

Legal Origins and Institutional Investors' Support for Corporate Social Responsibility

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Show Us Your Climate Risks, Investors Tell Companies

BP to explain how business chimes with Paris climate deal
Pressure from investors forces UK oil and gas firm to be more transparent on climate change

Contributions

- 1) We show that institutional investors from civil law countries use their **voting power on environmental and social shareholder proposals** to influence the CSR of common law firms.
- 2) We find that civil law institutional investors support environmental and social shareholders proposals for **financial rather than social reasons**.

Literature

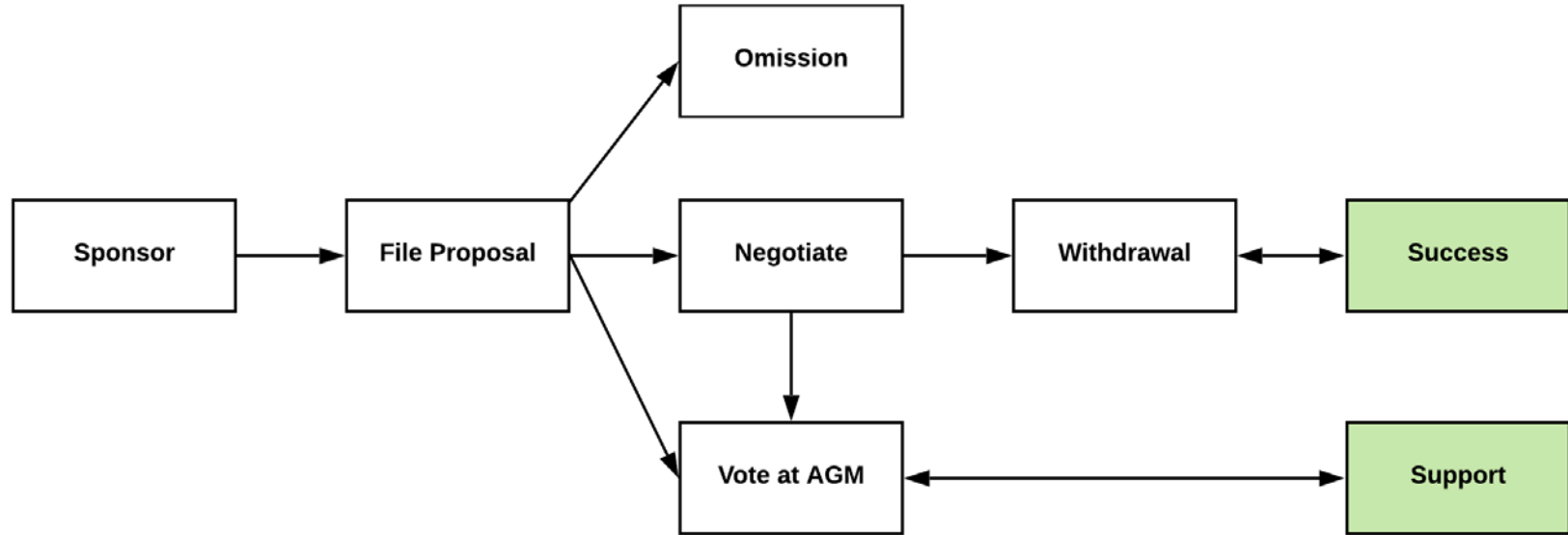
Which investors?

- **Social norms:** effect of IO on CSR is driven by social norms (*Dyck et al., 2018*).
- **Legal origin:** CSR is higher in civil law countries (*Liang & Renneboog, 2017*) → stakeholder orientation and concentrated ownership (*La Porta et al., 1998*).

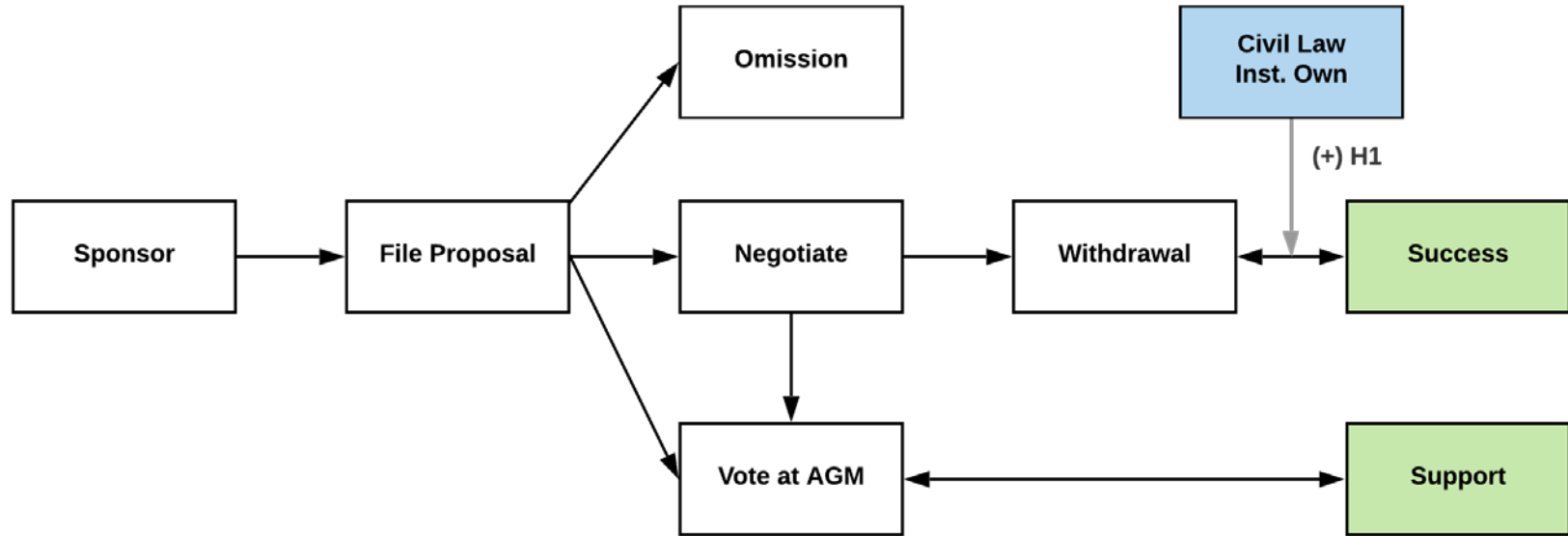
What are their motives?

- Individual investors are more **values-based** (*Riedl & Smeets, 2017*).
- We argue that civil law institutional investors are **value-seeking** → enlightened value maximization (*Jensen, 2002*).
- European investors are more likely to believe that SRI has a **positive effect on financial performance** (*Amel-Zadeh & Serafeim, 2017; van Duuren et al., 2016; CFA Institute, 2017*).

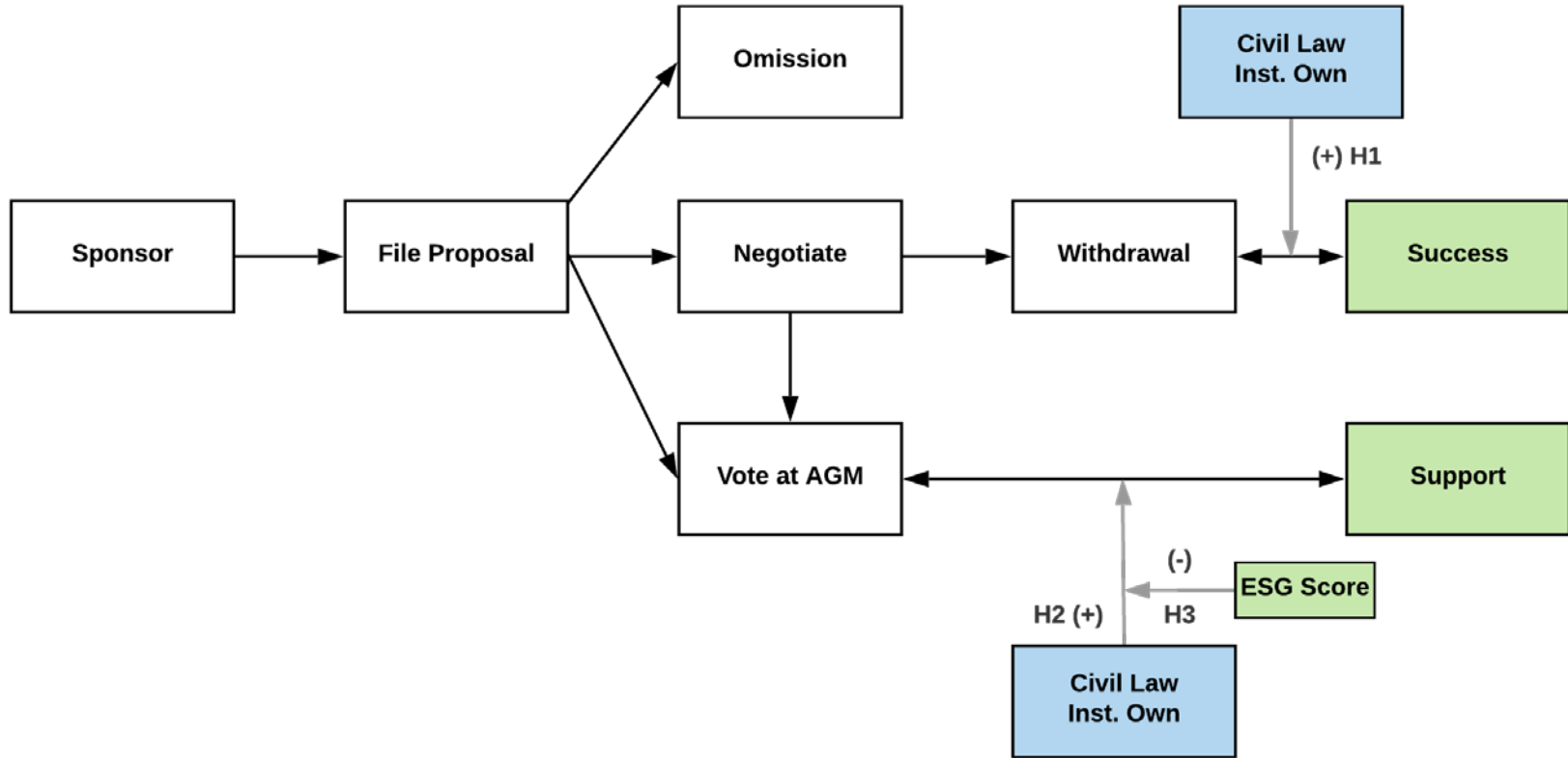
Framework



Hypotheses



Hypotheses



Data & Methodology (1)

- $\pm 4,000$ U.S. E&S shareholder proposals from ISS between 2000 and 2013
- Institutional ownership from Factset, financial data from Compustat and CRSP
- ESG data from MSCI KLD
- **Hypothesis 1:** Proposal-level logistic regression

$$\begin{aligned} \text{Withdrawn}_{ijt} = & \beta_0 + \beta_1 \text{Civil}_{jt} + \beta_2 \text{Common}_{jt} + \beta_3 \text{KLD}_{STR_{jt-1}} + \beta_4 \text{KLD}_{CON_{jt-1}} \\ & + \beta_5 \Pi_{ijt} + \beta_6 X_{jt-1} + \Lambda \end{aligned}$$

- Proposal controls (Π): topic, sponsor type, repetition
- Firm controls (X): assets, PTB, ROA, sales growth, dividends, capex, debt/equity
- Year and industry fixed effects (Λ)

Probability of Withdrawal (Hypothesis 1)

	(1) <i>Logit</i>	(2) <i>Logit</i>	(3) <i>LPM</i>	(4) <i>LPM</i>
InstOwn	0.015*** (0.006)		0.003*** (0.001)	
Civil		0.061 (0.053)		0.014 (0.011)
Common		0.014** (0.006)		0.003** (0.001)
KLD _{STR}	0.031 (0.023)	0.031 (0.023)	0.005 (0.005)	0.005 (0.004)
KLD _{CON}	-0.009 (0.024)	-0.008 (0.024)	-0.000 (0.005)	-0.000 (0.005)
Publicpension	1.704*** (0.316)	1.707*** (0.316)	0.281*** (0.046)	0.281*** (0.046)
Religious	1.633*** (0.328)	1.636*** (0.329)	0.254*** (0.047)	0.254*** (0.047)
Specialinterest	0.607* (0.362)	0.623* (0.364)	0.077 (0.052)	0.079 (0.052)
Industry/Year/Type FE	Yes	Yes	Yes	Yes
Firm/Repeat Controls	Yes	Yes	Yes	Yes
Adjusted R^2	0.147	0.147	0.144	0.145
<i>N</i>	2389	2389	2407	2407

Methodology (2)

- **Hypothesis 2:** Fractional logit model (Papke and Wooldridge, 1996)

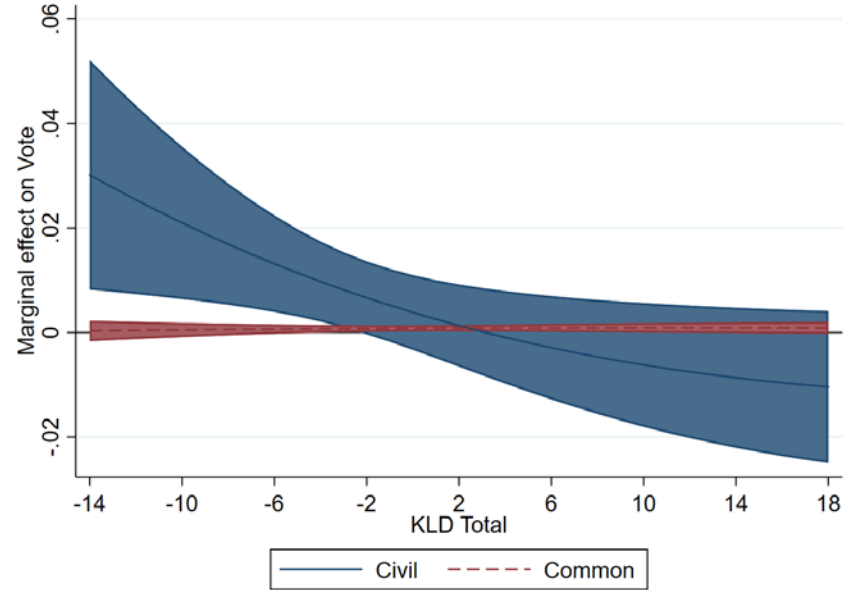
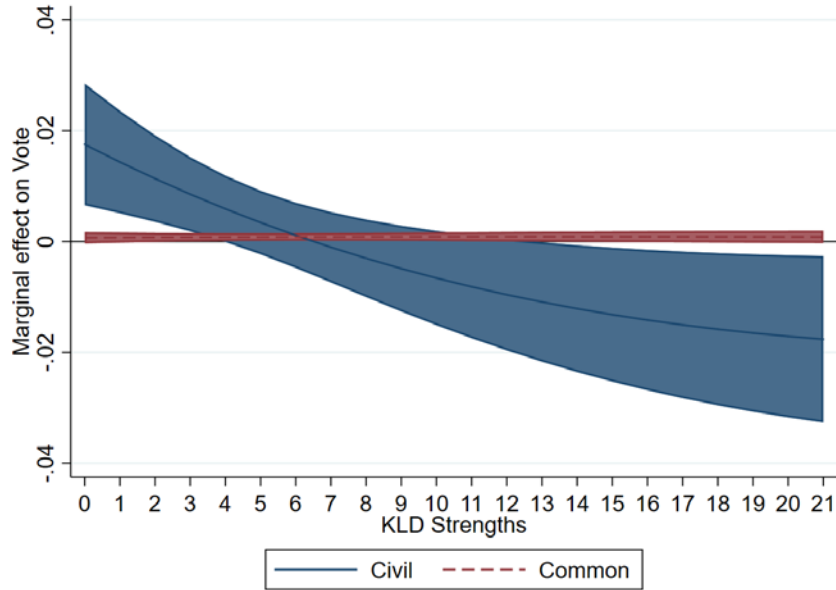
$$E(\text{Vote}_{ijt}|x) = G(\beta_0 + \beta_1 \text{Civil}_{jt} + \beta_2 \text{Common}_{jt} + \beta_3 \text{Civil}_{jt} \times \text{KLD}_{\text{STR}_{jt-1}} + \beta_4 \text{Civil}_{jt} \times \text{KLD}_{\text{CON}_{jt-1}} + \beta_5 \text{Common}_{jt} \times \text{KLD}_{\text{STR}_{jt-1}} + \beta_6 \text{Common}_{jt} \times \text{KLD}_{\text{CON}_{jt-1}} + \beta_7 \text{KLD}_{\text{STR}_{jt-1}} + \beta_8 \text{KLD}_{\text{CON}_{jt-1}} + \beta_9 \Pi_{ijt} + \beta_{10} X_{jt-1} + \Lambda)$$

- Proposal controls (Π): type, sponsor, repetition
- Firm controls (X): assets, PTB, ROA, sales growth, dividends, capex, debt/equity
- Year and industry fixed effects (Λ)

Vote Support (Hypotheses 2 and 3)

	(1)	(2)	(3)	(4)
	<i>OLS</i>	<i>OLS</i>	<i>fGLM</i>	<i>fGLM</i>
Common	0.060*	0.073	0.006**	0.007
	(0.033)	(0.059)	(0.003)	(0.005)
Civil	0.897*	1.736*	0.061**	0.106*
	(0.459)	(0.917)	(0.031)	(0.057)
KLD _{STR}	-0.685***	0.115	-0.060***	-0.015
	(0.132)	(0.473)	(0.011)	(0.037)
KLD _{CON}	0.211	0.154	0.019	0.016
	(0.160)	(0.479)	(0.013)	(0.040)
KLD _{STR} × Civil		-0.307***		-0.020***
		(0.087)		(0.007)
KLD _{CON} × Civil		0.061		0.004
		(0.094)		(0.007)
KLD _{STR} × Common		0.003		0.000
		(0.007)		(0.001)
KLD _{CON} × Common		-0.002		-0.000
		(0.008)		(0.001)
Industry/Year/Type FE	Yes	Yes	Yes	Yes
Firm/Repeat Controls	Yes	Yes	Yes	Yes
Adjusted/Pseudo R^2	0.332	0.340	0.059	0.060
N	1572	1572	1572	1572

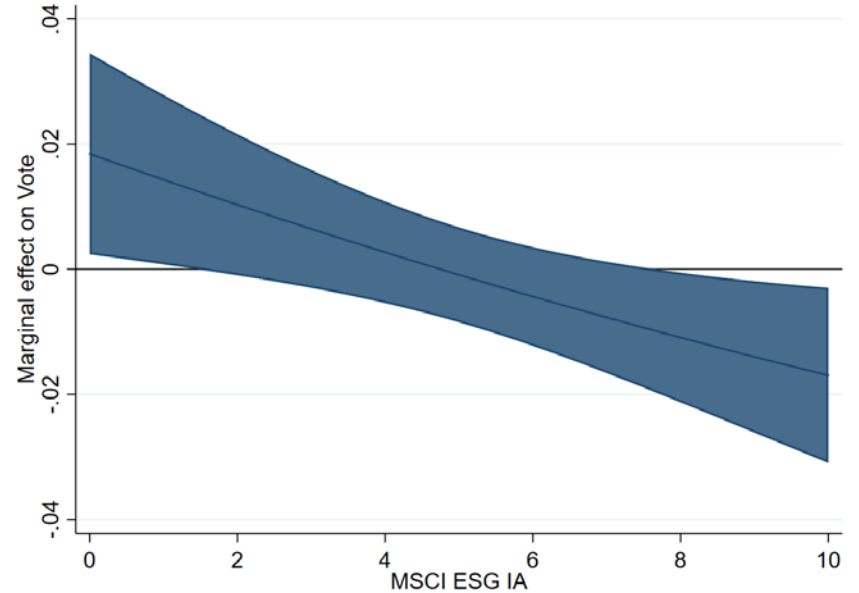
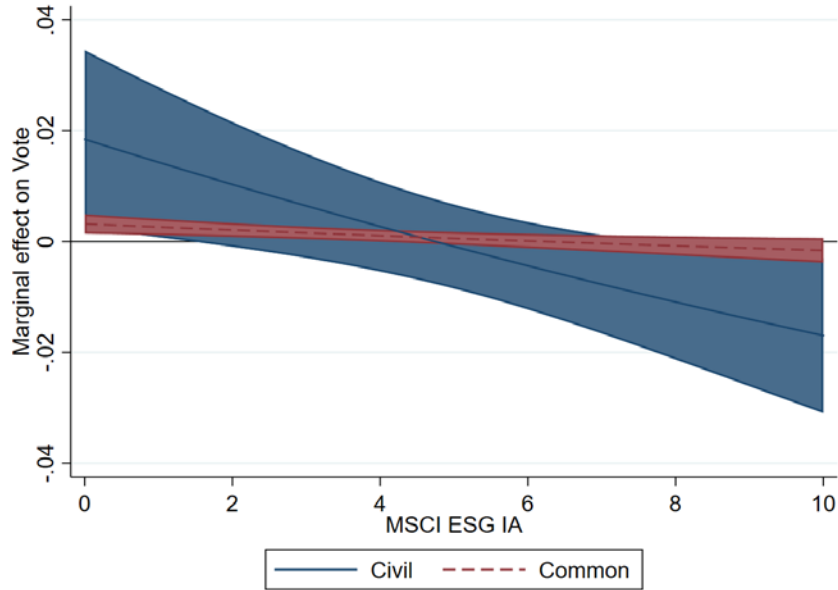
Vote Support (Hypotheses 2 and 3)



Robustness

- **ESG Source**
 - MSCI ESG 2007 to 2013, industry adjusted score
 - Results are robust

Vote Support (Hypotheses 2 and 3)



Robustness

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 - MSCI ESG 2007 to 2013, industry adjusted score
 - Results are robust
- **Proxy advisors**
 - ISS and Glass Lewis recommendations from ProxyInsight >2011
 - Large influence of advisors, but results hold
 - Interpret with caution → small sample
- **Materiality**
 - Mapped each proposal to SASB's Materiality Map
 - 33.4% of proposals is classified as material
 - Material proposals do not obtain higher support and are not more likely to be withdrawn

Conclusion

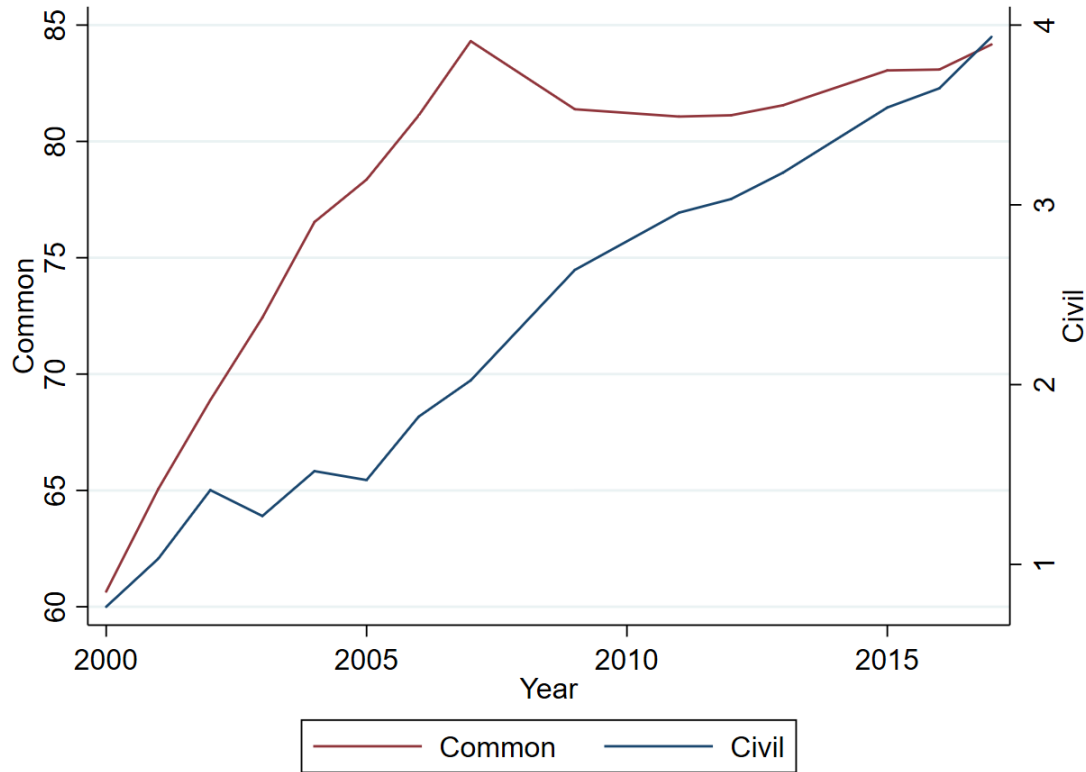
- Institutional investors from civil law countries use their voting power to influence the CSR of common law firms.
- We provide evidence that institutional investors from civil law countries are more likely to support CSR for financial rather than social reasons.
- We contribute to the literature on:
 - CSR and shareholder activism
 - Investors' motives for investing socially responsible
 - CSR and corporate ownership

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Mean Institutional Ownership by Legal Origin



Proposal Statistics

	Omitted	Withdrawn	Voted	Vote	Vote>50	Vote>10
Year						
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%
<i>Total</i>	16.01%	30.20%	53.79%	15.08%	1.27%	45.41%
Proposal Type						
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%

Descriptive Statistics

	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_{STR}	5.30	4.05	2.00	5.00	8.00	0.00	21.00
KLD_{CON}	6.38	3.94	3.00	6.00	9.00	0.00	19.00
KLD_{TOT}	-1.08	4.66	-4.00	-1.00	2.00	-14.00	18.00
$\ln(\text{totalassets})$	10.09	1.49	9.12	10.19	10.95	5.05	13.42
$\ln(\text{pricetobook})$	1.09	0.68	0.61	1.06	1.49	-1.23	3.09
$\ln(\text{capex})$	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						

Results %Votes For (Hypotheses 2 & 3)

	(1)	(2)	(3)	(4)
	<i>Logit</i>	<i>LPM</i>	<i>OLS</i>	<i>fGLM</i>
Civil	0.140** (0.064)	0.026** (0.013)	2.195** (1.072)	0.131** (0.059)
Common	0.023*** (0.008)	0.004*** (0.001)	0.301*** (0.088)	0.023*** (0.006)
MSCI _{IA}	-0.007 (0.035)	-0.001 (0.007)	4.503*** (1.527)	0.319*** (0.106)
MSCI _{IA} × Civil			-0.411** (0.161)	-0.028*** (0.010)
MSCI _{IA} × Common			-0.051*** (0.019)	-0.004*** (0.001)
Industry/Year/Type FE	Yes	Yes	Yes	Yes
Firm/Repeat Controls	Yes	Yes	Yes	Yes
Adjusted/Pseudo R^2	0.177	0.153	0.397	0.067
<i>N</i>	1218	1230	682	682