europe and the US researched the most. We base our arguments on a comparison between European and US investors. This more general comparison is valid since, in our sample, approximately 82% of civil law institutional investors are domiciled in Europe, while approximately 92% of common law institutional investors are domiciled in the US.

Because of their stakeholder oriented model, firms in civil law countries perceive CSR as an internal part of business operations, which can ultimately result in a better understanding of

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<sup>3</sup>The percentage of surveyed investors using engagement strategies are 26% (CFA Institute, 2017), 40% (BNP Paribas, 2017), 50% (Callan Institute, 2018), 71% (State Street Global Advisors, 2017), and 80% (Morgan Stanley, 2018).

the financial value of CSR. For example, the system of co-determination in which employees and trade-unions participate in firm decision-making is widespread in northern Europe and results in a corporate responsibility for stakeholders (Jurgens et al., 2010). Matten and Moon (2008) describe the European style as implicit CSR, which consists of values, norms, and rules that require corporations to address stakeholder issues. Practicing implicit CSR is not a voluntary corporate decision, but rather a reaction to a corporation's institutional environment.

In contrast, Matten and Moon (2008) argue that CSR in the US is an explicit, deliberate, and often strategic decision. One might argue that the strategic approach to CSR in the US, compared to the non-voluntary conduct in Europe, implies that enlightened value maximization is more consistent with the US approach of CSR. However, we argue that the implicit CSR system in Europe forces corporations in these countries to collaborate with stakeholders, which ultimately leads to greater knowledge of the potential strategic benefits of CSR. As a result, managers in Europe are more likely to invest in CSR issues that are better linked to financial value. In several recent survey reports, it becomes clear that this financial view of CSR is also apparent to European institutional investors.

Survey evidence indicates that European institutional investors are more likely to believe that ESG information is financially material for investment performance (Amel-Zadeh & Serafeim, 2017; van Duuren et al., 2016; CFA Institute, 2017). For example, in a global sample of 126 fund managers, 67% of European investors believe that socially responsible investing has a positive impact on financial performance, compared to only 17% of US investors. Moreover, US investors are more likely to doubt that taking ESG issues into account is consistent with their fiduciary duty (Amel-Zadeh & Serafeim, 2017; CFA Institute, 2017).

Although these surveys had respondents from investors in countries outside the US and Europe, they are not reported, or not segregated by individual countries.<sup>4</sup> However, under the assumption that the belief in the material importance of CSR is a result of the civil law stakeholder model, we argue that civil law institutional investors have a more enlightened view of value maximization; taking stakeholder interests into account by investing in CSR leads to improved firm financial value.

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<sup>4</sup>CFA Institute (2017) reports the results of APAC countries. However, countries within APAC can be civil law and common law, making it impossible to draw conclusions based on legal origin.

### *C. How?*

Institutional investors can influence corporate conduct using two mechanisms: (the threat of) exit/selection and voice. Large investors can affect managerial decision making by threatening to sell their holdings, which would drive down the price of the targeted company (Admati & Pfleiderer, 2009). However, since Dyck et al. (2018) find that exit and selection do not lead to significant changes in a firm’s E&S performance, we focus on the second mechanism: voice.

Shareholders can either engage publicly by immediately filing a shareholder proposal or privately by first initiating a dialogue with the target firm. There are two reasons why our study only includes public engagements. First, several recent studies have examined the success and impact of private engagements (Barko, Cremers, & Renneboog, 2017; Becht, Franks, Mayer, & Rossi, 2010; Dimson & Li, 2012, e.g.). Each of these studies utilizes a dataset that is specific to a single asset manager, which calls into question the external validity of their findings. Second, since each shareholder with voting rights is allowed to vote on a proposal, data on public engagements allow us to measure the influence of foreign investors more directly.

In the US, shareholders with a minimum ownership share of one percent, or voting stock with a minimum market value of \$2,000 have the right to submit a proposal. Three possible scenarios can occur after a proposal has been submitted: it is omitted, it is withdrawn, or it goes to a vote at the Annual General Meeting (AGM). The process is summarized in Figure 1.

We study public engagements related to E&S issues using two outcome variables. First, we measure success by the probability of withdrawal. When negotiation between the proposal sponsor and firm management is successful, the sponsor voluntarily withdraws the proposal. Since the target firm implements the desired changes, a proposal withdrawal is an indication of success (Bauer, Moers, & Viehs, 2015). Second, we measure support from investors as the percentage of votes cast in favor of a proposal at the AGM. We cannot simply classify a proposal with majority support as a success since shareholder proposals are nonbinding (Tkac, 2006). However, studies have shown that proposals do have an impact on share prices, firm performance, and other firm characteristics such as CSR and takeover defenses, regardless of receiving a majority of votes or not (David et al., 2007; Gillan & Starks, 2000; Grewal et al., 2016; King, Bozos, & Koutmos, 2017; Renneboog & Szilagyi, 2009; Thomas & Cotter, 2007).

#### *D. Hypotheses*

Bauer et al. (2015) found a significantly positive effect of institutional ownership on the probability of withdrawal when an institutional investor sponsored the proposal. Management is more willing to negotiate with the proposal sponsor when it fears the pressure from a broader base of institutional investors, who can use the threat of exit to exert monitoring power (Bharath, Jayaraman, & Nagar, 2018; Edmans & Manso, 2011; McCahery, Sautner, & Starks, 2016). We separate institutional ownership into civil law institutional ownership and common law institutional ownership based on each investor's country of domicile. The results of Liang and Renneboog (2017) indicate that investors from civil law countries are more likely to be supportive of CSR compared to investors from common law countries. Under the assumption that management knows that civil law investors are supportive of CSR, we expect that the positive effect of institutional ownership on the probability of withdrawal is higher for civil law institutional ownership than common law institutional ownership.

**Hypothesis 1a:** The higher the share of institutional investors in the shareholder base of a target firm, the higher the probability of withdrawal of an environmental or social proposal.

**Hypothesis 1b:** The positive effect of institutional ownership on the probability of withdrawal is higher for civil law institutional ownership than common law institutional ownership.

Investors have a more direct effect on the second outcome variable: vote support. Gillan and Starks (2000) found a positive correlation between institutional ownership and vote support for corporate governance proposals. Because of the evidence that institutional investors drive CSR, we hypothesize that his finding holds for E&S proposals. However, because of their stakeholder orientation and focus on long-term firm value, we expect the effect to be higher for civil law institutional ownership compared to common law institutional ownership.

**Hypothesis 2a:** The higher the share of institutional investors in the shareholder base of a target firm, the higher the vote support for an environmental or social proposal.

**Hypothesis 2b:** The positive effect of institutional ownership on vote support is higher for civil law institutional ownership than common law institutional ownership.

Nevertheless, shareholders that have an enlightened view of value maximization do not support all E&S shareholder proposals. Instead, they condition their support on the proposal's expected financial impact. The enlightened view of value maximization implies that there is an economically optimal level of CSR investment: a firm that underinvests in CSR does not reap the full benefits that CSR can provide to its long-term value, a firm that overinvests in CSR results destroys firm value because the marginal costs do not outweigh the marginal financial benefits. Under these assumptions, investing in CSR has decreasing marginal benefits, and the relation between CSR investments and long-term firm value is positive but concave (Flammer, 2015; Harjoto et al., 2017; Wang, Choi, & Li, 2007).

Empirical studies show that investors have a concave relation between CSR and long-term firm value in mind. Flammer (2011) finds that environmentally friendly (harmful) firm behavior results in a significant stock price increase (decrease), but the effect is smaller when the firm exhibits a high level of environmental CSR before the event. Krüger (2015) finds that investors respond strongly negatively to news involving negative social and environmental events, whereas weakly negatively to positive events. However, when the positive event offsets a previous run of weak CSR behavior, investors' reaction to positive events is significantly positive. Both papers demonstrate that investors believe that CSR investments have decreasing marginal returns.

We expect that institutional investors are more likely to support a proposal when the CSR of the target firm is currently below the optimal level. However, based on our discussion of the importance of legal origin, we propose to distinguish between common law and civil law institutional ownership. We hypothesize that institutional investors from civil law countries have a more enlightened view of value maximization and base their vote support on the expected financial value of the proposal. Common law institutional investors are less likely to support E&S shareholder proposals (Hypothesis 2b) compared to civil law institutional investors, but when they do support the proposal, it is likely because of a social motive.

Following the discussion on the positive concave relation between CSR investments and firm value, we base the expected financial value of a shareholder proposal on the current level of CSR, which we measure using an ESG score. The assumption is that a proposal aimed at a target firm with an ex-ante low ESG score has more potential to lead to financial value compared to a proposal aimed at a target firm with an ex-ante high ESG score.

**Hypothesis 3a:** In line with an enlightened view of value maximization, the effect of civil law institutional ownership on vote support is conditional on the ex-ante ESG score of the target firm: there is a positive effect for low-scoring target firms, but a neutral or negative effect for high-scoring target firms.

**Hypothesis 3b:** The effect of common law institutional ownership on vote support is **not** conditional on the ex-ante ESG score of the target firm: the effect is positive or neutral for both low-scoring and high-scoring target firms.

### III. Data and Methodology

#### A. Shareholder proposals

The data on E&S shareholder proposals is acquired from ISS, formerly RiskMetrics. ISS covers more than 6,000 E&S proposals aimed at S&P 1500 firms between 1997 and 2017. However, because of data limitations, our analysis covers all proposals between 2000 and 2013.<sup>5</sup> The data includes each proposal’s status (omitted, withdrawn, or voted), sponsor type (company, fund, religious organization, special interest group, SRI fund, union, individual, or other) and vote for percentage.

It also includes a one-line description of the proposal topic. We grouped all proposals into six main categories (business model and innovation, environment, human capital, social capital, other) and several subcategories, based on their description. Appendix A provides an overview of all E&S proposals between 1997 and 2017 per main category and subcategory.

#### B. Institutional ownership, CSR, and firm controls

We use Factset to obtain institutional ownership data grouped by country of domicile at the end of the previous calendar year.<sup>6</sup> Information on the legal origin of each country is obtained from La Porta et al. (1998). These two sources are combined to calculate institutional ownership by legal origin. We focus on common law and civil law countries and do not distinguish between the

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<sup>5</sup>Institutional ownership data from Factset is only available after 2000. MSCI KLD data cannot be used after 2012 because they changed their rating methodology, proposals in 2013 are still included in the analyses since we lag KLD scores by one year.

<sup>6</sup>Ownership data at, or close to, the annual general meeting date is often not available.

different types of civil law (French, German, and Scandinavian) because the average percentage of civil law institutional ownership in US firms is low (Table I). Dividing this into smaller subgroups would lead to too little variation.

We assess firm performance on ESG issues by using the KLD STATS from MSCI, formerly RiskMetrics. The MSCI ESG KLD STATS includes annual data of positive and negative ESG performance indicators for a broad universe of publicly traded US firms. Over 140 research experts assess these indicators by collecting data from several sources: macro data from academic, government, or NGO datasets, company disclosure (10-K, sustainability reports, proxy reports, AGM results), government databases, media, and other stakeholder sources.

The data covers 44 positive indicators (strengths) and 38 negative indicators (concerns) in seven qualitative issue areas: community, corporate governance, diversity, employee relations, environment, human rights, and product. For each indicator, a firm is assigned a rating of 1 whenever it has a strength or concern in that issue, and 0 otherwise. It is common to calculate a total KLD score by subtracting the total number of concerns from the total number of strengths (David et al., 2007; Grewal et al., 2016; Hillman & Keim, 2001; Statman & Glushkov, 2009). However, Mattingly and Berman (2006) find that positive and negative social action are empirically and conceptually distinct and should not be combined. Following their recommendation, we treat KLD strengths and KLD concerns as separate variables in our regressions. For completeness, we also show the results for the total score.

In recent years, there have been two significant changes in the KLD dataset. First, in 2010, MSCI started using an industry-based key issue rating model. In this model, firms are assessed for typically 4-7 indicators that relate to the most material issues within the firm's primary industry. Before the implementation of this model, RiskMetrics evaluated all firms on the full set of indicators. We tested whether this had an impact on our results by weighing KLD scores by the amount of examined indicators; it did not change any of our conclusions. Second, KLD STATS used to be owned by RiskMetrics but got acquired by MSCI in 2010. MSCI changed the methodology of KLD STATS in 2013, making scores before and after this change incomparable. To account for this, we only include KLD data before 2013 in our study.

We obtain firm control variables from Compustat: total assets, the price to book ratio, capital expenditures, the return on assets, sales growth, the total amount of dividends, and the debt to



equity ratio.<sup>7</sup> Furthermore, we retrieve the total q ratio of Peters and Taylor (2017). All firm control variables are winsorized at the 1st and 99th percentiles.

### C. Methodology

To test hypothesis 1 we use a logistic regression with the probability of withdrawal (*Withdrawn*) as the dependent variable. The main independent variable of interest is institutional ownership (*InstOwn*); the percentage of shares outstanding owned by institutional investors. For hypothesis 1b, we split *InstOwn* into civil law institutional ownership (*Civil*) and common law institutional ownership (*Common*) based on the legal origin in each institutional investor’s country of domicile. This results in the following regression models for proposal *i* at firm *j* in year *t*:

$$\begin{aligned} Withdrawn_{ijt} = & \beta_0 + \beta_1 InstOwn_{jt} + \beta_2 KLD_{STR_{jt-1}} + \beta_3 KLD_{CON_{jt-1}} + \beta_4 \Pi_{ijt} \\ & + \beta_5 X_{jt-1} + \Lambda \end{aligned} \quad (1)$$

$$\begin{aligned} Withdrawn_{ijt} = & \beta_0 + \beta_1 Civil_{jt} + \beta_2 Common_{jt} + \beta_3 KLD_{STR_{jt-1}} + \beta_4 KLD_{CON_{jt-1}} \\ & + \beta_5 \Pi_{ijt} + \beta_6 X_{jt-1} + \Lambda \end{aligned} \quad (2)$$

$KLD_{STR_{jt-1}}$  ( $KLD_{CON_{jt-1}}$ ) is the total sum of strengths (concerns) across all KLD’s qualitative issue areas except corporate governance.<sup>8</sup> We lag the KLD score by one year to assure that it was not affected by the proposal.  $\Pi_{ijt}$  is a set of proposal level control variables: proposal sponsor, proposal type, and a *Repeat* dummy equal to 1 when the proposal was filed in the previous year by the same sponsor at the same firm, and equal to 0 otherwise.<sup>9</sup>  $X_{jt-1}$  is a set of firm-level control variables: log of total assets, log of the price to book ratio, log of capital expenditures, ROA, sales growth, the total amount of dividends, the total q ratio (Peters & Taylor, 2017), and the debt to equity ratio.  $\Lambda$  denotes year and Fama-French 49 industry fixed effects. Although fixed effects in a non-linear model can be troublesome, Greene (2002) shows that the bias drops dramatically as the group size increases to 3 or more, which is the case in our data. Moreover, we tested a linear

<sup>7</sup>Stock prices for the calculation of the price to book ratio are obtained from CRSP.

<sup>8</sup>Excluding corporate governance issues ensures that the score is only based on E&S issues. Including corporate governance in the scores leads to almost identical results.

<sup>9</sup>The SEC set thresholds that allow for re-submission of proposals in ensuing years. The target firm can only exclude proposals that did not attain 3% of support the first time, 6% the second time, and 10% the third time that it was presented and voted on at the AGM.

probability model and our results were consistent. Lastly, since a target firm can receive several proposals in one year, we treat each proposal as a separate observation but cluster standard errors at the firm level.

Voting outcomes are tested using the fractional logit model (Papke & Wooldridge, 1996), which ensures that the predicted voting outcome is between 0 and 100 percent. Hypothesis 2 is tested using the same specification as equations 1 and 2 while we estimate the following model for hypothesis 3:

$$\begin{aligned}
E(\text{Vote}_{ijt}|x) = & G(\beta_0 + \beta_1\text{Civil}_{jt} + \beta_2\text{Common}_{jt} + \beta_3\text{Civil}_{jt} \times \text{KLD}_{STR_{jt-1}} + \beta_4\text{Civil}_{jt} \times \\
& \text{KLD}_{CON_{jt-1}} + \beta_5\text{Common}_{jt} \times \text{KLD}_{STR_{jt-1}} + \beta_6\text{Common}_{jt} \times \text{KLD}_{CON_{jt-1}} + \\
& \beta_7\text{KLD}_{STR_{jt-1}} + \beta_8\text{KLD}_{CON_{jt-1}} + \beta_9\Pi_{ijt} + \beta_{10}X_{jt-1} + \Lambda)
\end{aligned} \tag{3}$$

where  $G(\cdot)$  is the logistic function. We expect a negative interaction effect between  $\text{KLD}_{STR}$  and  $\text{Civil}$  and a positive interaction effect between  $\text{KLD}_{CON}$  and  $\text{Civil}$ .

Calculating and interpreting interaction effects in non-linear models is not straightforward. The marginal effect of  $\text{Civil}$  on vote support is not only dependent on  $\text{KLD}_{STR}$  and  $\text{KLD}_{CON}$  but also on all other independent variables (Ai & Norton, 2003). Hence, the coefficient of the interaction term is not sufficiently informative on the size and significance of this marginal effect. We solve this by calculating and graphing average marginal effects at different levels of KLD strengths and concerns (Greene, 2010; Karaca-Mandic, Norton, & Dowd, 2012; Iliev, Lins, Miller, & Roth, 2015).

## IV. Environmental and Social Shareholder Proposals

Table II provides an overview of all proposals in the sample categorized by subtopic. The number of E&S proposal filings has increased over the years, but there is no stable trend. There is a large variety of topics, but the most popular topics are “GHG emissions,” “diversity and inclusion,” “management of the legal and regulatory environment,” “human rights,” and “report on sustainability.” Several observations emerge from the outcomes of these proposals (Table III).

First, the percentage of votes in favor has increased substantially over time - from 6.73% in 1997 to 21.38% in 2017 - which indicates that investors are increasingly supportive of E&S proposals. However, support is still much lower compared to corporate governance proposals, which on average receive well over 30 percent of votes for since 2000 (Gine & Guadalupe, 2012; Renneboog & Szilagyi,

2011). Second, the probability of withdrawal is on average 30.2% and has not increased over time. Proposals related to human capital or the environment are most likely, while proposals addressing the firm’s business model are least likely to be withdrawn. Proposals related to the business model might be too specific or intrusive, which would also explain their low percentage of vote support. Third, proposals seldom receive majority support, although the percentage of proposals receiving majority support has increased over time.

#### *A. The probability of withdrawal*

We empirically examine two engagement outcomes: the probability of proposal withdrawal and vote support.<sup>10</sup> After a sponsor files a proposal, the sponsor often enters into negotiations with management. When management is favorable towards the issues addressed in the proposal, they will reach an agreement with the proposal sponsor, who then withdraws the proposal.

Table IV presents the results of estimating equations (1) and (2) using both the logit model and the linear probability model. Hypothesis 1a is not rejected since we find a significantly positive effect of institutional ownership on the probability of withdrawal. A 1 percentage point increase in institutional ownership increases the probability of withdrawal by 0.33 percentage points. Hence, firm managers are more likely to negotiate favorably with the sponsor when a higher share of institutional investors owns the firm. Firm managers might be aware of the importance of CSR for institutional investors and know that these investors are more likely to support E&S proposals at the AGM. Moreover, successful negotiations prevent the firm from having to present the proposal at the public meeting, saving it from a potential negative impact on its reputation.

Alternatively, one could argue that institutional investors are just more likely to invest in firms that are more supportive of CSR and that the significantly positive coefficient is purely correlational. However, Dyck et al. (2018) provide evidence of a causal relationship between institutional ownership and a firm’s E&S performance. Hence, these investors do not merely invest in firms that have a good track record of E&S behavior, but actively influence it. Moreover, the results in Table IV indicate that the probability of withdrawal is not significantly higher when the target firm has a higher ESG score.

Models (3), (4), and (6) distinguish between civil law and common law institutional investors.

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<sup>10</sup>We define vote support as the percentage of votes in favor of a proposal at the AGM.

Following hypothesis 1b we find a higher coefficient for *Civil* compared to *Common*. However, we reject hypothesis 1b because the effect of *Civil* on the probability of withdrawal is not significant.

The regression results also indicate that the type of sponsor is important. Compared to individuals, larger sponsors like public pensions and (SRI) funds are more likely to successfully negotiate with the target firm. For example, the probability of withdrawal is 36.4 percentage points higher when the sponsor is a public pension instead of an individual. These findings are consistent with Bauer et al. (2015) who study CSR, as well as corporate governance, proposals.

### B. *Vote Support*

Table VI shows the regression results for vote support, where models 1 to 3 use ordinary least squares and models 4 to 6 use the fractional logit model. There is a significantly positive effect of *Civil* on vote support in all specifications which is much higher compared to *Common*. A 1 percentage point increase in *Civil* (*Common*) increases the percentage of votes for by 0.66 (0.06) percentage points (Specification 4). Hence, civil law institutional investors are more likely to support CSR issues compared to their common law counterparts. Even though the average percentage of civil law institutional ownership is low, its economic impact is meaningful. Using the results of model (4) and keeping all other variables at their means, an increase in *Civil* from its 25th percentile to its 75th percentile increases the predicted percentage of votes for by 1.73 percentage points (12.52 percent).<sup>11</sup>

To test hypothesis 3, we use equation (3) and interact *Civil* and *Common* with the KLD scores. Specifications (2) and (5) in Table VI reveal that there is a significantly negative interaction effect between *Civil* and the KLD strengths score. This result also holds for the total KLD score (the sum of strengths minus the sum of concerns). However, because we use a non-linear model, the marginal effect of *Civil* on vote support is not only dependent on  $KLD_{STR}$  but also on all other independent variables (Ai & Norton, 2003). Hence, the coefficient of the interaction term is not sufficiently informative on the size and significance of this marginal effect. Following Greene (2010); Karaca-Mandic et al. (2012); Iliev et al. (2015) we solve this by calculating and graphing average marginal effects of *Civil* and *Common* on vote support at different levels of KLD scores in Figure 2.

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<sup>11</sup>We used the percentiles of *Civil* in our proposal sample to calculate these results. When the S&P 1500 sample is used the predicted percentage of votes for increases by 1.37 percentage points (9.91 percent).

The shaded area around each line represents the 95 percent confidence interval.

Panels (a) and (b) make clear that the marginal effects of *Civil* are much larger compared to *Common*. Panel (a) shows that there is a strong and positive marginal effect of *Civil* at low levels of KLD strengths, but the effect turns negative at high levels of KLD strengths. This pattern is not observed in any specification for *Common*. Under our assumption that the expected financial value of a proposal decreases as the ESG score of a firm increases, we can infer that civil law institutional investors are more likely to support CSR issues because of financial rather than social reasons, compared to investors from common law countries. Hence, hypothesis 3 is not rejected.

To further clarify the impact of these findings, Figure 3 shows the predicted percentage of vote support for different levels of *Civil/Common* and KLD strengths, keeping all other variables fixed at their means. Panel (a) clearly shows that the effect of *Civil* on vote support highly depends on the number of KLD strengths at the target firm. In contrast, the relation between *Common* and vote support in panel (b) does not notably change depending on the number of KLD strengths. There is a direct negative effect of KLD strengths on vote support in this panel, but this is a result of its interaction with *Civil*. To account for this, in panels (c) and (d) we restrict the percentage of institutional ownership of the alternative legal origin to zero. As a result, panel (d) shows that there is less of a distinction in predicted outcomes as the amount of KLD strengths changes.

Panels (e) and (f) of Figure 2 show the results for KLD concerns. There is a positive relationship between the marginal effect of *Civil* and the number of concerns, but the marginal effects are never significant. For *Common* we observe a significantly positive marginal effect on vote support at low levels of concerns, but not at high levels of concerns. When deducting the sum of strengths from the sum of concerns in panels (g) and (h), we observe the same patterns as for the strengths score. The only noticeable difference is that the marginal effect of *Civil* on vote support is not significantly negative at high levels of the total score.

Overall, we find that institutional ownership has a positive effect on both the probability of withdrawal and the vote support for CSR proposals. When distinguishing between civil law and common law institutional ownership, there is no significant positive relation between *Civil* and the probability of withdrawal. However, when looking at shareholder support for CSR proposals, we find that institutional investors from civil law countries are more likely to support these engagements compared to common law institutional investors. The negative interaction between *Civil* and the

KLD strengths and total scores indicates that their motive for doing so relates more to financial rather than social value.

## V. Additional Considerations

### A. ESG data

To assess whether our results are robust depending on the source of ESG data that is used, we obtain data from MSCI ESG. In a recently conducted global survey asking sustainability professionals about their views on ESG ratings, MSCI ESG ratings is second most frequently mentioned as highest quality rating (SustainAbility, 2019). MSCI uses company disclosures, government and academic databases, and media sources to assess 6,800 companies worldwide. They identify material risks and opportunities for each industry through a quantitative model, resulting in a selection of key issues.

These key issues are weighted based on their expected time frame to materialize and their expected impact. For each company, the weighted averages of the key issue scores are aggregated and normalized by their industry. Ultimately, this results in an industry adjusted score for each company that corresponds to a rating between best (AAA) and worst (CC). Besides this industry adjusted score, we calculate an E&S score based on the environmental and social pillar scores and their weights. Note that this E&S score is not industry adjusted because MSCI does not provide industry adjusted environmental and social pillar scores.

Table VII reports the logistic regression results for the probability of withdrawal, replacing the KLD by the MSCI ESG scores. Compared to table IV, there are less observations because MSCI scores are not available before 2007. This might explain why the effect of *Civil* is significantly positive in this analysis, but not in the previous analysis using MSCI KLD; the influence of civil law institutional investors has increased over time. The results indicate that a one percentage point increase in *Civil* increases the probability of withdrawal by 2.38 percentage points, while a similar increase in *Common* increases this probability by 0.40 percentage points.

In table VIII there is a significantly positive effect of both *Civil* and *Common* on vote support, but the effect is much larger for *Civil*. Moreover, there are significantly negative interaction effects between *Civil/ Common* and the industry adjusted MSCI ESG score, and a significantly negative

interaction effect between *Civil* and the MSCI E&S score. Figure VIII provides a better illustration of these interaction effects. The results are similar to the interaction between *Civil* and the KLD scores; there is a positive effect of *Civil* at low levels, and a negative effect at high levels, of industry adjusted MSCI ESG on vote support. Overall, this indicates that our results are robust to using a different measure of ESG.

### *B. Materiality*

We base the expected financial value of a shareholder proposal on the current ESG score and assume that a proposal aimed at a target firm with an ex-ante low ESG score has more potential to lead to financial value compared to a proposal aimed at a target firm with an ex-ante high ESG score. Alternatively, following Grewal et al. (2016) and Schopohl (2017), we could classify each proposal as being material or immaterial according to the materiality standards of the Sustainability Accounting Standards Board (SASB). The SEC requires the disclosure of material information, which they define as “information that is necessary to form an understanding of the company’s financial condition and operating performance, as well as its prospects for the future” (SEC, 2003). SASB intends to assist companies in fulfilling these regulatory requirements by identifying sustainability topics that are likely to be material to investors in each specific industry, warranting their inclusion for standardized disclosures. To achieve this, SASB’s analysts follow industry news, perform independent research, and discuss their research with top firms and investment analysts within each industry sector. The results of this process are summarized in the SASB Materiality Map, which shows for each sector and industry which sustainability topics are material.

We use SASB’s materiality map, the assigned subcategory (Table II), and the industry of the target firm to classify each proposal as either material or immaterial. We find that only 33.4 percent of the proposals in our sample is material, which is lower compared to the findings of Grewal et al. (2016, 42 percent) and Schopohl (2017, 44 percent). To test whether material proposals are more likely to be withdrawn and receive higher vote support, we include a *Material* dummy which is equal to 1 when the proposal is material, and 0 when it is immaterial. Moreover, to test the hypothesis that institutional investors from civil law countries are more likely to support CSR engagements because of financial instead of social motives, compared to institutional investors from common law countries, we include interactions between *Civil/Common* and *Material*. The results are reported

in Table IX.

We find no significant effect of *Material* or its interaction with *Civil* and *Common* in any of the specifications. Finding an effect depends on two factors: the correctness of the materiality classification, and whether shareholders share the same view of materiality with SASB. Following Grewal et al. (2016) and Schopohl (2017), the materiality of each proposal is determined based on the short proposal description provided by ISS.<sup>12</sup> Even though a proposal *topic* is material based on the SASB materiality map, the actual proposal *content* might not be material. Analyzing the detailed proxy statement of each proposal to determine materiality goes beyond the scope of this paper and is left for future research. The second complication is that our results depend on the beliefs of shareholders concerning the materiality of E&S issues, which are likely to be different compared to SASB. For instance, only 17% of the respondents of the CFA survey aimed at portfolio managers and research analysts indicated that they used SASB to identify material ESG issues (CFA Institute, 2017). Moreover, institutional investors from civil law countries are less familiar with SASB because it is a US-based organization.

### C. Proxy advisors

Institutional investors hold a large number of securities and take therefore part in a substantial amount of proxy meetings. Since informed voting at all of these meetings entails costs, institutional investors use the services of proxy advisors. The leading player in the proxy advising market is Institutional Shareholder Services (ISS), with Glass Lewis (GL) as its main competitor (Li, 2018). Their services include the provision of research, assisting investors in developing their voting guidelines, and offering vote recommendations for each proposal on a company’s proxy statement (Choi, Fisch, & Kahan, 2010). As a result, proxy advisors have a considerable influence on voting outcomes (Aggarwal et al., 2014; Gillan & Bethel, 2002; Cai, Garner, & Walkling, 2009; Ertimur et al., 2013). For example, Ertimur et al. (2013) find 24.7% (12.9%) more votes against say on pay proposals following negative ISS (GL) recommendations.

To account for the influence that proxy advisors might have on CSR related proposals, we obtain ISS and GL vote recommendations from ProxyInsight. There are two limitations to this

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<sup>12</sup>Grewal et al. (2016) add even another level of uncertainty by first mapping the proposal topic to a KLD data item and then mapping the KLD data item to SASB’s framework. This potentially explains their inconsistent findings in comparison to Schopohl (2017)



data. First, coverage starts in 2011, which given our sample, only provides us with three years of data. Second, ProxyInsight does not observe ISS recommendations directly but infers it from the voting behavior and stated voting rationale of investors which are known to be ISS' clients. Ultimately, we end up with a relatively small sample of 185 proposals, of which both the ISS and GL recommendations are provided.

In Table X, we include separate indicators for the ISS and GL recommendations, as well as an interaction term equal to 1 when both ISS and GL recommend voting for (Choi et al., 2010). *ISS Rec* (*GL Rec*) measures the effect of a vote for recommendation by ISS (GL) when GL (ISS) recommends to vote against. The sum of *ISS Rec* (*GL Rec*) and *ISS Rec*  $\times$  *GL Rec* measures the impact of ISS (GL) on vote support when both ISS and GL recommend voting for.

ISS Rec and GL Rec are significantly positive, indicating that both proxy advisors influence voting outcomes. Using specification (5), the average marginal effect of a positive ISS recommendation equals 22.25 percentage points when GL has a negative recommendation, and 19.77 percentage points when GL also has a positive recommendation. In comparison, the average marginal effect of a positive GL recommendation amounts to 7.75 percentage points when ISS recommends voting against, and 5.27 percentage points when ISS also recommends to vote for. These findings illustrate that both ISS and GL have significant power to shift votes.

After correcting for proxy advisor recommendations, Figure 5 provides the marginal effects of *Civil* and *Common* on vote support at different levels of KLD strengths, concerns, and the total KLD score. In comparison to Figure 2, we observe nearly the same patterns for KLD strengths and the total KLD score. However, the marginal effects of *Civil* are larger after correcting for proxy advisor recommendations, but they are less significant at higher levels of KLD strengths. Moreover, there is now a significantly negative effect when the KLD total score is high, which is not observed in Figure 2. The most striking difference between the two figures is the newly observed positive interaction between *Civil* and KLD concerns. Hence, civil law institutional investors are more likely to support a CSR proposal when the target firm has a higher amount of CSR related concerns.

We have to be careful with the interpretation of these results since we only include a very small subsample of E&S proposals. Table XI displays the results for this small subsample without including proxy recommendations. All of our main findings in Table VI remain robust. However, we do find that there is a minimal significant negative interaction between KLD strengths and *Common*

in the OLS model, but not in the fractional logit model. Moreover, there is a significant negative interaction between the total KLD score and *Common* in both models but the economic significance is small: the effect of one additional percentage point common law institutional ownership on vote support ranges from 0.07 percentage points at a total KLD score of -18, to 0.04 percentage points at a total KLD score of -4. There is no significant marginal effect of *Common* on vote support at higher total KLD scores.

## VI. Conclusion

Institutional investors drive CSR around the world (Dyck et al., 2018). We empirically examine public shareholder engagements as a potential mechanism for doing so. Additionally, we take a closer look at which institutional investors are the driving force behind Dyck et al.'s (2018) finding. In light of Liang and Renneboog's (2017) conclusion that legal origin is the most important determinant of CSR adoption, we base our analysis on the distinction between institutional investors domiciled in civil law countries from those that are domiciled in common law countries. Lastly, we study institutional investor's underlying motive for driving CSR by distinguishing financial from social motives.

Using data on approximately 2,500 E&S shareholder proposals, we show that a one percentage point increase in civil (common) law institutional ownership increases the percentage of votes in favor of US E&S proposals by 0.66 (0.06) percentage points. Hence, we conclude that institutional investors from civil law countries use their voting power to positively influence the CSR of common law firms. It is unclear what the exact impact of an increase in vote support is. Although Grewal et al. (2016) find that environmental shareholder proposals improve the performance of the target firm on the focal ESG issue, they did not test whether this is dependent on the percentage of vote support.

We explore institutional investor's motive for supporting CSR by interacting the ownership variables with the target firm's ESG score. Based on the evidence of decreasing marginal benefits of CSR investments (Flammer, 2015; Harjoto et al., 2017; Wang et al., 2007), we assume that the expected financial value of a proposal decreases as the ESG score of the target firm increases. We find that institutional investors from civil law countries support E&S proposals when the target

firm has an ex-ante low ESG score, but do not support these proposals when the ex-ante ESG score of the target firm is high. We do not find a significant negative interaction effect between common law institutional ownership and the target firm's ESG score on vote support. These results indicate that the support of civil law institutional investors for CSR is more motivated by financial, rather than social reasons.

We contribute to the literature on CSR and shareholder activism by showing that institutional investors have a significantly positive effect on vote support for E&S proposals; previous studies did not find any significant relation (Schopohl, 2017; Thomas & Cotter, 2007). Furthermore, we find that civil law institutional investors have an economically meaningful positive impact on the success of public shareholder engagements. We also add to the literature on investor's motives for investing socially responsible. Riedl and Smeets (2017) find that social preferences explain the socially responsible investment decision for individual investors and Dyck et al. (2018) find that social norms play an important role in this decision of institutional investors. In contrast, we find show financial motives play an important role, but only for institutional investors from civil law countries. Lastly, we contribute to the literature on corporate ownership and CSR. We demonstrate that civil law institutional investors aim to improve the CSR performance of US firms by using their right to vote on shareholder proposals. Hence, there is a potential positive relationship between civil law institutional ownership of US firms and the firm's CSR performance.

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**Table I: Summary statistics - target firms**

The table provides summary statistics for the independent variables that are included in our regressions. The sample only includes targeted firms in the S&P1500 between 2000 and 2013. Variable definitions are given in appendix A1.

	Mean	SD	Pct25	Pct50	Pct75	Min	Max
Vote	13.81	12.55	5.70	8.40	21.40	0.00	98.00
Civil	2.98	1.47	1.91	2.78	3.94	0.02	12.53
Common	64.59	15.14	53.70	64.51	76.23	15.85	98.61
KLD <sub>STR</sub>	5.30	4.05	2.00	5.00	8.00	0.00	21.00
KLD <sub>CON</sub>	6.38	3.94	3.00	6.00	9.00	0.00	19.00
KLD <sub>TOT</sub>	-1.08	4.66	-4.00	-1.00	2.00	-14.00	18.00
ln(totalassets)	10.09	1.49	9.12	10.19	10.95	5.05	13.42
ln(pricetobook)	1.09	0.68	0.61	1.06	1.49	-1.23	3.09
ln(capex)	6.98	1.63	5.87	7.11	8.00	0.32	9.65
ROA	7.27	6.24	3.33	6.87	11.02	-30.27	26.64
Salesgrowth	7.73	18.31	0.09	6.30	13.64	-45.13	108.16
Dividends	1554.95	2219.98	92.44	482.00	1909.00	0.00	7628.00
Tobin's q	1.31	1.38	0.63	0.94	1.55	-1.58	18.11
Debt/equity	2.27	2.83	0.96	1.46	2.52	-4.76	20.88
<i>N</i>	2829						

**Table II: Number of filed US E&S proposals**

The table reports the number of filed public shareholder proposals targeting US firms between 1997 and 2017. Proposals are divided into six main categories, each including several subtopics.

Proposal Topics	Year	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	Total
<b>Business Model and Innovation</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>22</b>	<b>17</b>	<b>14</b>	<b>12</b>	<b>8</b>	<b>14</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>7</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>129</b>
Product design and lifecycle management					22	17	14	12	8	14	8	7	2	1		1	1	6	7	5	1		126
Supply chain management											2	1											3
<b>Environment</b>		<b>68</b>	<b>66</b>	<b>55</b>	<b>40</b>	<b>45</b>	<b>64</b>	<b>65</b>	<b>63</b>	<b>68</b>	<b>59</b>	<b>76</b>	<b>60</b>	<b>42</b>	<b>44</b>	<b>38</b>	<b>43</b>	<b>44</b>	<b>72</b>	<b>64</b>	<b>87</b>	<b>69</b>	<b>1179</b>
Air quality			1								7	2	2	2	1							1	16
Ceres principles		38	30	17	11	9	7	2															114
Climate change											10	30	12	6	15	14	5	6	13	12	26	30	179
Ecological impacts		7	6	7	4	3	8	8	7	7	5	3	7	3	4	1	2						82
Energy management		6	4	3	1	8	7	4	3	3	13	16	12	13	5	8	13	15	11	9	25	7	186
GHG emissions		4	1	2	3		17	20	15	25	9	13	22	14	15	10	8	7	35	32	23	24	299
Report on climate change			10	10	9	6	2	1	6	6													50
Report on environment		3	4	3	2	8	3	2	2	1													28
Waste and hazardous materials management		7	6	12	9	11	19	12	7	10	1	3	4	1	2	5	7	7	6	4	7	6	146
Water and wastewater management								2	1								7	5	6	6	5	1	33
Other environment		3	4	1	1						14	9	1	3	2		1	4	1	1	1		46
<b>Human Capital</b>		<b>64</b>	<b>56</b>	<b>56</b>	<b>71</b>	<b>95</b>	<b>101</b>	<b>79</b>	<b>71</b>	<b>80</b>	<b>63</b>	<b>43</b>	<b>39</b>	<b>25</b>	<b>53</b>	<b>42</b>	<b>37</b>	<b>20</b>	<b>19</b>	<b>52</b>	<b>40</b>	<b>53</b>	<b>1159</b>
Employee engagement, diversity and inclusion		38	28	19	29	25	33	31	29	44	49	34	34	22	49	38	31	19	18	48	35	51	704
Employee health and safety		1	2		1	1	1	2	1	1					1	4	6	1	1	4	5	2	34
Labor practices		25	26	37	41	69	67	46	41	35	14	9	5	3	3								421
<b>Leadership and Governance</b>		<b>13</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>19</b>	<b>12</b>	<b>13</b>	<b>54</b>	<b>42</b>	<b>40</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>54</b>	<b>74</b>	<b>107</b>	<b>131</b>	<b>130</b>	<b>119</b>	<b>96</b>	<b>89</b>	<b>1186</b>
Business ethics		4	5	8	7	8	5	9	11	4			5	1	1	1	2	2	2	1	1	5	82
Critical incident risk management											2	1	1		2	1	3	6	3	2	1		22
Management of the legal and regulatory environment		9	9	9	9	11	7	4	43	38	38	47	43	48	51	72	102	123	125	116	94	84	1082
<b>Social Capital</b>		<b>84</b>	<b>63</b>	<b>52</b>	<b>46</b>	<b>42</b>	<b>47</b>	<b>71</b>	<b>70</b>	<b>58</b>	<b>78</b>	<b>88</b>	<b>103</b>	<b>104</b>	<b>77</b>	<b>78</b>	<b>53</b>	<b>51</b>	<b>56</b>	<b>60</b>	<b>51</b>	<b>67</b>	<b>1399</b>
Access and affordability		7	4	9	13	12	17	3	10	3	4	4	4			5						8	107
Charitable giving		2	8	2		1	1	11	8	1													34
Customer privacy								1	1	1													3
Customer welfare		13	3	2		2	2	2	3	1	10	9		3	1			1	3	3	2	1	61
Data security											2	5	4	6	7	4	2	5	10	10	3	2	60
Human rights and community relations		26	22	14	10	9	7	24	22	20	44	36	43	28	51	33	31	36	35	39	43	43	624
Product quality and safety		6	4		1		1	1	1	1	2	6	12	3	6	3	12	8	4	8	7	9	95
Selling practices and product labeling		30	22	25	22	18	18	29	25	31	16	20	15	25	12	10	6	6	3				337
Other social capital							1					8	25	39		5							78
<b>Other</b>		<b>35</b>	<b>45</b>	<b>13</b>	<b>25</b>	<b>14</b>	<b>28</b>	<b>31</b>	<b>17</b>	<b>37</b>	<b>132</b>	<b>147</b>	<b>93</b>	<b>56</b>	<b>77</b>	<b>55</b>	<b>51</b>	<b>71</b>	<b>84</b>	<b>70</b>	<b>46</b>	<b>47</b>	<b>1227</b>
Anti-social proposal											11	8	21	7	9	10	9	6	17	12	11	7	128
Charitable giving		10	21	2	10	5	8	16	6	2	8	11	4	2	6	2				3	1	5	122
Environment											3												3
Establish sustainability committee													1		2	2	1	11	9	11	7	4	48
Military											6	10	16	7	4				3	3	3	1	53
Product design and lifecycle management			1	1	1	2	1	3	8	28	27	21	26	17	24	17	16	11	5	8	3	5	225
Report on sustainability							1	14	22	16	21	36	24	18	31	21	25	38	40	23	11	16	357
Social proposal											53	61	1	5	1	3		5	10	10	10	9	168
Other		25	23	10	14	7	19	12	3	7	3												123
<b>Total</b>		<b>264</b>	<b>244</b>	<b>193</b>	<b>220</b>	<b>232</b>	<b>266</b>	<b>271</b>	<b>283</b>	<b>299</b>	<b>382</b>	<b>410</b>	<b>348</b>	<b>278</b>	<b>305</b>	<b>288</b>	<b>292</b>	<b>323</b>	<b>368</b>	<b>370</b>	<b>321</b>	<b>326</b>	<b>6279</b>

**Table III: Summary statistics - proposal outcomes**

The table presents summary statistics of all E&S shareholder proposals between 1997 and 2017. Because of data limitations, all future samples only include proposals between 2000 and 2013. *Omitted* is the percentage of proposals that are omitted. *Withdrawn* is the percentage of proposals that are withdrawn. *Voted* is the percentage of proposals that went to a vote at the AGM. *Vote* is the average percentage of votes in favor of a proposal. *Vote>50* is the percentage of proposals that reached a percentage of votes for of 50% or higher. *Vote> 10* is the percentage of proposals that reached a percentage of 10% or higher. *Strengths* measures the sum of KLD strengths, *Concerns* measures the sum of KLD concerns, and *Total KLD* measures the overall KLD score which is calculated by deducting the sum of concerns from the sum of strengths. Percentiles are calculated based on the scores in each specific year.

	Omitted	Withdrawn	Voted	Vote	Vote>50	Vote>10
<b>Year</b>						
1997	35.20%	30.30%	34.50%	6.73%	0.00%	19.80%
1998	38.90%	20.90%	40.20%	7.71%	0.00%	24.50%
1999	21.80%	24.40%	53.90%	7.94%	1.00%	22.10%
2000	18.20%	24.10%	57.70%	6.99%	0.00%	15.00%
2001	13.80%	27.20%	59.10%	8.74%	0.70%	32.80%
2002	11.70%	33.50%	54.90%	9.09%	0.70%	27.40%
2003	17.30%	35.80%	46.90%	11.11%	0.80%	34.60%
2004	16.60%	24.70%	58.70%	11.25%	1.80%	38.60%
2005	16.70%	31.10%	52.20%	9.56%	0.60%	28.20%
2006	11.80%	21.50%	66.80%	12.34%	0.80%	33.70%
2007	14.10%	23.40%	62.40%	14.20%	1.60%	43.00%
2008	16.10%	31.60%	52.30%	14.24%	1.10%	40.70%
2009	11.20%	31.70%	57.20%	16.81%	1.30%	49.10%
2010	11.10%	34.80%	54.10%	18.02%	0.60%	51.50%
2011	13.90%	34.70%	51.40%	19.92%	2.00%	56.80%
2012	14.00%	34.90%	51.00%	19.13%	0.70%	62.40%
2013	11.10%	33.40%	55.40%	21.44%	2.20%	62.00%
2014	12.80%	37.50%	49.70%	22.32%	2.70%	69.40%
2015	13.50%	37.80%	48.60%	21.05%	0.00%	67.20%
2016	10.30%	28.70%	61.10%	21.93%	3.60%	64.30%
2017	17.50%	28.50%	54.00%	21.38%	2.30%	67.60%
<i>Total</i>	16.01%	30.20%	53.79%	15.08%	1.27%	45.41%
<b>Proposal Type</b>						
Business model	3.90%	19.40%	76.70%	6.70%	0.00%	12.10%
Environment	11.60%	36.00%	52.40%	16.13%	0.90%	50.60%
Human capital	16.20%	37.40%	46.40%	15.22%	2.60%	53.80%
Leadership	8.30%	25.00%	66.70%	21.89%	1.60%	70.70%
Social capital	20.20%	28.40%	51.40%	10.80%	0.60%	28.20%
Other	24.40%	25.80%	49.80%	11.30%	1.00%	24.70%
<b>Strengths</b>						
<25 pct	10.75%	35.19%	54.06%	17.31%	2.44%	53.23%
25-75 pct	13.69%	28.68%	57.64%	12.98%	0.59%	38.27%
>75 pct	19.45%	26.32%	54.22%	9.64%	0.00%	26.12%
<b>Concerns</b>						
< 25 pct	10.40%	38.39%	51.21%	15.09%	1.93%	46.23%
25-75 pct	15.32%	29.51%	55.17%	12.69%	0.86%	34.94%
> 75 pct	16.23%	19.00%	64.77%	13.60%	0.21%	43.68%
<b>Total KLD</b>						
< 25 pct	11.75%	26.92%	61.33%	15.83%	1.85%	46.52%
25-75 pct	13.82%	32.17%	54.01%	13.66%	0.74%	42.04%
> 75 pct	17.45%	30.08%	52.47%	9.69%	0.26%	25.39%

**Table IV: Probability of withdrawal**

The table shows which firm and proposal characteristics determine the probability of a proposal being withdrawn. The dependent variable in all models is *Withdrawn*, which equals 1 when the proposal is withdrawn, and 0 if not. Variable definitions are given in appendix A1. Columns (1)-(4) report the results of logistic regressions. Since we include year, Fama-French 49 industry, and proposal type fixed effects, we display linear probability models in columns (5) and (6). Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>Logit</i>	<i>Logit</i>	<i>Logit</i>	<i>Logit</i>	<i>LPM</i>	<i>LPM</i>
InstOwn	0.015*** (0.006)	0.015** (0.006)			0.003*** (0.001)	
Civil			0.061 (0.053)	0.061 (0.052)		0.014 (0.011)
Common			0.014** (0.006)	0.013** (0.006)		0.003** (0.001)
KLD <sub>STR</sub>	0.031 (0.023)		0.031 (0.023)		0.005 (0.005)	0.005 (0.004)
KLD <sub>CON</sub>	-0.009 (0.024)		-0.008 (0.024)		-0.000 (0.005)	-0.000 (0.005)
KLD <sub>TOT</sub>		0.021 (0.016)		0.021 (0.016)		
Company	0.995 (0.802)	0.989 (0.801)	1.025 (0.806)	1.019 (0.805)	0.132 (0.119)	0.137 (0.119)
Fund	1.240*** (0.403)	1.240*** (0.401)	1.242*** (0.405)	1.242*** (0.403)	0.185*** (0.067)	0.185*** (0.067)
Publicpension	1.704*** (0.316)	1.697*** (0.315)	1.707*** (0.316)	1.700*** (0.315)	0.281*** (0.046)	0.281*** (0.046)
Religious	1.633*** (0.328)	1.629*** (0.328)	1.636*** (0.329)	1.632*** (0.329)	0.254*** (0.047)	0.254*** (0.047)
Specialinterest	0.607* (0.362)	0.614* (0.360)	0.623* (0.364)	0.630* (0.362)	0.077 (0.052)	0.079 (0.052)
SRIfund	1.663*** (0.298)	1.658*** (0.297)	1.667*** (0.298)	1.662*** (0.298)	0.272*** (0.043)	0.272*** (0.043)
Union	1.496*** (0.399)	1.498*** (0.398)	1.500*** (0.399)	1.502*** (0.398)	0.237*** (0.075)	0.237*** (0.074)
Other	0.845** (0.410)	0.833** (0.410)	0.852** (0.412)	0.841** (0.412)	0.111* (0.061)	0.112* (0.061)
ln(totalassets)	-0.175 (0.137)	-0.158 (0.135)	-0.193 (0.137)	-0.175 (0.136)	-0.037 (0.028)	-0.041 (0.028)
ln(pricetobook)	0.007 (0.148)	0.007 (0.148)	0.003 (0.147)	0.003 (0.147)	0.003 (0.029)	0.003 (0.029)
ln(capex)	0.129 (0.120)	0.134 (0.119)	0.123 (0.120)	0.127 (0.119)	0.026 (0.024)	0.024 (0.024)
ROA	0.011 (0.012)	0.011 (0.012)	0.010 (0.012)	0.011 (0.012)	0.002 (0.002)	0.002 (0.002)
Salesgrowth	0.002 (0.003)	0.001 (0.003)	0.002 (0.003)	0.001 (0.003)	0.000 (0.001)	0.000 (0.001)
Dividends	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Tobin's	-0.062 (0.066)	-0.065 (0.066)	-0.064 (0.067)	-0.067 (0.067)	-0.012 (0.012)	-0.013 (0.012)
Debt/Equity	-0.005 (0.026)	-0.003 (0.026)	-0.004 (0.026)	-0.002 (0.026)	-0.002 (0.005)	-0.001 (0.005)
Repeat1	-0.984*** (0.130)	-0.981*** (0.130)	-0.988*** (0.130)	-0.985*** (0.131)	-0.187*** (0.023)	-0.187*** (0.023)
Repeat2	-1.517*** (0.251)	-1.515*** (0.251)	-1.519*** (0.251)	-1.516*** (0.251)	-0.266*** (0.035)	-0.266*** (0.035)
Repeat3	-1.776*** (0.314)	-1.770*** (0.315)	-1.779*** (0.311)	-1.773*** (0.312)	-0.309*** (0.040)	-0.310*** (0.039)
Constant	-1.603 (1.073)	-1.713 (1.052)	-1.405 (1.108)	-1.514 (1.089)	1.035*** (0.156)	1.096*** (0.172)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted/PseudoR <sup>2</sup>	0.147	0.147	0.147	0.147	0.144	0.145
N	2389	2389	2389	2389	2407	2407

**Table V: Institutional ownership of target and non-target S&P1500 firms**

The table reports the mean, standard deviation, median, and 25th/75th percentiles of civil and common law institutional ownership. The table displays statistics for non-targeted firms (left) and targeted (right) firms in the S&P1500 between 2000 and 2013.

<i>Year</i>	<b>S&amp;P1500</b>					<b>Target Firms</b>				
	<i>Mean</i>	<i>SD</i>	<i>Pct25</i>	<i>Pct50</i>	<i>Pct75</i>	<i>Mean</i>	<i>SD</i>	<i>Pct25</i>	<i>Pct50</i>	<i>Pct75</i>
<b>Civil</b>										
2000	0.91	0.81	0.39	0.83	1.29	1.54	0.57	1.29	1.56	1.74
2001	0.71	0.83	0.18	0.33	1.06	1.37	0.69	0.94	1.41	1.66
2002	0.93	1.03	0.28	0.58	1.24	1.69	0.78	1.18	1.73	2.12
2003	1.44	1.50	0.37	0.93	1.99	2.67	1.37	1.79	2.69	3.30
2004	1.16	1.34	0.22	0.68	1.66	2.05	1.00	1.43	2.07	2.52
2005	1.41	1.33	0.39	0.96	2.02	2.53	1.10	1.90	2.54	3.11
2006	1.33	1.37	0.28	0.82	2.09	2.61	1.01	2.15	2.57	3.04
2007	1.64	1.68	0.36	1.09	2.45	3.12	1.54	2.32	2.84	3.78
2008	1.78	1.78	0.45	1.19	2.56	2.93	1.43	2.18	2.70	3.41
2009	1.91	1.65	0.81	1.39	2.51	3.08	1.17	2.43	2.98	3.45
2010	2.44	1.90	1.07	1.82	3.42	3.68	1.37	2.76	3.83	4.36
2011	2.51	2.15	0.94	1.69	3.73	4.22	1.71	3.47	4.25	4.91
2012	2.67	2.46	0.97	1.63	4.01	4.13	1.47	3.42	4.23	4.74
2013	2.72	2.33	1.03	1.82	4.08	4.34	1.50	3.75	4.41	5.00
Total	2.04	2.14	0.60	1.36	2.78	3.68	3.35	1.96	3.14	4.52
<b>Common</b>										
2000	56.04	18.48	42.66	57.43	70.05	54.89	13.08	46.73	53.91	63.78
2001	60.21	18.57	46.47	61.56	74.66	56.52	13.92	48.52	54.59	66.30
2002	64.54	17.61	52.18	66.57	78.46	58.64	14.62	49.28	58.17	67.09
2003	66.73	17.01	54.76	68.41	80.16	57.70	13.93	49.68	57.06	66.45
2004	69.77	17.21	58.67	72.03	83.07	61.68	15.15	54.01	60.46	72.37
2005	71.62	16.61	61.04	74.21	84.86	64.03	16.07	50.98	61.00	76.62
2006	72.80	16.67	62.53	75.95	85.86	63.82	14.51	54.11	61.05	75.25
2007	74.82	16.41	65.20	77.59	87.42	65.92	15.30	56.63	64.86	76.59
2008	75.71	16.10	66.64	79.03	88.21	68.20	13.79	60.32	67.49	78.35
2009	75.62	15.77	66.89	78.46	88.00	68.78	14.01	59.84	69.33	78.73
2010	75.82	15.27	67.03	78.71	87.97	69.02	14.97	60.96	70.13	80.42
2011	76.70	15.17	67.69	79.80	88.11	67.98	14.17	59.36	68.25	78.29
2012	76.56	14.57	68.38	78.94	87.48	68.35	14.80	58.86	68.28	79.96
2013	76.83	15.16	68.51	80.07	88.04	70.25	13.37	60.06	69.82	80.81
Total	76.01	21.29	63.64	78.22	89.57	64.30	20.43	54.10	65.88	77.96

**Table VI: Vote support**

The table reports the determinants of vote support. The dependent variable in all models is *Vote*, which equals the percentage of votes in favor of a proposal. Variable definitions are given in appendix A1. Columns (1)-(3) report the results of ordinary least squares where *Vote* ranges from 0 to 100, while columns (4)-(6) report the results of fractional logistic regressions where *Vote* ranges from 0 to 1. All models include year, Fama-French 49 industry, and proposal type fixed effects. The reported  $R^2$  in columns (4)-(6) is the McFadden pseudo  $R^2$ . Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>OLS</i>	<i>OLS</i>	<i>OLS</i>	<i>fGLM</i>	<i>fGLM</i>	<i>fGLM</i>
Civil	0.897*	1.736*	0.549	0.061**	0.106*	0.037
	(0.459)	(0.917)	(0.482)	(0.031)	(0.057)	(0.035)
Common	0.060*	0.073	0.079**	0.006**	0.007	0.008***
	(0.033)	(0.059)	(0.032)	(0.003)	(0.005)	(0.003)
KLD <sub>STR</sub>	-0.685***	0.115		-0.060***	-0.015	
	(0.132)	(0.473)		(0.011)	(0.037)	
KLD <sub>CON</sub>	0.211	0.154		0.019	0.016	
	(0.160)	(0.479)		(0.013)	(0.040)	
KLD <sub>STR</sub> × Civil		-0.307***			-0.020***	
		(0.087)			(0.007)	
KLD <sub>CON</sub> × Civil		0.061			0.004	
		(0.094)			(0.007)	
KLD <sub>STR</sub> × Common		0.003			0.000	
		(0.007)			(0.001)	
KLD <sub>CON</sub> × Common		-0.002			-0.000	
		(0.008)			(0.001)	
KLD <sub>TOT</sub>			-0.163			-0.029
			(0.350)			(0.030)
KLD <sub>TOT</sub> × Civil			-0.199***			-0.012**
			(0.066)			(0.006)
KLD <sub>TOT</sub> × Common			0.005			0.000
			(0.006)			(0.000)
Company	-7.739	-8.130	-8.291	-0.799**	-0.820**	-0.837**
	(5.044)	(5.162)	(5.197)	(0.403)	(0.411)	(0.410)
Fund	4.514**	4.525**	4.225**	0.495***	0.496***	0.478***
	(1.861)	(1.886)	(1.914)	(0.147)	(0.151)	(0.151)
Publicpension	7.594***	7.252***	7.496***	0.693***	0.678***	0.693***
	(1.323)	(1.368)	(1.363)	(0.107)	(0.109)	(0.109)
Religious	4.427***	4.356***	4.427***	0.518***	0.514***	0.515***
	(0.915)	(0.924)	(0.913)	(0.100)	(0.100)	(0.099)
Specialinterest	1.375	1.267	1.120	0.221*	0.212*	0.195
	(1.216)	(1.226)	(1.223)	(0.127)	(0.128)	(0.127)
SRIfund	6.173***	6.063***	6.138***	0.628***	0.623***	0.625***
	(1.404)	(1.448)	(1.441)	(0.132)	(0.135)	(0.133)
Union	1.591	1.382	1.628	0.280*	0.275*	0.287*
	(1.834)	(1.833)	(1.847)	(0.164)	(0.164)	(0.165)
Other	5.169**	5.135**	5.222**	0.494***	0.498***	0.509***
	(2.431)	(2.426)	(2.441)	(0.181)	(0.181)	(0.182)
ln(totalassets)	-0.671	-0.794	-0.836	-0.045	-0.045	-0.059
	(1.035)	(1.078)	(1.033)	(0.082)	(0.085)	(0.083)
ln(pricetobook)	-1.026	-1.392	-1.160	-0.077	-0.097	-0.084
	(1.018)	(1.044)	(1.049)	(0.077)	(0.078)	(0.079)
ln(capex)	-0.223	-0.295	-0.407	-0.036	-0.042	-0.050
	(0.928)	(0.910)	(0.931)	(0.076)	(0.075)	(0.077)
ROA	-0.040	-0.037	-0.042	-0.003	-0.003	-0.004
	(0.079)	(0.074)	(0.079)	(0.006)	(0.005)	(0.006)
Salesgrowth	-0.001	0.006	0.008	0.000	0.000	0.001
	(0.016)	(0.016)	(0.016)	(0.001)	(0.001)	(0.001)
Dividends	0.000	0.000	-0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Tobin's	0.468	0.463	0.514	0.036	0.035	0.040
	(0.444)	(0.454)	(0.484)	(0.032)	(0.033)	(0.033)
Debt/equity	0.089	0.098	0.067	0.008	0.008	0.005
	(0.160)	(0.157)	(0.155)	(0.014)	(0.014)	(0.014)
Constant	3.229	1.934	4.553	-3.170***	-3.290***	-3.085***
	(6.556)	(7.139)	(6.516)	(0.559)	(0.624)	(0.569)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Repeat Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted/Pseudo $R^2$	0.332	0.340	0.333	0.059	0.060	0.059
<i>N</i>	1572	1572	1572	1572	1572	1572

**Table VII: MSCI ESG - The probability of withdrawal**

The table shows which firm and proposal characteristics determine the probability of a proposal being withdrawn. The dependent variable in all models is *Withdrawn*, which equals 1 when the proposal is withdrawn, and 0 if not. Variable definitions are given in appendix A1. Columns (1), (2), (4), and (5) report the results of logistic regressions. Since we include year, Fama-French 49 industry, and proposal type fixed effects, we display linear probability models in columns (3) and (6). Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1) Logit	(2) Logit	(3) LPM	(4) Logit	(5) Logit	(6) LPM
InstOwn	0.029*** (0.008)			0.029*** (0.008)		
Civil		0.140** (0.064)	0.026** (0.013)		0.138** (0.065)	0.026** (0.013)
Common		0.023*** (0.008)	0.004*** (0.001)		0.023*** (0.008)	0.004*** (0.001)
MSCI <sub>IA</sub>	-0.001 (0.035)	-0.007 (0.035)	-0.001 (0.007)			
MSCI <sub>ES</sub>				0.020 (0.065)	0.006 (0.066)	0.001 (0.013)
Company	1.407* (0.790)	1.527* (0.791)	0.245 (0.155)	1.394* (0.790)	1.518* (0.789)	0.244 (0.155)
Fund	1.106** (0.445)	1.086** (0.451)	0.166** (0.069)	1.108** (0.447)	1.090** (0.453)	0.166** (0.069)
Publicpension	1.800*** (0.360)	1.790*** (0.361)	0.288*** (0.057)	1.801*** (0.361)	1.792*** (0.361)	0.288*** (0.057)
Religious	1.757*** (0.382)	1.742*** (0.386)	0.277*** (0.061)	1.756*** (0.383)	1.743*** (0.386)	0.277*** (0.061)
Specialinterest	0.199 (0.363)	0.227 (0.366)	0.020 (0.049)	0.196 (0.364)	0.224 (0.366)	0.020 (0.049)
SRIfund	1.551*** (0.335)	1.565*** (0.336)	0.244*** (0.050)	1.546*** (0.335)	1.563*** (0.336)	0.243*** (0.050)
Union	1.920*** (0.450)	1.920*** (0.453)	0.317*** (0.077)	1.914*** (0.449)	1.916*** (0.452)	0.316*** (0.077)
Other	-0.046 (0.590)	-0.009 (0.594)	0.041 (0.073)	-0.050 (0.590)	-0.011 (0.594)	0.040 (0.073)
ln(totalassets)	-0.217 (0.190)	-0.266 (0.193)	-0.047 (0.037)	-0.221 (0.190)	-0.269 (0.192)	-0.048 (0.037)
ln(pricetobook)	0.439** (0.181)	0.437** (0.181)	0.077** (0.035)	0.427** (0.183)	0.429** (0.183)	0.076** (0.035)
ln(capex)	0.178 (0.163)	0.174 (0.164)	0.021 (0.030)	0.173 (0.163)	0.170 (0.164)	0.021 (0.030)
ROA	0.008 (0.016)	0.006 (0.017)	0.001 (0.003)	0.009 (0.016)	0.006 (0.017)	0.001 (0.003)
Salesgrowth	-0.001 (0.005)	-0.001 (0.005)	0.000 (0.001)	-0.001 (0.005)	-0.001 (0.005)	0.000 (0.001)
Dividends	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)
Tobin's q	-0.089 (0.067)	-0.090 (0.066)	-0.017 (0.011)	-0.088 (0.067)	-0.089 (0.066)	-0.017 (0.011)
Debt/equity	0.042 (0.049)	0.048 (0.049)	0.007 (0.009)	0.042 (0.050)	0.048 (0.049)	0.007 (0.009)
Repeat1	-0.998*** (0.209)	-1.018*** (0.209)	-0.164*** (0.031)	-0.993*** (0.208)	-1.013*** (0.208)	-0.163*** (0.031)
Repeat2	-0.987*** (0.329)	-0.991*** (0.330)	-0.160*** (0.045)	-0.983*** (0.329)	-0.987*** (0.329)	-0.160*** (0.045)
Repeat3	-1.697*** (0.485)	-1.683*** (0.476)	-0.233*** (0.052)	-1.693*** (0.487)	-1.681*** (0.478)	-0.232*** (0.052)
Constant	-2.754* (1.537)	-2.219 (1.554)	0.193 (0.294)	-2.766* (1.522)	-2.208 (1.540)	0.193 (0.289)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Repeat Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted/Pseudo $R^2$	0.174	0.177	0.153	0.175	0.177	0.153
$N$	1218	1218	1230	1218	1218	1230



**Table VIII: MSCI ESG - Vote support**

The table reports the determinants of vote support. The dependent variable in all models is *Vote*, which equals the percentage of votes in favor of a proposal. Variable definitions are given in appendix A1. Columns (1)-(3) report the results of ordinary least squares where *Vote* ranges from 0 to 100, while columns (4)-(6) report the results of fractional logistic regressions where *Vote* ranges from 0 to 1. All models include year, Fama-French 49 industry, and proposal type fixed effects. The reported  $R^2$  in columns (4)-(6) is the McFadden pseudo  $R^2$ . Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>OLS</i>	<i>OLS</i>	<i>OLS</i>	<i>fGLM</i>	<i>fGLM</i>	<i>fGLM</i>
Common	0.131** (0.057)	0.301*** (0.088)	0.313* (0.173)	0.010** (0.004)	0.023*** (0.006)	0.019* (0.011)
Civil	0.478 (0.633)	2.195** (1.072)	3.358* (1.864)	0.030 (0.039)	0.131** (0.059)	0.192* (0.104)
MSCI <sub>IA</sub>	-0.858*** (0.307)	4.503*** (1.527)		-0.059*** (0.020)	0.319*** (0.106)	
MSCI <sub>IA</sub> × Civil		-0.411** (0.161)			-0.028*** (0.010)	
MSCI <sub>IA</sub> × Common		-0.051*** (0.019)			-0.004*** (0.001)	
MSCI <sub>ES</sub>			4.477 (2.912)			0.232 (0.186)
MSCI <sub>ES</sub> × Civil			-0.616* (0.328)			-0.036* (0.020)
MSCI <sub>ES</sub> × Common			-0.043 (0.035)			-0.002 (0.002)
Company	-6.474** (3.200)	-7.101** (2.913)	-6.684** (3.133)	-0.413 (0.279)	-0.461* (0.252)	-0.431 (0.271)
Fund	5.337** (2.412)	5.244** (2.388)	5.545** (2.415)	0.556*** (0.207)	0.572*** (0.203)	0.583*** (0.205)
Publicpension	6.930*** (2.113)	6.505*** (2.157)	6.695*** (2.145)	0.608*** (0.182)	0.594*** (0.182)	0.607*** (0.180)
Religious	4.328** (1.853)	4.126** (1.826)	4.366** (1.758)	0.462*** (0.174)	0.452*** (0.172)	0.473*** (0.167)
Specialinterest	2.338 (1.999)	1.986 (2.019)	1.854 (1.990)	0.242 (0.195)	0.226 (0.193)	0.212 (0.192)
SRIfund	6.103*** (2.108)	5.728*** (2.088)	6.017*** (2.079)	0.601*** (0.194)	0.594*** (0.191)	0.608*** (0.190)
Union	-0.866 (2.599)	-1.284 (2.607)	-1.339 (2.643)	0.067 (0.233)	0.052 (0.231)	0.041 (0.232)
Other	5.277* (3.033)	5.084* (3.001)	5.348* (3.011)	0.491** (0.232)	0.485** (0.233)	0.504** (0.232)
ln(totalassets)	-0.935 (1.512)	-1.015 (1.523)	-1.149 (1.528)	-0.078 (0.095)	-0.086 (0.096)	-0.098 (0.095)
ln(pricetobook)	-0.938 (1.533)	-0.898 (1.433)	-0.758 (1.475)	-0.058 (0.103)	-0.061 (0.100)	-0.047 (0.100)
ln(capex)	-1.194 (1.290)	-1.789 (1.277)	-1.634 (1.284)	-0.094 (0.088)	-0.126 (0.088)	-0.114 (0.087)
ROA	0.032 (0.129)	-0.031 (0.105)	-0.015 (0.106)	0.002 (0.008)	-0.003 (0.007)	-0.001 (0.007)
Salesgrowth	0.020 (0.026)	0.027 (0.026)	0.025 (0.027)	0.001 (0.001)	0.002 (0.001)	0.002 (0.002)
Dividends	0.000 (0.001)	-0.000 (0.000)	-0.000 (0.001)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Tobin's q	-0.229 (0.446)	-0.320 (0.481)	-0.274 (0.508)	-0.045 (0.050)	-0.058 (0.055)	-0.054 (0.055)
Debt/equity	0.098 (0.260)	-0.001 (0.227)	-0.024 (0.236)	0.008 (0.018)	0.002 (0.016)	0.000 (0.017)
Constant	14.266 (12.247)	1.274 (11.901)	-4.017 (16.771)	-1.893** (0.852)	-2.914*** (0.879)	-2.814** (1.130)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Repeat Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted/Pseudo $R^2$	0.376	0.397	0.383	0.065	0.067	0.065
<i>N</i>	682	682	682	682	682	682

**Table IX: Materiality - Probability of withdrawal and vote support**

The table shows whether materiality matters for the probability of withdrawal and vote support. Variable definitions are given in appendix A1. Column (1) reports the results of a logistic regression with *Withdrawn* as the dependent variable. Columns (2) and (3) report the results of ordinary least squares regressions with *Vote* as the dependent variable, ranging from 0 to 100. Columns (4)-(6) report the results of fractional logistic regressions with *Vote* as the dependent variable, ranging from 0 to 1. All models include year, Fama-French 49 industry, and proposal type fixed effects. The reported  $R^2$  in columns (4) and (5) is the McFadden pseudo  $R^2$ . Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively

	(1)	(2)	(3)	(4)	(5)
	<i>Withdrawn</i>	<i>Vote OLS</i>	<i>Vote OLS</i>	<i>Vote fGLM</i>	<i>Vote fGLM</i>
Material	0.021 (0.135)	0.725 (0.921)	-2.595 (3.121)	0.029 (0.077)	-0.306 (0.241)
Material $\times$ Civil			-0.202 (0.675)		-0.017 (0.045)
Material $\times$ Common			0.063 (0.054)		0.006 (0.004)
Civil	0.117** (0.054)	1.212*** (0.415)	1.256*** (0.428)	0.081*** (0.028)	0.085*** (0.029)
Common	0.015** (0.006)	0.061 (0.038)	0.036 (0.040)	0.006* (0.003)	0.004 (0.003)
KLD <sub>STR</sub>	0.026 (0.024)	-0.567*** (0.126)	-0.574*** (0.128)	-0.048*** (0.010)	-0.048*** (0.010)
KLD <sub>CON</sub>	0.012 (0.026)	0.273* (0.163)	0.264 (0.163)	0.027** (0.013)	0.026** (0.013)
Company	2.226* (1.194)	-20.249 (15.710)	-20.426 (16.043)	-1.657 (1.164)	-1.706 (1.200)
Fund	1.662*** (0.471)	5.550** (2.337)	5.686** (2.360)	0.486*** (0.151)	0.500*** (0.153)
Publicpension	1.899*** (0.323)	6.330*** (1.472)	6.354*** (1.482)	0.554*** (0.117)	0.556*** (0.117)
Religious	2.152*** (0.344)	3.374*** (0.957)	3.563*** (0.990)	0.398*** (0.095)	0.417*** (0.097)
Specialinterest	1.232*** (0.367)	2.842* (1.459)	2.906* (1.486)	0.416*** (0.135)	0.423*** (0.135)
SRIfund	2.126*** (0.305)	3.337** (1.337)	3.414** (1.339)	0.362*** (0.123)	0.369*** (0.124)
Union	1.403*** (0.467)	2.653 (1.941)	2.871 (1.965)	0.320** (0.163)	0.344** (0.166)
Other	1.322*** (0.483)	4.171* (2.302)	4.087* (2.287)	0.382** (0.152)	0.374** (0.152)
ln(totalassets)	-0.331** (0.146)	-0.140 (1.091)	-0.076 (1.102)	-0.019 (0.086)	-0.013 (0.086)
ln(pricetobook)	0.126 (0.154)	-1.861* (0.965)	-1.811* (0.970)	-0.150** (0.073)	-0.147** (0.074)
ln(capex)	0.147 (0.123)	-0.254 (0.923)	-0.298 (0.926)	-0.026 (0.074)	-0.030 (0.074)
ROA	0.005 (0.013)	0.015 (0.074)	0.023 (0.075)	0.002 (0.006)	0.002 (0.006)
Salesgrowth	0.001 (0.003)	-0.007 (0.015)	-0.006 (0.015)	-0.001 (0.001)	-0.001 (0.001)
Dividends	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Tobin's	-0.078 (0.072)	0.558 (0.424)	0.522 (0.435)	0.047 (0.030)	0.044 (0.031)
Debt/equity	-0.015 (0.028)	0.248* (0.148)	0.231 (0.150)	0.022 (0.014)	0.020 (0.014)
Constant	-0.861 (1.147)	-3.604 (7.050)	-2.653 (7.188)	-3.877*** (0.625)	-3.786*** (0.634)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes
Repeat Controls	Yes	Yes	Yes	Yes	Yes
Adjusted/Pseudo $R^2$	0.150	0.382	0.382	0.065	0.065
$N$	2137	1255	1255	1255	1255

**Table X: Proxy advisors - vote support**

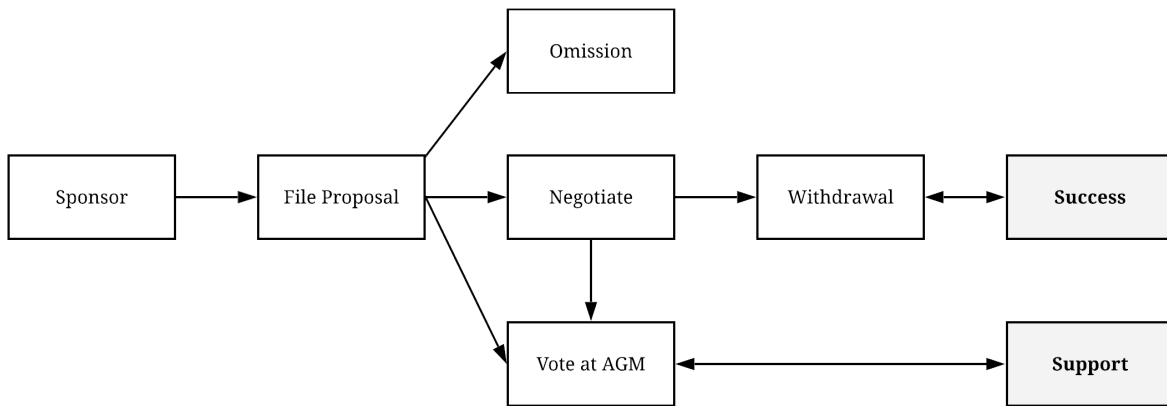
The table reports whether proxy advisor recommendations influence our results. The dependent variable in all models is *Vote*, which equals the percentage of votes in favor of a proposal. Variable definitions are given in appendix A1. Columns (1)-(3) report the results of ordinary least squares where *Vote* ranges from 0 to 100, while columns (4)-(6) report the results of fractional logistic regressions where *Vote* ranges from 0 to 1. All models include year, Fama-French 49 industry, and proposal type fixed effects. The reported  $R^2$  in columns (4)-(6) is the McFadden pseudo  $R^2$ . Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>OLS</i>	<i>OLS</i>	<i>OLS</i>	<i>fGLM</i>	<i>fGLM</i>	<i>fGLM</i>
ISS <sub>Rec</sub>	22.598*** (1.813)	22.060*** (1.577)	22.086*** (1.632)	1.791*** (0.131)	1.803*** (0.125)	1.829*** (0.135)
GL <sub>Rec</sub>	7.299* (3.843)	8.363** (4.182)	9.327** (4.274)	0.885*** (0.256)	1.030*** (0.273)	1.160*** (0.273)
ISS <sub>Rec</sub> × GL <sub>Rec</sub>	-1.272 (4.036)	-1.916 (4.532)	-2.657 (4.149)	-0.638*** (0.232)	-0.777*** (0.276)	-0.872*** (0.259)
Civil	1.217 (0.804)	0.068 (1.313)	1.703** (0.758)	0.076** (0.037)	-0.007 (0.059)	0.071* (0.036)
Common	0.087 (0.084)	0.346 (0.235)	0.222** (0.106)	0.005 (0.005)	0.014 (0.011)	0.010** (0.005)
KLD <sub>STR</sub>	-0.554* (0.287)	4.241** (1.811)		-0.042*** (0.015)	0.252*** (0.097)	
KLD <sub>CON</sub>	-0.832 (0.515)	-5.189*** (1.710)		-0.047* (0.028)	-0.342*** (0.103)	
KLD <sub>STR</sub> × Civil		-0.576** (0.288)			-0.042** (0.017)	
KLD <sub>CON</sub> × Civil		1.166* (0.591)			0.072*** (0.027)	
KLD <sub>STR</sub> × Common		-0.035** (0.016)			-0.002* (0.001)	
KLD <sub>CON</sub> × Common		-0.009 (0.034)			-0.000 (0.002)	
KLD <sub>TOT</sub>			4.840** (1.863)			0.314*** (0.104)
KLD <sub>TOT</sub> × Civil			-0.636* (0.342)			-0.051** (0.021)
KLD <sub>TOT</sub> × Common			-0.035** (0.016)			-0.002* (0.001)
Company	-12.377 (8.432)	-3.171 (7.500)	-7.642 (8.481)	-0.419 (0.435)	-0.003 (0.410)	-0.202 (0.431)
Fund	1.132 (4.150)	-0.020 (4.692)	0.845 (3.638)	0.369* (0.198)	0.343 (0.226)	0.366** (0.186)
Publicpension	3.508 (2.777)	5.114** (2.345)	4.932** (2.247)	0.567*** (0.138)	0.643*** (0.158)	0.614*** (0.149)
Religious	2.350 (2.995)	2.542 (2.967)	4.212* (2.509)	0.472*** (0.157)	0.449*** (0.172)	0.521*** (0.159)
Specialinterest	3.454 (2.620)	2.594 (2.672)	4.077 (2.534)	0.592*** (0.185)	0.521*** (0.190)	0.587*** (0.184)
SRIfund	3.551 (2.340)	4.319* (2.211)	4.751** (2.096)	0.532*** (0.142)	0.583*** (0.148)	0.613*** (0.145)
Union	4.003 (4.785)	4.388 (4.545)	4.384 (4.963)	0.527** (0.230)	0.592** (0.232)	0.632** (0.248)
Other	-0.669 (4.035)	0.664 (3.527)	-0.148 (3.900)	0.209 (0.197)	0.348* (0.201)	0.329 (0.215)
Constant	-9.565 (14.683)	-31.182 (22.529)	-23.295 (17.894)	-4.018*** (0.977)	-4.469*** (1.156)	-4.207*** (0.979)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm/Repeat Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted/Pseudo $R^2$	0.730	0.762	0.748	0.124	0.127	0.126
Observations	185	185	185	185	185	185

**Table XI: Vote support - proxy advisor subsample**

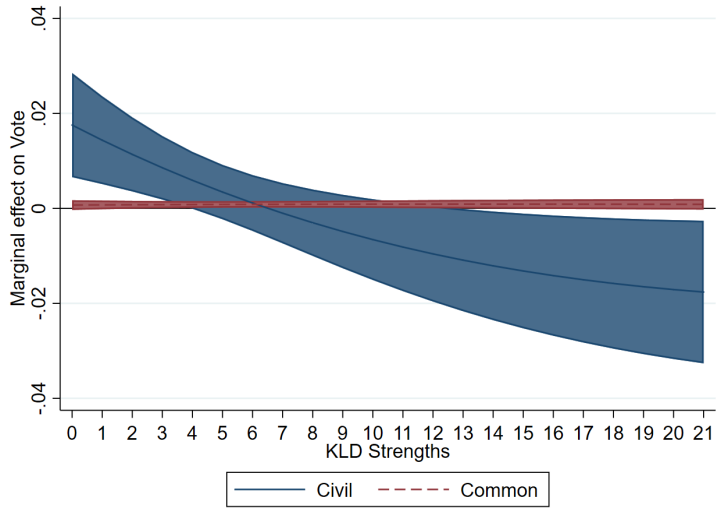
The table reports whether the results in table X hold for the same subsample of proposals without controlling for proxy advisor recommendations. The dependent variable in all models is *Vote*, which equals the percentage of votes in favor of a proposal. Variable definitions are given in appendix A1. Columns (1)-(3) report the results of ordinary least squares where *Vote* ranges from 0 to 100, while columns (4)-(6) report the results of fractional logistic regressions where *Vote* ranges from 0 to 1. All models include year, Fama-French 49 industry, and proposal type fixed effects. The reported  $R^2$  in columns (4)-(6) is the McFadden pseudo  $R^2$ . Standard errors are clustered at the firm level. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>OLS</i>	<i>OLS</i>	<i>OLS</i>	<i>fGLM</i>	<i>fGLM</i>	<i>fGLM</i>
Civil	1.277 (1.334)	1.345 (1.787)	1.890 (1.198)	0.085 (0.061)	0.020 (0.093)	0.091 (0.060)
Common	0.111 (0.168)	0.505 (0.341)	0.283 (0.186)	0.009 (0.009)	0.026 (0.017)	0.014 (0.009)
KLD <sub>STR</sub>	-2.072*** (0.513)	5.444** (2.478)		-0.158*** (0.030)	0.271** (0.124)	
KLD <sub>CON</sub>	0.290 (0.745)	-4.579** (2.275)		0.033 (0.044)	-0.300** (0.130)	
KLD <sub>STR</sub> × Civil		-0.627 (0.378)			-0.034 (0.023)	
KLD <sub>CON</sub> × Civil		0.876 (0.652)			0.065* (0.036)	
KLD <sub>STR</sub> × Common		-0.071*** (0.022)			-0.004*** (0.001)	
KLD <sub>CON</sub> × Common		0.018 (0.041)			0.001 (0.002)	
KLD <sub>TOT</sub>			5.599** (2.436)			0.321** (0.135)
KLD <sub>TOT</sub> × Civil			-0.630 (0.397)			-0.040 (0.025)
KLD <sub>TOT</sub> × Common			-0.069*** (0.022)			-0.004*** (0.001)
Company	7.451 (7.961)	13.611* (7.725)	9.513 (7.659)	0.807* (0.448)	1.070** (0.480)	0.822* (0.463)
Fund	8.292 (6.389)	5.306 (7.153)	7.143 (5.722)	0.814** (0.379)	0.659 (0.403)	0.752** (0.347)
Publicpension	12.036*** (4.129)	12.477*** (4.054)	13.402*** (3.602)	1.109*** (0.288)	1.102*** (0.302)	1.135*** (0.292)
Religious	11.692*** (4.239)	11.560*** (4.247)	13.488*** (3.730)	1.086*** (0.294)	1.005*** (0.303)	1.127*** (0.287)
Specialinterest	4.241 (4.486)	3.876 (4.148)	5.460 (4.080)	0.518 (0.348)	0.401 (0.342)	0.504 (0.332)
SRIfund	9.712** (4.124)	10.205** (4.086)	11.119*** (3.724)	0.966*** (0.291)	0.973*** (0.297)	1.039*** (0.288)
Union	6.715 (8.739)	5.691 (8.727)	5.954 (8.919)	0.766 (0.495)	0.676 (0.514)	0.681 (0.531)
Other	8.140 (6.027)	7.432 (6.097)	7.812 (6.028)	0.806** (0.382)	0.829** (0.399)	0.841** (0.409)
Constant	-29.445 (28.971)	-63.675* (36.381)	-47.809 (31.060)	-5.430*** (1.723)	-6.400*** (1.928)	-5.709*** (1.782)
Industry/Year/Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm/Repeat Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted/Pseudo $R^2$	0.326	0.376	0.364	0.082	0.087	0.084
<i>N</i>	185	185	185	185	185	185

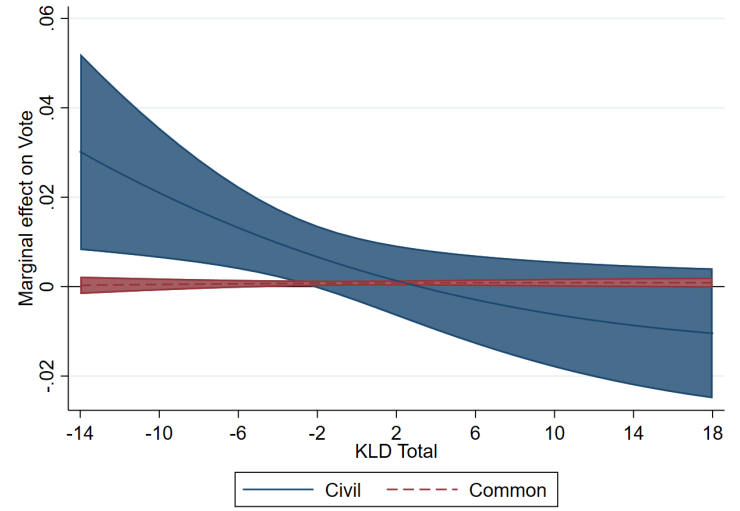


**Figure 1. Public Shareholder Engagement Process**

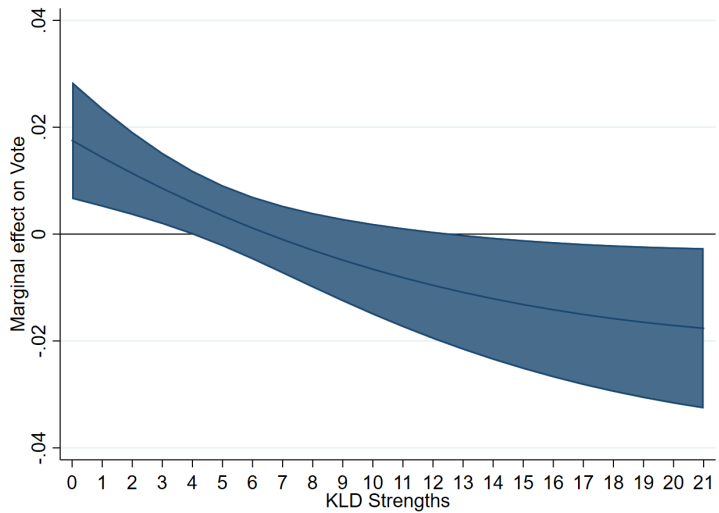
The figure displays the process and potential outcome of filing a public shareholder proposal in the US. Adapted from Bauer, R., Moers, F., & Viehs, M. (2015). Who withdraws shareholder proposals and does it matter? An analysis of sponsor identity and pay practices. *Corporate Governance: An International Review*, 23(6), 472-488.



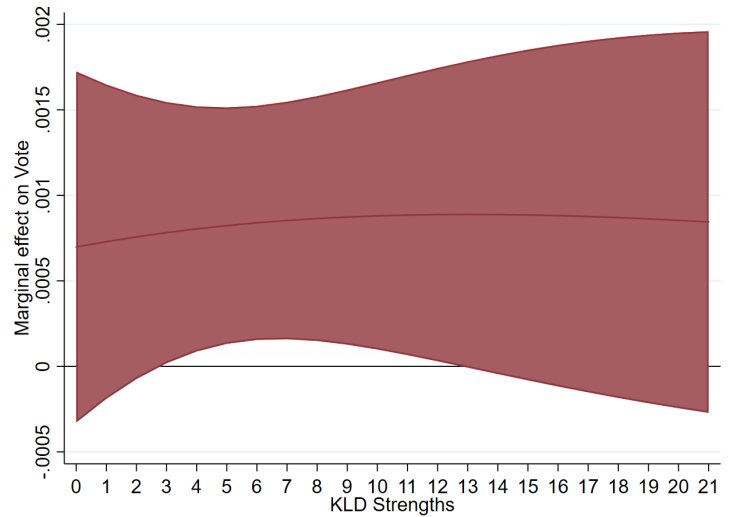
(a) Civil/Common - Strengths



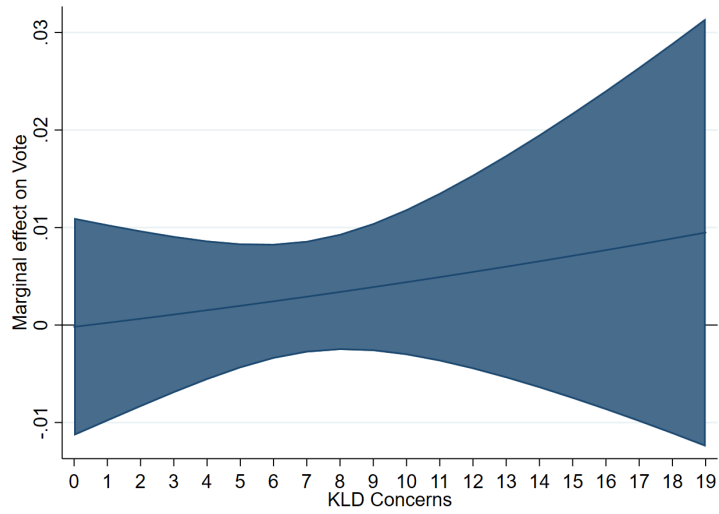
(b) Civil/Common - Total



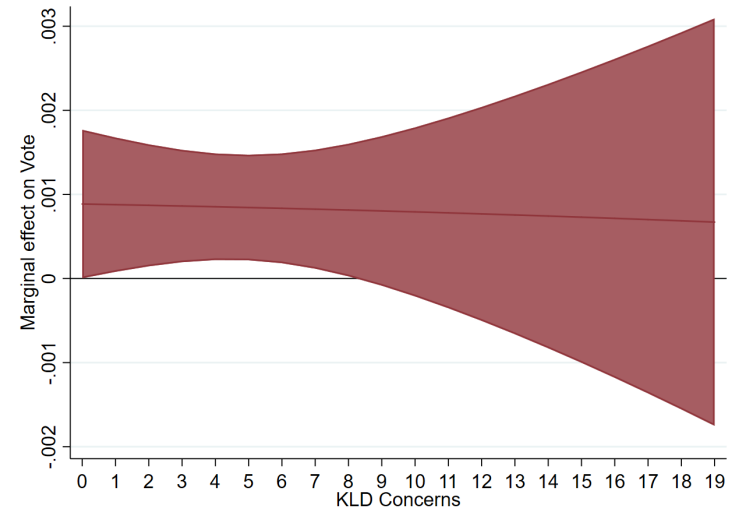
(c) Civil - Strengths



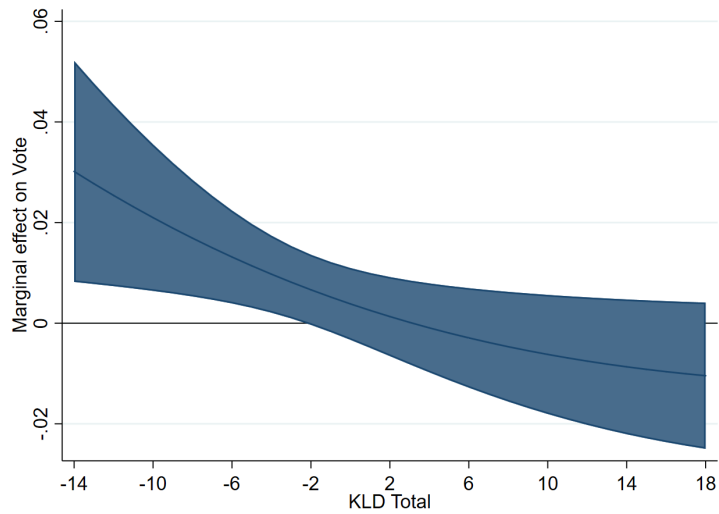
(d) Common - Strengths



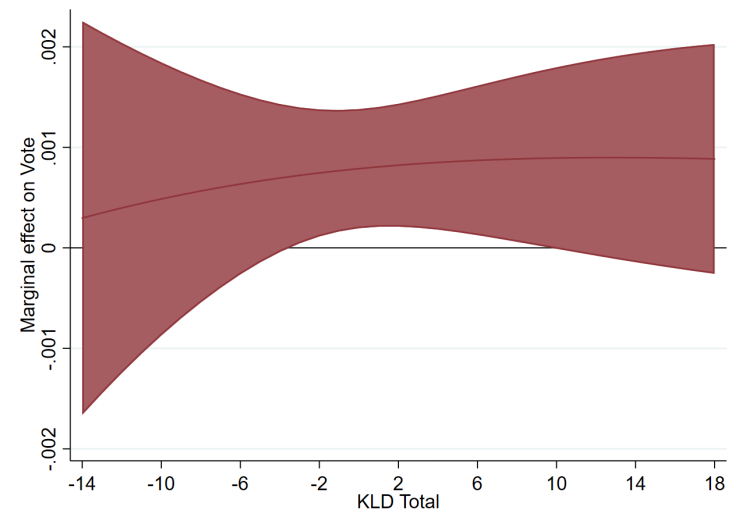
(e) Civil - Concerns



(f) Common - Concerns



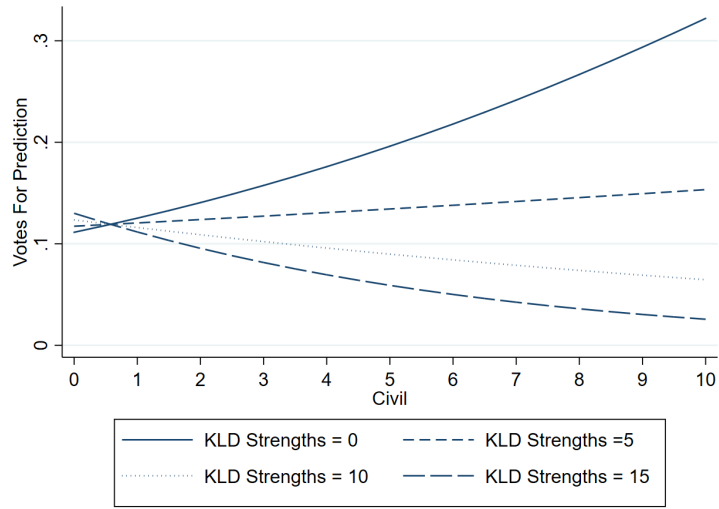
(g) Civil - Total



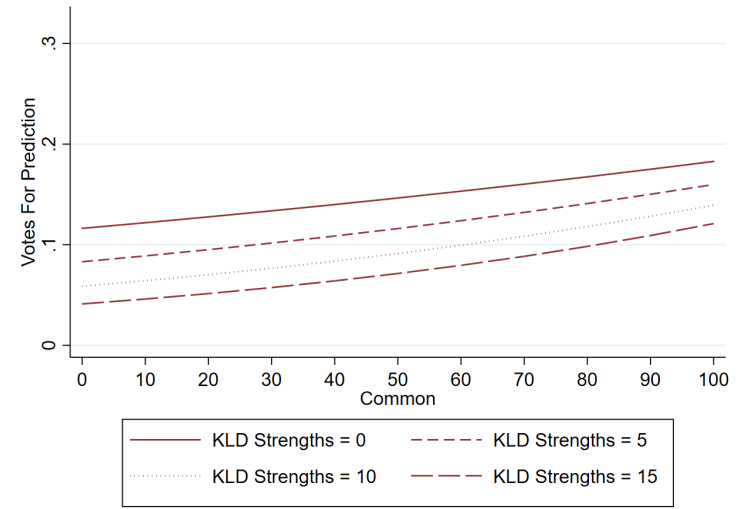
(h) Common - Total

**Figure 2****Marginal effects of Civil and Common on Vote**

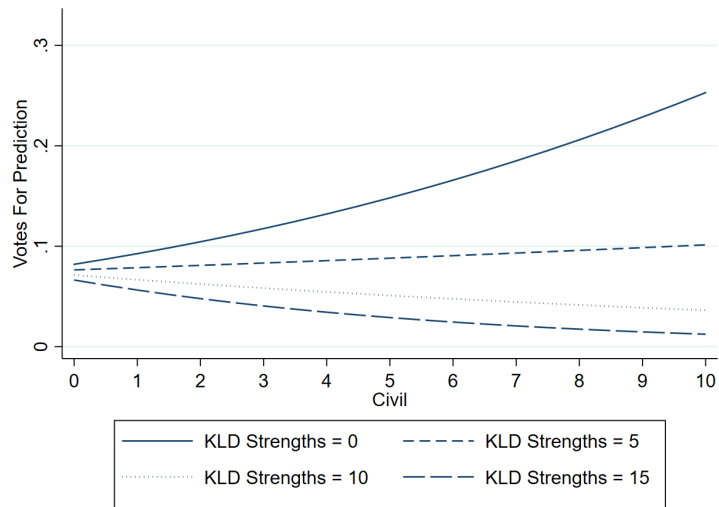
The graphs display the average marginal effects of *Civil/Common* on *Vote* at different levels of  $KLD_{STR}$ ,  $KLD_{CON}$ , and  $KLD_{TOT}$ . Panels (a), (c), (d), (e), and (f) are based on the results in Table VI, Column (5). Panels (b), (g), and (h) are based on the results in Table VI, Column (6)



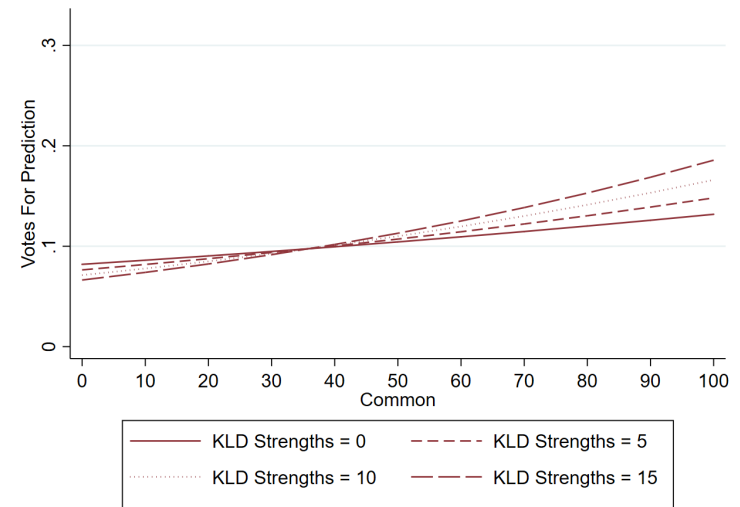
(a) Civil with Common fixed at mean



(b) Common with Civil fixed at mean



(c) Civil with Common fixed at zero

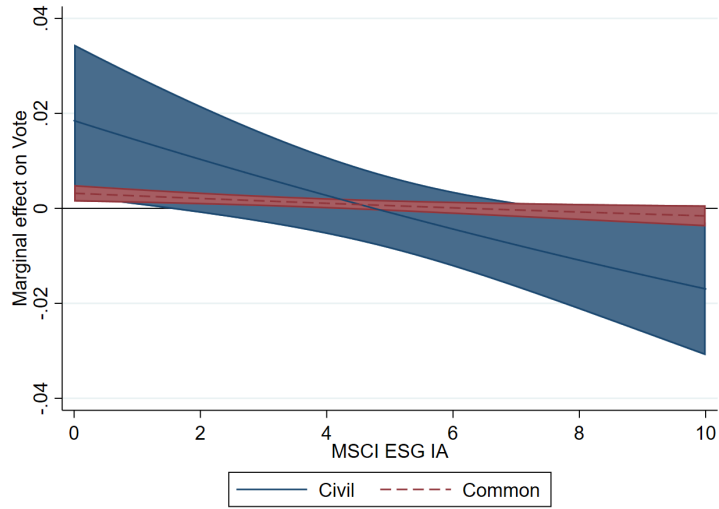


(d) Common with Civil fixed at zero

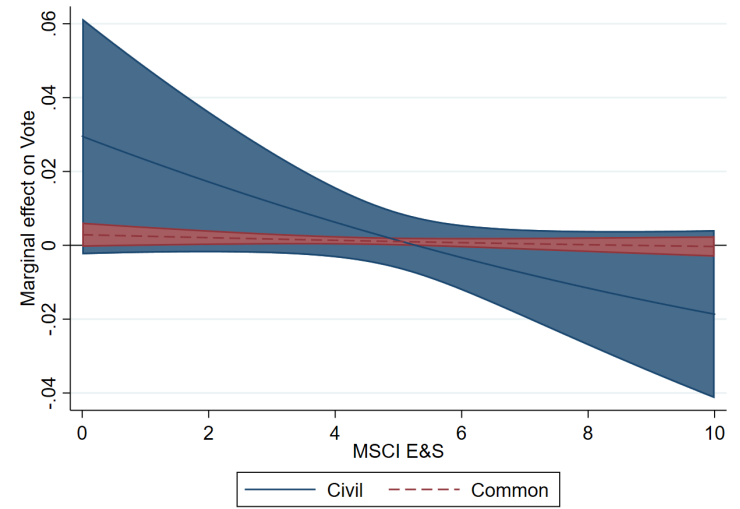
**Figure 3**  
**Predicted voting outcomes**

The figure displays predicted voting outcomes for different percentages of *Civil/ Common* at different levels of  $KLD_{STR}$ . Predicted voting outcomes are calculated using the results in Table VI, column (5). In panels (a) and (b) all other variables are fixed at their means. In panels (c) and (d) the other ownership variable is fixed at zero, and all other variables at their means.

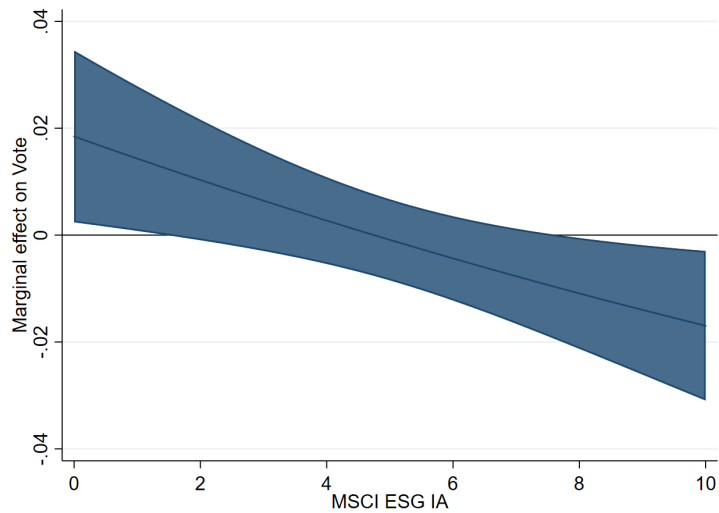




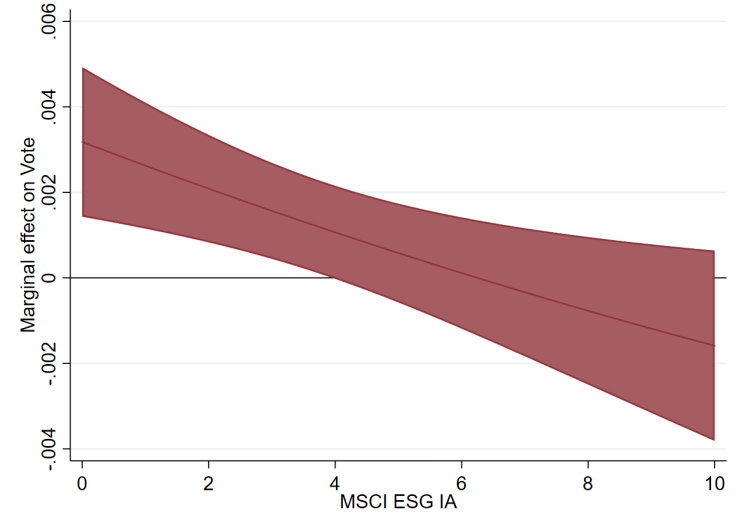
(a) Civil/Common - MSCI industry adjusted



(b) Civil/Common - MSCI E&amp;S



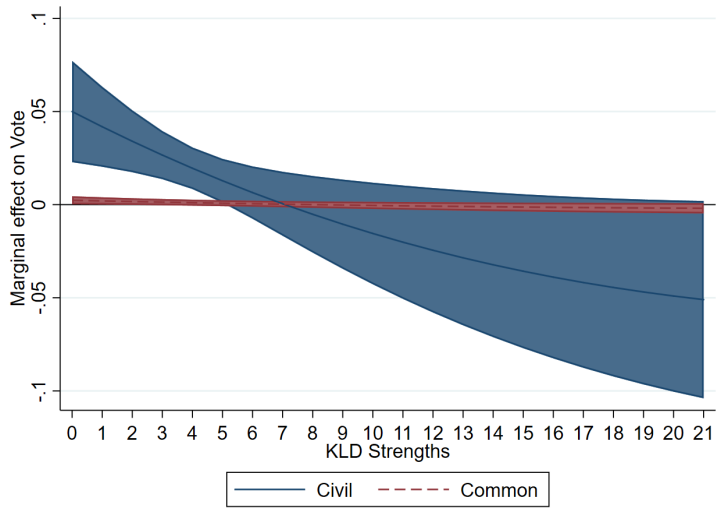
(c) Civil - MSCI industry adjusted



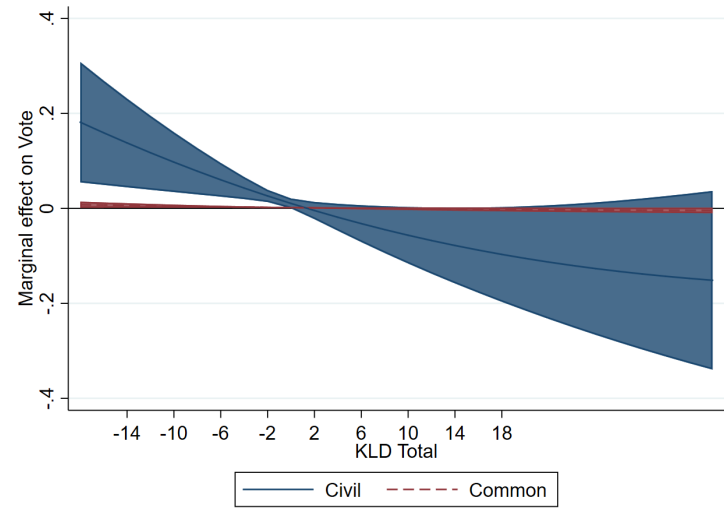
(d) Common - MSCI industry adjusted

**Figure 4****Marginal effects of Civil and Common on Vote using MSCI ESG**

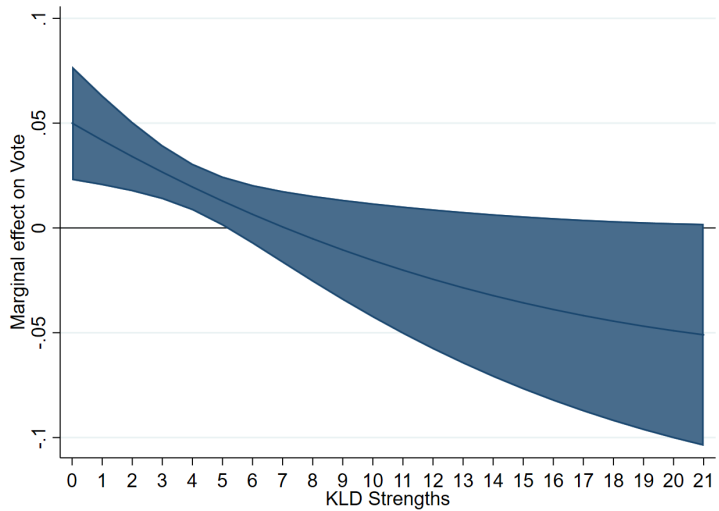
The graphs display the average marginal effects of *Civil/Common* on *Vote* at different levels of  $MSCI_{IA}$  and  $MSCI_{ES}$ . Panels (a), (c), and (d), are based on the results in Table VIII, Column (5). Panel (b) is based on the results in Table VIII, Column (6)



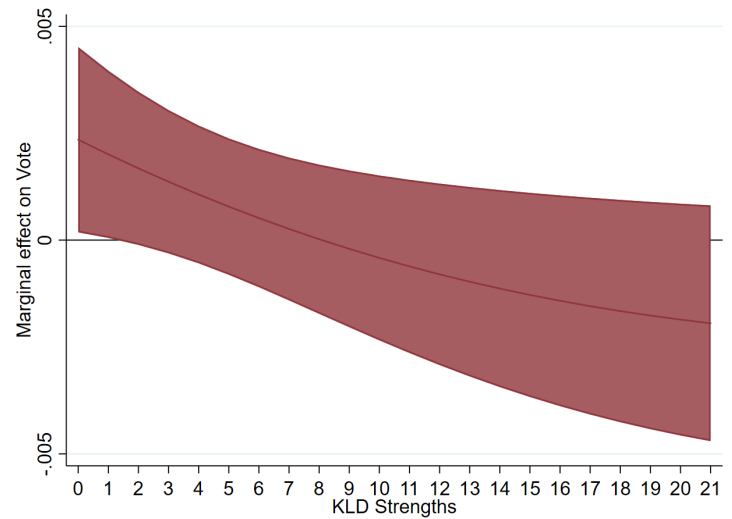
(a) Civil/Common - Strengths



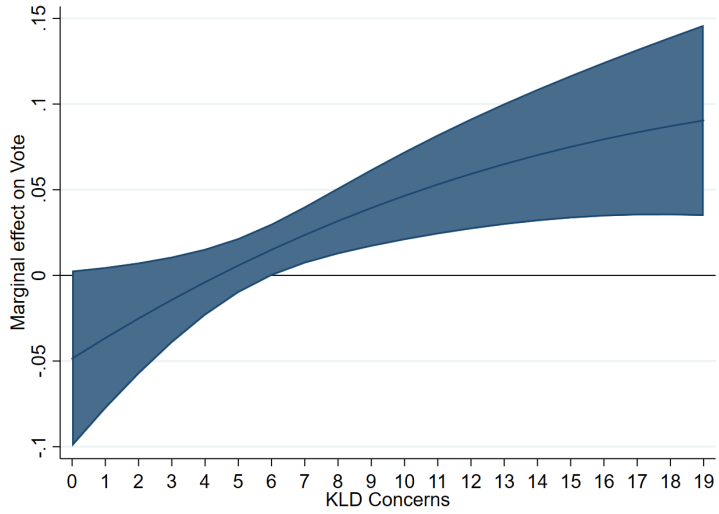
(b) Civil/Common - Total



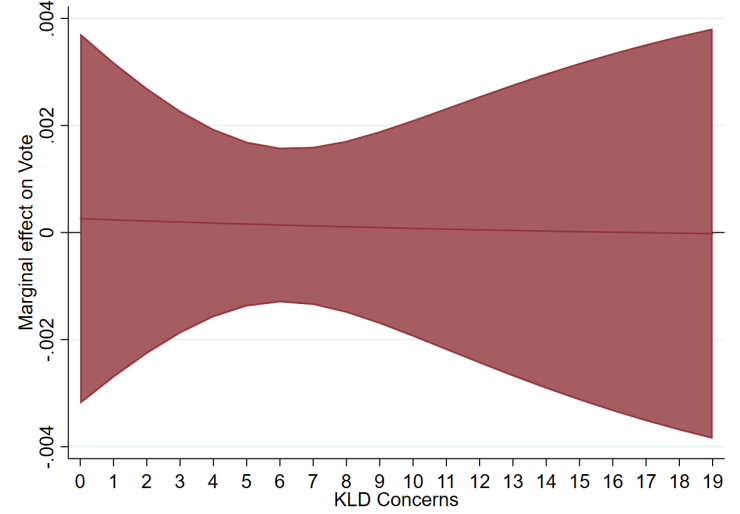
(c) Civil - Strengths



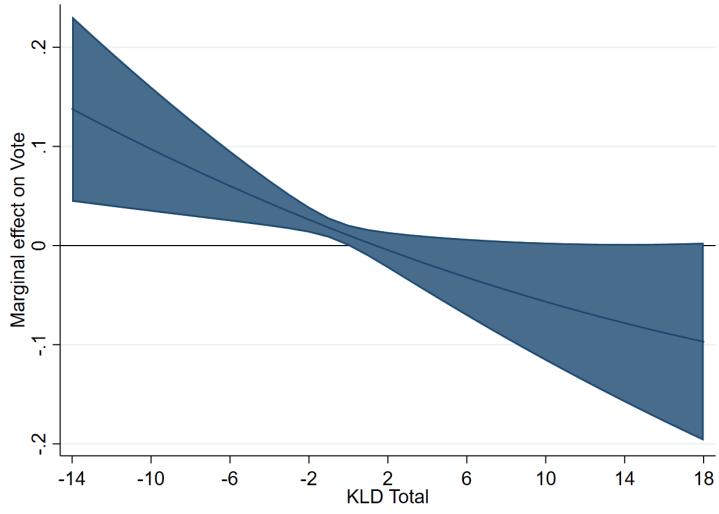
(d) Common - Strengths



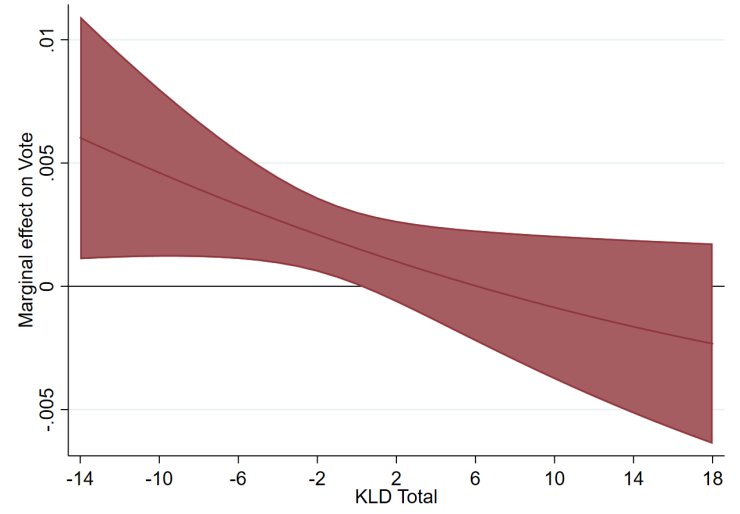
(e) Civil - Concerns



(f) Common - Concerns



(g) Civil - Total



(h) Common - Total

**Figure 5**

**Marginal effects of Civil and Common on Vote after controlling for vote recommendations**

The graphs display the average marginal effects of *Civil/ Common* on *Vote* at different levels of  $KLD_{STR}$ ,  $KLD_{CON}$ , and  $KLD_{TOT}$ . Panels (a), (c), (d), (e), and (f) are based on the results in Table X, Column (5). Panels (b), (g), and (h) are based on the results in Table X, Column (6)

**Table A1: Variable definitions**

Variable	Definition	Source
<i>Proposal specific</i>		
Vote	The percentage of votes in favor of the proposal.	ISS
Withdrawn	Dummy variable equal to 1 when the proposal was withdrawn, and 0 if not.	ISS
RepeatTarget	Dummy variable equal to 1 when a firm was targeted by a shareholder proposal in the previous proxy season, and 0 if not.	ISS
Repeat1/Repeat2/Repeat3	Dummy variable equal to 1 when the same same sponsor targeted the same firm with the same proposal in the previous (two, three or more) proxy season(s), and 0 if not.	ISS
Company, Fund, Publicpension, Religious, Specialinterest, SRI fund, Union, Individual, Other	Sponsor type dummy variables equal to 1 when the proposal is filed by a sponsor in the respective group, and 0 if not. All regression coefficients for these sponsor dummies are relative to individuals.	ISS
Environment, Social Capital, Human Capital, Business Model & Innovation, and Leadership & Governance.	Proposal type dummy variables equal to 1 when the proposal topic belongs to the respective group, and 0 if not.	ISS
ISS <sub>REC</sub>	Dummy variable equal to 1 when ISS recommends their clients to vote for a proposal, and 0 if they recommend to vote against.	ProxyInsight
GL <sub>REC</sub>	Dummy variable equal to 1 when Glass Lewis recommends their clients to vote for a proposal, and 0 if they recommend to vote against.	ProxyInsight
Material	Dummy variable equal to 1 when the proposal topic is financially material, and 0 if the proposal topic is financially immaterial, according to the SASB Materiality Map.	SASB
<i>Ownership - Measured at the calendar year-end of the previous year</i>		
InstOwn	The average percentage of shares outstanding held by institutional investors.	Factset
Civil	The average percentage of shares outstanding held by institutional investors domiciled in civil law countries.	Factset, La Porta et al. (1998)
Common	The average percentage of shares outstanding held by institutional investors domiciled in common law countries.	Factset, La Porta et al. (1998)
<i>ESG scores - Lagged by one year</i>		
KLD <sub>STR</sub>	The sum of a firm's strengths in all E&S KLD categories	MSCI KLD
KLD <sub>CON</sub>	The sum of a firm's concerns in all E&S KLD categories	MSCI KLD
KLD <sub>TOT</sub>	KLD <sub>STR</sub> minus KLD <sub>CON</sub>	MSCI KLD
Low KLD <sub>STR</sub>	Dummy variable equal to 1 when a firm has a KLD <sub>STR</sub> score lower than 7 ;the score at which the positive effect of <i>Civil</i> on vote support becomes insignificant, and 0 if not.	MSCI KLD
Low KLD <sub>TOT</sub>	Dummy variable equal to 1 when a firm has a KLD <sub>TOT</sub> score lower than -1 ;the score at which the positive effect of <i>Civil</i> on vote support becomes insignificant, and 0 if not.	MSCI KLD
High KLD <sub>STR</sub>	Dummy variable equal to 1 when a firm has a KLD <sub>STR</sub> score higher than 27 ;the score at which the negative effect of <i>Civil</i> on vote support becomes significant, and 0 if not.	MSCI KLD
MSCI <sub>IA</sub>	The industry adjusted MSCI ESG score	MSCI ESG
MSCI <sub>ES</sub>	The MSCI E&S score, not industry adjusted	MSCI ESG
<i>Firm controls - Measured at the calendar year-end of the previous year and winsorized at the 1st and 99th percentiles.</i>		
ln(totalassets)	The natural logarithm of the firm's total assets.	Compustat
ln(pricetobook)	The natural logarithm of the firm's price to book ratio.	Compustat, CRSP
ln(capex)	The natural logarithm of the firm's total capital expenditures	Compustat
ROA	The firm's return on assets.	Compustat
Salesgrowth	The firm's growth in sales between two years prior to the proposal and one year prior the proposal.	Compustat
Dividends	The firm's total amount of dividends.	Compustat
Tobin's q	The firm's total q ratio as calculated by Peters and Taylor (2017).	Peters and Taylor (2017)
Debt/Equity	The firm's debt to equity ratio.	Compustat

**Table A2: Correlation matrix**

The table presents pairwise correlations between the independent variables that are included in our regression models. The sample includes all S&P1500 firms between 2000 and 2013 for which all data is available. Variable definitions are given in Appendix A1. Variables (6)-(13) are winsorized at the 1st and 99th percentile.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Civil	1.000												
(2) Common	0.033	1.000											
(3) $KLD_{STR}$	0.396	-0.293	1.000										
(4) $KLD_{CON}$	0.207	-0.281	0.436	1.000									
(5) $KLD_{TOT}$	0.198	-0.031	0.579	-0.481	1.000								
(6) $\ln(\text{totalassets})$	0.481	-0.340	0.665	0.600	0.104	1.000							
(7) $\ln(\text{pricetobook})$	0.064	-0.070	0.160	0.018	0.140	0.046	1.000						
(8) $\ln(\text{capex})$	0.420	-0.353	0.596	0.575	0.059	0.913	0.078	1.000					
(9) ROA	0.047	-0.032	0.129	0.041	0.089	0.047	0.458	0.098	1.000				
(10) Salesgrowth	-0.066	0.049	-0.095	-0.060	-0.038	-0.041	0.124	-0.010	0.223	1.000			
(11) Dividends	0.216	-0.330	0.589	0.557	0.069	0.624	0.114	0.556	0.159	-0.037	1.000		
(12) Tobin's q	-0.009	-0.040	-0.019	-0.075	0.049	-0.063	0.547	-0.050	0.381	0.232	0.007	1.000	
(13) Debt/equity	0.061	-0.148	0.158	0.150	0.018	0.261	0.190	0.223	-0.139	-0.083	0.068	-0.119	1.000