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Are CSR activities associated with shareholder voting in director elections and say-on-pay votes?

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ABSTRACT

When making investment decisions, many investors now regularly consider a company's CSR activities along with traditional financial performance measures (Elliott et al., 2014). Our study considers whether shareholders may also consider CSR activities when voting in director elections and say-on-pay votes. We find that CSR performance is associated with shareholder support in both director elections and say-on-pay votes. In particular, we find higher support for both director elections and executive compensation when there are more CSR strengths. Additionally, we find that the social strength aspect of CSR is the most important component in the relationships between CSR and director elections and that the environmental strengths aspect is the most important component in the relationship between CSR and executive compensation. Our results suggest that shareholders may value certain types of CSR and are more supportive of boards and management when CSR performance is stronger.

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1. Introduction

Corporate social responsibility (CSR) relates to a company's actions that address social and environmental goals (Clarkson, 1995). CSR strategy guides corporate efforts to do good deeds or avoid bad deeds and involves multiple levels of motivation for management actions. Firms are investing additional resources into CSR in response to stakeholder pressure (Matten and Moon, 2008; McWilliams and Siegel, 2000), and some boards are altering their social and environmental agenda to acknowledge their responsibilities to a variety of stakeholder groups with diverse interests (Berthelot et al., 2003; Jones and Wicks, 1999). The question of whether CSR activities enhance company economic value has yielded mixed results (Aggarwal, 2013), with the balance of evidence suggesting a positive relationship between CSR activities and financial performance.

Shareholders may consider how a company responds to various stakeholders in the wider social environment (i.e., CSR) to be as an important component of the company's success (KPMG, 2011; Van der Laan et al., 2008). Research suggests that

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investors have begun to incorporate CSR performance, along with the traditional financial performance measures, into their investment decisions (Clarkson, 1995; Griffin and Mahon, 1997; Hillman and Keim, 2001; Elliott et al., 2014).¹ We expand on the line of investor decision research by considering whether CSR performance may influence shareholder voting decisions for director nominees and management compensation at annual shareholder meetings.² Yermack (2010) notes that "... shareholders use voting as a channel of communication with boards of directors" (Yermack, 2010, p. 2.1). Such voting could therefore communicate shareholders' preferences regarding companies' CSR performance.

Shareholders may view CSR activities positively because they increase financial performance (e.g., Guenster et al., 2011) and/or because the shareholders prefer companies with stronger CSR performance (Mackey et al., 2007). Shareholders may also view CSR investments as an appropriate use of resources to reduce the free cash flow problem (Jensen, 1986) of managers misallocating resources to benefit managers, rather than shareholders. Shareholders may, therefore, be more supportive of boards and/or management that have made decisions to engage in CSR activities. Alternatively, if shareholders view CSR activities as harmful to the organization or a distraction from the organization's core objectives (e.g., Friedman, 1970), they may be less supportive of boards and management when companies have stronger CSR performance.

We examine prior-year CSR performance as a possible factor influencing shareholder voting.³ We consider two different types of shareholder votes. First, we assess voting for director candidates who are nominated by the current board of directors,⁴ as boards play a material role in setting a company's CSR strategy (Post et al., 2011). Second, using say-on-pay votes, we consider shareholder support for the level and nature of executive compensation, which can be related to CSR performance (Callan and Thomas, 2010; Mahoney and Thorne, 2006).

For both director and say-on-pay voting, we find evidence that CSR strengths are positively associated with shareholder support for both director nominees and for executive compensation. In particular, we find that the social strengths component of CSR strengths has the strongest positive association with director voting, while the environmental strengths component of CSR strengths has the strongly positive association with say-on-pay voting. We find no association between CSR concerns and shareholder support for directors or say-on-pay. Overall, these results indicate that shareholders may view CSR performance favorably and may be more supportive of boards and management when a company has stronger CSR performance.

This article is organized as follows: the next sections provide an overview of the literature and the study's research questions followed by a discussion of the research methods used. We then present the results of our analyses and the final section contains our summary and implications.

2. Background literature and hypotheses

CSR research has traditionally considered two broad perspectives (Moser and Martin, 2012). The first perspective reasons that companies should engage in CSR activities only when doing so maximizes shareholder value (Friedman, 1970; Dhaliwal et al., 2011). Previous research examining whether CSR activities enhance company value/performance has produced mixed results (Aggarwal, 2013), with the balance of research favoring a positive relationship between CSR activities and company value/performance.⁵ Researchers have measured company value or performance based on (a) cross-sectional market measures, such as Tobin's Q (e.g., Nakao et al., 2007; King and Lenox, 2001; Guenster et al., 2011), (b) market movements, including market reactions to CSR disclosures (e.g., Arya and Zhang, 2009; Griffin and Sun, 2013; Lee et al., 2015), and (c) accounting-based measurements, such as ROA (e.g., Guenster et al., 2011). Research also indicates that financial analysts' stock recommendations have become more optimistic for companies with stronger CSR performance (Ioannou and Serafeim, 2015).

The second perspective suggests that shareholders may value CSR activities even if such activities do not lead to stronger financial performance. Mackey et al. (2007), note that even if CSR activities harm company financial performance, shareholders could view such CSR activities positively and they suggest that:

... equity holders may sometimes have interests besides maximizing their wealth when they make investment decisions. Sometimes, they may want to pursue socially responsible activities, even if these activities reduce the present value of the cash flows generated by these companies (p. 820).

¹ Thomson Reuters Nelson estimates that 11.3% of the \$33.3 trillion in total assets under management they tracked in the U.S. markets are invested in the sustainable and responsible investing market. Compared to the 1995 tracking levels, investment in the sustainable and responsible investing market has risen 486%. This growth in the sustainable and responsible market far exceeds the 376% growth of investment in the market involving a broader universe of assets under professional management (The Forum for Sustainable and Responsible Investments, 2012).

² Most shareholders do not actually attend the meeting to vote, but vote by mail through a proxy process. Solicitation of such votes is done through the company's proxy statement, also known as a "14A filing" by the SEC.

³ Prior-year CSR performance is the most recent information available to shareholders when voting, which typically takes place 3 to 4 months after the end of the previous year.

⁴ For the director nomination task, boards often use a nominating committee comprised of a group of current directors.

⁵ Financial condition/performance can be enhanced by CSR either directly (i.e., direct CSR benefits exceed direct CSR costs) or indirectly through the customer preferences for products or services produced by companies with stronger CSR performance. For example, Lamberti and Lettieri (2009, p. 166), note that positive CSR performance can reduce "stakeholders' [e.g., customers'] uncertainty regarding products and firms' behavior ... and win their trust."

Cohen et al. (2011) show that retail investors consider CSR information in their investment decision making. Additionally, these same investors view CSR information obtained from third-party sources to be more reliable than information obtained directly from the company (Cohen et al., 2011). Brown-Liburd et al. (2012) also suggest that investor reactions to CSR information are conditional. Their results show stronger investor reactions are associated with higher overall CSR levels and with third party assurance of the CSR information, especially for audited CSR information. Elliott et al. (2014) find that investors react to CSR performance by assigning higher values to companies with better CSR performance and they note that investors may "... unintentionally use their affective reactions to CSR performance in estimating fundamental value" (p. 215).

Decisions to engage in voluntary CSR activities are typically made by the board of directors and/or top management. Consistent with this decision-making authority, research indicates that CSR is associated with board of director characteristics (e.g., Jo and Harjoto, 2012; Post et al., 2011) and with CEO characteristics (e.g., Chin et al., 2013).

While dissident shareholders sometimes initiate proposals to change a company's CSR practices, these proposals generally receive less than enthusiastic support from other shareholders⁶ (e.g., Michelon and Rodrigue, 2015). The lack of support for these shareholder-initiated CSR proposals may be because these proposals are submitted by activist shareholders who target certain types of CSR activities that the board and management may consider inappropriate for the organization. In contrast, CSR activities that have been undertaken by the board and management may be perceived to be more in accord with the firm's efforts to build legitimacy with shareholders.

Because legitimacy exists when shareholder value systems are congruent with the company's (Lindblom, 1994), shareholders may perceive the directors and managers of companies with good CSR performance to be more ethical and legitimate. Shareholders may also anticipate fewer agency problems among companies with stronger CSR performance (Shankman, 1999). For example, shareholders may see CSR activities as an appropriate use of the company's cash flow, and this may reduce shareholder concerns about managerial misuse of corporate resources (i.e., the free cash flow problem identified by Jensen, 1986).

Thus, good CSR performance may increase shareholder trust in management and suggest fewer agency problems. In this view, investors may prefer companies that consider a broader class of stakeholders through their CSR activities and this preference may influence their voting in support of director nominees and managerial compensation (through say-on-pay votes).

To summarize, CSR activities may be associated with the company financial performance and/or investors may value CSR regardless of CSR's effect on the company's financial outcomes. CSR decisions are made by company boards of directors and top management. If investors value CSR activities, they may perceive that companies with strong CSR have better and more ethical managers, and therefore voice their support in director elections and say-on-pay votes.

2.1. Director elections

Shareholders have long been able to vote on the directors who sit on company boards (Yermack, 2010). The level of shareholder support for directors can be considered a way for shareholders to communicate with boards (Yermack, 2010), as well as "to voice their pleasure or displeasure with firms" (Hillman et al., 2011, p. 675), and to hold "directors accountable" (Brochet and Srinivasan, 2014, p. 431). Shareholder votes on director elections can also be viewed as "informative polls of investor perceptions regarding board performance" (Fischer et al., 2009). Consistent with the shareholder voice rationale, research suggests that boards are sensitive to the level of shareholder support for their election. Studies show that the level of support for directors can influence corporate actions such as changes in governance and decisions about the CEO (e.g., Cai et al., 2009; Fischer et al., 2009).

The board election process typically involves current board members proposing directors (often including themselves) for election or re-election. Research shows that shareholder support for director nominees is positively related to the company's financial performance (Cai et al., 2009), which is consistent with shareholders' voicing approval for better financial performance. We suggest that investors may value CSR performance in addition to financial performance. Even if the stock price is not favorably affected, investors may view CSR activities as having other intrinsic value beside wealth maximization (Mackey et al., 2007). If investors perceive that CSR activities add value to the company and/or if a company already has strong CSR performance, investors may be more supportive of the board's director nominees as the shareholders' value systems are congruent with the company's; as a result, shareholders perceive that fewer agency problems may exist. Thus, if investors value CSR (for whatever reason), then they would be expected to be more supportive of the director nominees of companies with stronger CSR performance. This gives rise to our first hypothesis:

H1: CSR performance is positively correlated with shareholder voting support for directors.

2.2. Say-on-pay votes

U.S. securities laws give a company's shareholders the right to vote on top management's remuneration. Specifically, the Dodd-Frank Act of 2010 requires publicly-traded companies to have a "resolution subject to shareholder vote to approve the

⁶ Average shareholder support was 10.79% for the period from 2002 to 2004 (Thomas and Cotter, 2007; Table 2) and then rose further from 14% to 18% during the period 2008–2010 (Rutherford and Huennekens, 2013).

Table 1
Data gathering process.

	Director voting sample	Number of company observations for director voting sample	Say-on-pay sample
Observations available from ISS database	44,885	7,136	5,953
<i>Less</i>			
CSR data not available	11,979	2,322	1,606
CEO compensation data not available			864
Other control variables not available	5958	896	790
Observations included in main analyses	26,948	3,918	2,693
Less: Detailed director data not available	8241		
Observations included in analysis of voting for executive and non-executive directors	18,707		

compensation of executives.” SEC rules implementing the act’s provisions “require issuers... to provide a separate shareholder advisory vote in proxy statements to approve the compensation of their named executive officers” (SEC, 2011, ¶ II (A)(1)(b)). These votes, known as say-on-pay votes, ask the shareholders to approve the compensation of the CEO, CFO and the next three most-highly compensated executive officers.⁷

Given the recent introduction of the say-on-pay voting requirements, the literature on say-on-pay votes (e.g., Kraus et al., 2014; Brunarski et al., 2015) is fairly limited and focuses mainly on the outcomes (rather than antecedents) of say-on-pay votes. However, there is literature from the United Kingdom (e.g., Ferri and Maber, 2013; Gregory-Smith et al., 2014) where shareholders have been voting on say-on-pay since 2002 and from Australia where shareholders have been voting on remuneration reports since 2004 (Clarkson, et al., 2011; Monem and Ng, 2013). Other research has also been conducted on U.S. stockholders’ voting on adoption of new compensation plans for management (e.g., Balachandran et al., 2012; Morgan et al., 2006).⁸

Research generally indicates that shareholder support for executive compensation is related to the company’s financial performance (e.g., Morgan et al., 2006; Kraus et al., 2014). Consistent with these findings, Institutional Shareholder Services (ISS), a company that advises institutional investors on how to vote on say-on-pay proposals, explicitly states that one of the factors it considers when making voting recommendations is “strong or satisfactory alignment between compensation and performance over a sustained period” (ISS, 2013, p. 39).

Consistent with our expectation of H1 (regarding the relationship between CSR and director voting), if investors value CSR activities, we expect the investors to be more supportive of managers when companies engage in CSR activities as the investors consider the managers to be more ethical and thus anticipate fewer agency problems. This support for management could make shareholders more supportive of management’s compensation, as reflected in say-on-pay votes. This gives rise to our second hypothesis:

H2: CSR performance is positively correlated with shareholder voting support for executive compensation.

3. Research methods

3.1. Data

The study’s initial sample consisted of 44,885 director elections at 7,136 companies and 5,953 say-on-pay votes⁹ from 2013 through 2015 obtained from the Institutional Shareholder Services (ISS) Voting Analytics database. Information on the independent variable of CSR performance for 2012 through 2014 came from the MSCI Corporate Social Responsibility database. We use prior-year CSR scores because this is the most current information available to shareholders voting during proxy season, typically March to April. Information on all control variables, except ISS voting recommendations, was obtained from the Factset database. The ISS voting recommendations were obtained from the ISS voting database. Due to missing independent and control variables, the final sample size for our main analysis consisted of 26,948 director elections at 3918 companies and 2693 say-on-pay votes. To further analyze voting on executive and non-executive director elections, we reduced our sample size to 18,707 observations because information on individual executive and non-executive director elections was not available for 8241 director elections. Table 1 summarizes our data gathering process and the determination of the number of observations used in our analyses.

⁷ An example of the wording of a say-on-pay vote: “To approve, on an advisory basis, named executive officer compensation” (from Consolidated Edison Annual Shareholder meeting, May 20, 2013).

⁸ There is also a body of literature assessing whether the level of shareholder support for executive compensation plans influences future compensation. Ferri and Maber (2013), Ng, et al. (2011) and Gregory-Smith et al. (2014) find evidence that lower levels of shareholder support are associated with subsequent changes to compensation plans, although Armstrong et al. (2013) find no association between the level of shareholder support and post-vote compensation.

⁹ Our data collection period began in 2013 because this was the first year in which say-on-pay votes were required for all SEC registrants.

3.2. Variables and measurement

3.2.1. Dependent variables

The main dependent variables in our study are the level of voting support for director elections and say-on-pay votes. Consistent with [Thomas and Cotter \(2007\)](#), we compute the percentage of votes cast in favor of each proposal as follows:

$$\frac{\text{Number of "yes" votes cast}}{\text{Total votes cast}}$$

Voting support for director elections is computed in two different ways. First we use the percentage of votes cast in favor of each individual director. Second, consistent with [Cai et al. \(2009\)](#), we compute the mean % of votes in favor of all directors by company per year, resulting in one observation per company per year. Although shareholders vote for each director separately, using company-wide voting means may also be appropriate because CSR activities are company-level activities. To compute voting support for say-on-pay elections, we use the number of votes cast in favor of executive compensation as a percentage of total votes cast. Stockholders vote on the compensation of the five named executive officers together, not individually, resulting in one vote per company per year of shareholder support for executive compensation.¹⁰

3.2.2. Main independent variables

The main independent variables in our study are based on companies' CSR performance. Consistent with other research ([Flammers, 2013](#); [Mahoney and Thorne, 2005](#); [Roush et al., 2012](#)), information on CSR performance came from the MSCI ESG STATS CSR database (formerly known as KLD). The STATS database has been recognized as the best information available for researchers studying CSR in the U.S. ([Hillman and Keim, 2001](#)) and provides an objective, uniform and systematic assessment of the environmental, social and governance behavior of companies since 1991 ([Graves and Waddock, 1994](#); [Wood and Jones, 1995](#)).

The STATS database consists of ratings for U.S. companies across three main components: environmental, social, and governance.¹¹ The social component includes evaluations of CSR strengths and concerns on community, human rights, employee relations, diversity and customer issues. The environmental component includes evaluations of CSR strengths and concerns on such issues as pollution, emissions, climate change and clean energy. The governance component includes evaluations of CSR strengths and concerns on issues of reporting quality, public policy, governance structures and other governance controversies. Each of these components is made up of several indicators that are assigned a strength rating and a concern rating.¹² Strengths represent positive aspects of CSR, such as a reputation for notably strong pollution prevention programs. Concerns represent negative aspects of CSR, such as a company's liability for hazardous waste sites. While the MSCI strengths and concerns may not perfectly measure CSR performance, they are a main source of information available to the investment community and may influence investor *perceptions* of company CSR performance.

Following previous research ([Johnson and Greening, 1999](#); [Mahoney and Thorne, 2005](#); [Roush et al., 2012](#)), we use two measures of CSR performances to consider the relationships of CSR performance to the extent of shareholder support for the director elections and executive compensation. The measures of *CSR strengths* and *CSR concerns* scores are operationalized as a company's positive CSR performance and negative CSR performance, respectively. The sum of the strengths ratings for each indicator represents the *CSR strengths* score while the sum of the concern ratings for each indicator represents the *CSR concerns* score. We use prior-year CSR performance (2012 through 2014 CSR scores) because the prior-year scores were the most current information available to shareholders voting during the proxy voting season.

3.2.3. Control variables

Besides CSR, a variety of other factors could be related to shareholder voting for directors and executive pay ([Cai et al., 2009](#); [Griffin and Sun, 2013](#)). To control for these other factors, we include a variety of variables in our models of shareholder voting on director elections and on say-on-pay votes.¹³ These control variables include:

¹⁰ In 18 instances in our sample, there were two say-on-pay votes during the same year. When there was more than one say-on-pay vote for a single company in a given year, we use the mean of these votes in the models we present.

¹¹ For each of these categories, MSCI investigates a range of sources to determine an indicator rating. MSCI analysts examine company documents, including various SEC filings, annual reports, and proxy statements. They also consider the company's health and safety policy, environmental policy, and code of business conduct as well as interviewing important stakeholder groups, such as executives, union representatives, community and organizational groups. In addition, MSCI analysts track hundreds of publications and major newspapers across the country through on-line, and subscription services including material from government, labor, industry, and not-for-profit organizations.

¹² Separate consideration of good news and bad news approach is also consistent with [Kraus et al. \(2014\)](#) who find that shareholder support for executive pay is more strongly associated with losses than with profits. Similarly, the relationship between concerns and shareholder support for executive pay may differ from the relationship between strengths and shareholder support for executive pay.

¹³ Consistent with CSR measures, the control variables are for the year before the proxy voting because these data will be the most recent available when voting occurs.

ISS recommendation residual. Favorable recommendations by third-party voting advisory services, such as ISS, may influence shareholder voting (Black, 1998). Consistent with Cai et al., (2009) we include the residual from a regression model in which the ISS recommendation is the dependent variable.¹⁴

3.2.4. Total assets

As larger companies may face greater scrutiny from investors and financial intermediaries (Burke et al., 1986), and since such scrutiny could potentially influence the level of shareholder support, we control for size by including the *Total assets* of the company (Cai et al., 2009).

3.2.5. Company performance measures

ROA and Sales growth are two measures of financial performance drawn from the companies' financial statements (Cochran and Wood, 1984). Stronger ROA and year-to-year percentage sales growth suggest better performance by the board and management, which may lead to greater voting support from shareholders. The market return on a company's stock is a market-based measure of financial performance. Stronger *Two-year return* may indicate better board and management performance, yielding enhanced support for the board and management in shareholder voting (Griffin and Sun, 2013). *Beta* measures the volatility of the company's stock and is a measure of the risk associated with the company. Depending on investors' preferences, the level of risk may influence the level of shareholder support for the directors and/or executive pay.

3.2.6. Board characteristics

Board characteristics may influence proxy voting (Cai et al., 2009). We include *Board size*, based on the total number of directors on the board. Additionally, some companies have a classified/staggered board, on which directors serve for more than one year (typically three years). Classified boards limit the ability of shareholders to remove directors in a timely fashion, and may dampen shareholder voting support for directors (Cai et al., 2009). We include a *Classified board dummy* variable, which takes the value of 1 if the company has a classified board and 0 otherwise. Finally, external directors may be more likely to protect shareholders' interests than related directors (Fama and Jensen, 1983). Therefore, shareholders may be more supportive of director nominees when there are a larger percentage of external directors on the board. We include the % of *external directors* as a control variable.

3.2.7. Takeover score

Some companies have takeover defenses that may serve to entrench management and the board against possible takeovers (Bebchuk and Hart, 2001). Such tactics may limit shareholders' ability to influence the company and cause them to be less supportive of the board and/or management. Thus we use the Factset "Bullet Proof" rating score as a measure of *Anti-takeover score*.

3.2.8. Share ownership

Institutional investors may be more or less supportive of the current board depending on their perceptions of the board's performance (Cai et al., 2009). Given institutional investors' fiduciary responsibilities, and their typically large level of holdings, they are expected to be knowledgeable participants in the shareholder voting process. We include two variables for institutional ownership: the % of *shares held by non-mutual fund institutional investors* and the % of *shares held by mutual funds*, as these two groups' objectives and preferences may differ. We also include the % of *shares held by insiders* (i.e., the directors and officers).

3.2.9. Voting mechanisms

We include control variables to measure whether there has been a vote-no campaign against a director and whether directors must obtain a yes vote from at least a majority of the shares. We further consider whether the company has different classes of stock with different voting rights. We include dummy variables of 1 if the company had a "vote no" campaign, if directors had to obtain a yes votes from a majority of the shares, and if the company had different classes of stock, and 0 otherwise for the control variables of *Vote no dummy*, *Majority vote dummy*, and *Unequal voting rights dummy*, respectively. These data were obtained from the ISS database.

3.2.10. Total CEO compensation

In our model of shareholder voting on say-on-pay,¹⁵ we also include the total *CEO compensation* as shareholders may be less supportive of higher executive pay (Ferri and Maber, 2013).

¹⁴ ISS has four categories of recommendation: "For," "Withhold," "Against," and "Do Not Vote." We created a dummy variable based on whether the recommendation was "for" or some other category. The model of the ISS recommendation in the say-on-pay models only is: ISS recommendation = f (total CSR strengths, total CSR concerns, company size, beta, classified board, % of external directors, institutional ownership, insider ownership, takeover score, sales growth, ROA, market return, and CEO compensation (in the say-on-pay model only)).

¹⁵ In untabulated analyses, the CEO compensation variable was not significant in the director voting models. Due to missing data, inclusion of the CEO compensation variable would have resulted in a material loss in the number of observations, so we chose to present the more parsimonious director voting model without the *CEO compensation* variable.

Industry and year fixed effects. We also include industry fixed effects (based on SIC codes) in all of our models to control for possible voting differences among industries (Cai, et al., 2009) and we include year fixed effects to control for possible changes in overall voting support over time.

3.3. Analyses

Hypothesis 1 posits a relationship between CSR performance and shareholder voting support for directors. We test H1 using two OLS regression models with the % of votes in favor of each director as the dependent variable and the % of vote in favor of mean directors by company and by year as the dependent variable. We include CSR strengths and CSR concerns as independent variables along with the control variables. Hypothesis 2 addresses whether there is a relationship between CSR performance and shareholder support for executive compensation. To test H2, we run the same OLS regression model used to test H1 except that the dependent variable is the % of votes in favor of say-on-pay, and we add an additional control variable of CEO compensation. As both CSR activity and shareholder voting for each firm are correlated across observations in our sample, we cluster the regression standard errors on firm level for all OLS regression models in accordance with Petersen (2009).

4. Results

4.1. CSR performance and shareholder voting support for directors

4.1.1. Descriptive statistics

Table 2 presents the descriptive statistics for the director election and say-on-pay results. Based on mean director votes by company, shareholders voted 95.5% in favor of the board-nominated director nominees. This is consistent with Cai et al. (2009) who found that the mean vote in favor of directors was 93.9% during the 2003 to 2005 period. A comparison of the board characteristics for our observations relative to those presented in Cai et al. (2009) reveal a Board size of 8.84 in our study compared to the 9.14 found by Cai et al. The % of external directors in our study is 83.14, compared to Cai et al.'s (2009) finding of 69.85, which may suggest that boards have become more independent since the 2003 to 2005 period used in Cai et al. (2009). For the say-on-pay observations, 91.7% of shares casting a vote were in favor. Mean CEO compensation was \$6,473,486.

For our main independent variables, CSR strengths and CSR concerns means are 1.661 and 0.796 respectively for the director voting observations, and 1.709 and 0.785, respectively, for the say-on-pay observations. Social strengths and Social concerns are the largest component of CSR strengths and CSR concerns with Social strengths and Social concerns averaging 1.146 and 0.604, respectively, for the director voting observations and 1.201 and 0.591, respectively, for the say-on-pay observations.

Table 3 Panel A, presents the results of the correlation matrix for the director voting model. Both of our main independent variables, CSR Strengths and CSR Concerns, are significantly positively corrected with the % of votes in favor of directors at $p < 0.01$ and $p < 0.10$, respectively. Of the components of CSR, Social CSR strengths, Environmental CSR strengths, Environmental CSR concerns and Governance CSR concerns are significantly positively related to % of votes in favor of directors. Of the control variables, ISS recommendation residual, Total assets, ROA, Sales growth, Board size, % of external directors, % of shares held by non-mutual fund institutional investors, and Majority vote dummy are significantly positively related to % of votes in favor of directors at $p < 0.01$. The Classified board dummy, Anti-takeover score, and % of shares held by mutual funds are significantly negatively related to % of votes in favor of directors at $p < 0.01$.

Table 3 Panel B, presents the results of the correlation matrix for the say-on-pay voting model. CSR strengths and CSR concerns, our main independent variables, are not significantly related to the % of votes in favor of say-on-pay. Of the components of CSR, only the Governance CSR strengths variable is significantly negatively related to % of votes in favor of say-on-pay at $p < 0.05$. Of the control variables, ISS Recommendation Residual, ROA, Sales growth, % of shares held by mutual funds, and Unequal voting rights dummy are significantly positively related to % of votes in favor of say-on pay at $p < 0.01$, while Board size and % of external directors are significantly positively related at $p < 0.05$. The % of shares held by insiders, Vote no dummy, and CEO compensation are significantly negatively related to % of votes in favor of say-on pay at $p < 0.01$.

4.1.2. Hypothesis 1 testing

Hypothesis 1 examines whether there is a relationship between CSR performance and shareholder support for director elections. We test H1 using two OLS regressions that examine: (1) the relationship between the % of in favor of individual directors and CSR strengths and CSR concerns, along with control variables and (2) the mean % of votes in favor of all directors (by company and year) and CSR strengths and CSR concerns, along with control variables. Table 4 shows that both models are significant at $p < 0.01$ and have an adjusted R-squared of 0.4854 and 0.5519, respectively.¹⁶ CSR strengths are significantly positively associated with shareholder support for directors in both models at $p < 0.01$ and $p < 0.05$, respectively. CSR concerns,

¹⁶ All variance inflation factors (VIFs) for all of the models presented in our study were less than 5.5, suggesting that multi-collinearity is not a material concern.

Table 2
Descriptive statistics.

Variable	Director voting observations		Say-on-pay observations	
	Mean	Std. deviation	Mean	Std. deviation
% of votes in favor	0.955	0.062	0.917	0.127
<i>CSR variables</i>				
CSR strengths	1.661	2.543	1.709	2.503
CSR concerns	0.796	1.206	0.785	1.102
Social CSR strengths	1.146	1.929	1.201	1.948
Social CSR concerns	0.604	0.896	0.591	0.808
Environmental CSR strengths	0.416	0.890	0.412	0.870
Environmental CSR concerns	0.118	0.435	0.121	0.450
Governance CSR strengths	0.100	0.322	0.095	0.311
Governance CSR concerns	0.074	0.294	0.072	0.293
<i>Control variables</i>				
ISS recommendation residual	0.000	0.192	0.005	0.293
Total assets	21177	120143	21,843	128,494
ROA	3.616	11.159	3.856	10.673
Sales growth	15.864	263.180	16.493	313.138
Two-year return	53.665	84.250	52.351	68.042
Beta	1.148	0.680	1.150	0.656
Board size	8.840	3.096	8.864	3.010
Classified board dummy	0.323	0.468	0.307	0.462
% of external directors	83.142	11.271	83.744	10.292
Anti-takeover score	2.859	1.996	2.828	1.973
% of shares held by non-mutual fund institutional investors	37.655	11.245	38.314	10.390
% of shares held by mutual funds	43.913	14.282	45.805	13.140
% of shares held by insiders	8.340	13.318	7.086	11.788
Vote no dummy	0.005	0.069	0.004	0.061
Majority vote dummy	0.470	0.499	0.496	0.500
Unequal voting rights dummy	0.071	0.256	0.055	0.228
CEO compensation			6,473,486	6,631,393
Number of observations	3918		2693	

though negative, are not significantly related to shareholder support for directors in either model. These results indicate that there is a relationship between CSR performance and shareholder support for directors and provides support for Hypothesis 1. In particular, shareholders are more supportive of directors when CSR strengths are high and do not appear to consider CSR concerns in their voting decisions.

The control variables of ISS recommendation residual, Board size, % of external directors, % of shares owned by non-mutual fund institutional investors, % of shares held by mutual funds, % share ownership by insiders, Majority voting and Unequal voting rights dummy are all significantly positively associated with the votes cast in favor of directors at $p < 0.01$ in both models. Two-year return is significantly positively related to shareholder voting for directors at $p < 0.01$ and $p < 0.05$ in the individual director and the mean director voting models, respectively. Anti-takeover score is significantly negatively related to shareholder voting at $p < 0.05$ and $p < 0.01$ in the individual director and the mean director voting models, respectively.

4.2. CSR performance and shareholder voting support for say-on-pay

4.2.1. Hypothesis 2 testing

Hypothesis 2 examines whether there is a relationship between CSR performance and shareholder support for executive compensation. We test H2 using an OLS regression that examines the relationship between % of votes cast in favor of executive compensation and CSR strengths and CSR concerns, along with control variables. Table 4 presents the results of the say-on-pay voting model which shows that the model is significant at $p < 0.01$ with an adjusted R-squared of 0.6555. CSR strengths are significantly positively associated with the % of votes in favor of executive compensation at $p < 0.05$ while CSR concerns are not significant. These results indicate that there is a relationship between CSR performance and shareholder support for executive compensation and thus provide support for Hypothesis 2. In particular, shareholders are more supportive of executive compensation when CSR strengths are high and they do not appear to consider CSR concerns in their voting decision. These results suggest that shareholders of companies with better CSR performance are more likely to support management compensation.

The control variable results in the say-on-pay voting models are similar to those of the director voting models presented earlier. ISS recommendation residual, ROA, Two-year return, % of external directors, % of shares held by insiders, Majority vote dummy and Unequal voting rights dummy are significantly positively related to % of votes cast in favor of executive compensation at $p < 0.01$. The control variables of Sales growth, Anti-takeover score and Vote no dummy are significantly negatively

Table 3
Panel A. Correlation matrix, director vote (mean by company-year) observations.

	1	2	3	4	5	6	7	8	9	10	11	12
<i>Director voting firm-year observation=3918</i>												
1 % of votes in favor	1											
2 CSR Strengths	0.095 ^{***}	1										
3 CSR Concerns	0.420 ^{***}	1.000 ^{***}	1									
4 Social CSR Strengths	0.090 ^{***}	0.372 ^{***}	1.000 ^{***}	1								
5 Social CSR Concerns	-0.004 ^{***}	0.301 ^{***}	0.900 ^{***}	1.000 ^{***}	1							
6 Environmental CSR Strengths	0.077 ^{***}	0.721 ^{***}	0.327 ^{***}	0.473 ^{***}	0.218 ^{***}	1						
7 Environmental CSR Concerns	0.052 ^{***}	0.334 ^{***}	0.579 ^{***}	0.266 ^{***}	0.246 ^{***}	1.000 ^{***}	1					
8 Governance CSR Strengths	0.002 ^{***}	0.260 ^{***}	0.184 ^{***}	0.134 ^{***}	0.117 ^{***}	0.092 ^{***}	1.000 ^{***}	1				
9 Governance CSR Concerns	0.045 ^{***}	0.313 ^{***}	0.504 ^{***}	0.291 ^{***}	0.279 ^{***}	0.206 ^{***}	0.146 ^{***}	1.000 ^{***}	1			
10 ISS Recommendation residual	0.657 ^{***}	-0.001 ^{***}	0.000 ^{***}	-0.003 ^{***}	-0.009 ^{***}	0.007 ^{***}	0.016 ^{***}	-0.007 ^{***}	1.000 ^{***}	1		
11 Total Assets	0.041 ^{***}	0.256 ^{***}	0.309 ^{***}	0.242 ^{***}	0.203 ^{***}	0.157 ^{***}	0.114 ^{***}	0.131 ^{***}	0.479 ^{***}	0.000 ^{***}	1	
12 ROA	0.056 ^{***}	0.088 ^{***}	0.038 ^{***}	0.072 ^{***}	0.041 ^{***}	0.095 ^{***}	0.008 ^{***}	0.000 ^{***}	0.017 ^{***}	0.000 ^{***}	1.000 ^{***}	1
13 Sales growth	0.043 ^{***}	-0.066 ^{***}	-0.015 ^{***}	-0.067 ^{***}	0.011 ^{***}	-0.016 ^{***}	-0.078 ^{***}	0.000 ^{***}	-0.013 ^{***}	0.000 ^{***}	-0.013 ^{***}	0.076 ^{***}
14 Two-year return	-0.004 ^{***}	-0.024 ^{***}	-0.012 ^{***}	-0.022 ^{***}	-0.008 ^{***}	-0.019 ^{***}	-0.010 ^{***}	-0.006 ^{***}	-0.011 ^{***}	0.000 ^{***}	-0.004 ^{***}	0.076 ^{***}
15 Beta	0.002 ^{***}	-0.065 ^{***}	-0.025 ^{***}	-0.078 ^{***}	-0.017 ^{***}	-0.036 ^{***}	-0.017 ^{***}	0.055 ^{***}	-0.023 ^{***}	0.000 ^{***}	0.002 ^{***}	0.028 ^{***}
16 Board size	0.139 ^{***}	0.230 ^{***}	0.091 ^{***}	0.200 ^{***}	0.024 ^{***}	0.184 ^{***}	0.104 ^{***}	0.110 ^{***}	0.143 ^{***}	0.053 ^{***}	0.177 ^{***}	0.016 ^{***}
17 Classified board dummy	-0.143 ^{***}	-0.216 ^{***}	-0.125 ^{***}	-0.202 ^{***}	-0.073 ^{***}	-0.160 ^{***}	-0.113 ^{***}	-0.055 ^{***}	-0.122 ^{***}	-0.016 ^{***}	-0.096 ^{***}	-0.044 ^{***}
18 % of external directors	0.154 ^{***}	0.085 ^{***}	-0.023 ^{***}	0.070 ^{***}	-0.071 ^{***}	0.082 ^{***}	0.071 ^{***}	0.029 ^{***}	0.017 ^{***}	-0.001 ^{***}	-0.064 ^{***}	-0.044 ^{***}
19 Anti-takeover score	-0.147 ^{***}	-0.207 ^{***}	-0.140 ^{***}	-0.195 ^{***}	-0.089 ^{***}	-0.152 ^{***}	-0.119 ^{***}	0.042 ^{***}	-0.128 ^{***}	0.000 ^{***}	-0.102 ^{***}	-0.046 ^{***}
20 % of shares held by non-mutual funds	0.083 ^{***}	-0.020 ^{***}	-0.108 ^{***}	-0.007 ^{***}	-0.093 ^{***}	-0.036 ^{***}	-0.085 ^{***}	-0.016 ^{***}	-0.033 ^{***}	0.049 ^{***}	-0.051 ^{***}	0.153 ^{***}
21 % of shares held by mutual funds	-0.066 ^{***}	-0.152 ^{***}	-0.035 ^{***}	-0.140 ^{***}	0.003 ^{***}	-0.115 ^{***}	-0.062 ^{***}	-0.041 ^{***}	-0.061 ^{***}	-0.136 ^{***}	-0.061 ^{***}	0.008 ^{***}
22 % of shares held by insiders	-0.002 ^{***}	0.023 ^{***}	-0.011 ^{***}	0.026 ^{***}	-0.015 ^{***}	0.022 ^{***}	-0.006 ^{***}	-0.035 ^{***}	0.008 ^{***}	-0.067 ^{***}	-0.029 ^{***}	0.051 ^{***}
23 Vote no dummy	-0.025 ^{***}	0.074 ^{***}	0.158 ^{***}	0.069 ^{***}	0.142 ^{***}	0.054 ^{***}	0.074 ^{***}	0.024 ^{***}	0.107 ^{***}	-0.015 ^{***}	0.052 ^{***}	0.022 ^{***}
24 Majority vote dummy	0.184 ^{***}	0.321 ^{***}	0.154 ^{***}	0.300 ^{***}	0.085 ^{***}	0.248 ^{***}	0.135 ^{***}	0.053 ^{***}	0.170 ^{***}	0.117 ^{***}	0.147 ^{***}	0.095 ^{***}
25 Unequal voting rights dummy	0.030 ^{***}	-0.011 ^{***}	0.020 ^{***}	-0.012 ^{***}	0.034 ^{***}	-0.001 ^{***}	-0.029 ^{***}	-0.014 ^{***}	0.022 ^{***}	-0.115 ^{***}	0.033 ^{***}	0.018 ^{***}
<i>Director voting firm-year observation=3918</i>												
1 % of votes in favor	1											
2 CSR Strengths	0.039 ^{***}	1										
3 CSR Concerns	0.068 ^{***}	0.001 ^{***}	1									
4 Social CSR Strengths	-0.020 ^{***}	-0.045 ^{***}	1.000 ^{***}	1								
5 Social CSR Concerns	0.046 ^{***}	0.026 ^{***}	0.055 ^{***}	1.000 ^{***}	1							
6 Environmental CSR Strengths	-0.006 ^{***}	-0.001 ^{***}	0.037 ^{***}	0.102 ^{***}	-0.016 ^{***}	1.000 ^{***}						
7 Environmental CSR Concerns	0.034 ^{***}	0.029 ^{***}	0.022 ^{***}	0.024 ^{***}	0.840 ^{***}	1.000 ^{***}						
8 Governance CSR Strengths	0.054 ^{***}	-0.024 ^{***}	-0.032 ^{***}	-0.073 ^{***}	-0.029 ^{***}	0.067 ^{***}	1.000 ^{***}					
9 Governance CSR Concerns	-0.011 ^{***}	-0.051 ^{***}	0.012 ^{***}	-0.058 ^{***}	0.071 ^{***}	-0.155 ^{***}	1.000 ^{***}					
10 ISS Recommendation residual	0.080 ^{***}	0.028 ^{***}	0.090 ^{***}	-0.109 ^{***}	-0.073 ^{***}	0.065 ^{***}	-0.460 ^{***}	1.000 ^{***}				
11 Total Assets	-0.002 ^{***}	-0.001 ^{***}	-0.053 ^{***}	0.020 ^{***}	-0.032 ^{***}	-0.061 ^{***}	0.005 ^{***}	1.000 ^{***}				
12 ROA	-0.041 ^{***}	-0.029 ^{***}	-0.056 ^{***}	0.160 ^{***}	-0.251 ^{***}	0.084 ^{***}	-0.224 ^{***}	0.106 ^{***}	1.000 ^{***}			
13 Sales growth	0.039 ^{***}	-0.006 ^{***}	0.013 ^{***}	-0.024 ^{***}	-0.071 ^{***}	-0.119 ^{***}	0.063 ^{***}	0.015 ^{***}	0.023 ^{***}	1.000 ^{***}		
14 Two-year return	0.068 ^{***}	0.001 ^{***}	0.013 ^{***}	-0.024 ^{***}	-0.071 ^{***}	-0.119 ^{***}	0.063 ^{***}	0.015 ^{***}	0.023 ^{***}	1.000 ^{***}		
15 Beta	-0.020 ^{***}	-0.045 ^{***}	0.012 ^{***}	-0.058 ^{***}	0.071 ^{***}	-0.155 ^{***}	-0.460 ^{***}	0.005 ^{***}	0.023 ^{***}	1.000 ^{***}		
16 Board size	-0.006 ^{***}	-0.001 ^{***}	-0.053 ^{***}	0.020 ^{***}	-0.032 ^{***}	-0.061 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
17 Classified board dummy	0.034 ^{***}	0.029 ^{***}	0.022 ^{***}	0.024 ^{***}	0.840 ^{***}	1.000 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
18 % of external directors	0.054 ^{***}	-0.024 ^{***}	-0.032 ^{***}	-0.073 ^{***}	-0.029 ^{***}	0.067 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
19 Anti-takeover score	-0.011 ^{***}	-0.051 ^{***}	0.012 ^{***}	-0.058 ^{***}	0.071 ^{***}	-0.155 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
20 % of shares held by non-mutual funds	0.080 ^{***}	0.028 ^{***}	0.090 ^{***}	-0.109 ^{***}	-0.073 ^{***}	0.065 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
21 % of shares held by mutual funds	-0.002 ^{***}	-0.001 ^{***}	-0.053 ^{***}	0.020 ^{***}	-0.032 ^{***}	-0.061 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
22 % of shares held by insiders	-0.041 ^{***}	-0.029 ^{***}	-0.056 ^{***}	0.160 ^{***}	-0.251 ^{***}	0.084 ^{***}	-0.224 ^{***}	0.106 ^{***}	0.023 ^{***}	1.000 ^{***}		
23 Vote no dummy	0.039 ^{***}	0.006 ^{***}	0.013 ^{***}	-0.024 ^{***}	-0.071 ^{***}	-0.119 ^{***}	0.063 ^{***}	0.015 ^{***}	0.023 ^{***}	1.000 ^{***}		
24 Majority vote dummy	0.068 ^{***}	0.001 ^{***}	0.013 ^{***}	-0.024 ^{***}	-0.071 ^{***}	-0.119 ^{***}	0.063 ^{***}	0.015 ^{***}	0.023 ^{***}	1.000 ^{***}		
25 Unequal voting rights dummy	-0.006 ^{***}	-0.006 ^{***}	0.013 ^{***}	-0.024 ^{***}	-0.071 ^{***}	-0.119 ^{***}	0.063 ^{***}	0.015 ^{***}	0.023 ^{***}	1.000 ^{***}		

Table 4

OLS regression results. Dependent variable: mean% of votes in favor.

Variable	% of Votes in favor of each director			Mean % of votes in favor of directors by company per year			% of Vote in favor of say-on-pay		
	Para-meter estimate	T value	P > T	Parameter estimate	T value	P > T	Para-meter estimate	T value	P > T
<i>CSR variables</i>									
CSR strengths	0.0009	2.65	0.0081	0.0009	1.99	0.0470	0.0023	2.45	0.0146
CSR concerns	0.0000	−0.02	0.9826	−0.0001	−0.07	0.9476	−0.0018	−1.04	0.3000
<i>Control variables</i>									
ISS recommendation residual	0.1867	21.89	<0.0001	0.2178	17.77	<0.0001	0.3179	28.07	<0.0001
Total assets	0.0000	−0.02	0.9829	0.0000	0.58	0.5615	0.0000	−1.90	0.0581
ROA	0.0001	1.16	0.2454	0.0001	1.08	0.2801	0.0008	3.09	0.0021
Sales growth	0.0000	−0.51	0.6070	0.0000	1.04	0.2966	0.0000	−4.50	<0.0001
Two-year return	0.0000	3.50	0.0005	0.0000	2.34	0.0197	0.0003	8.21	<0.0001
Beta	−0.0009	−0.58	0.5611	−0.0006	−0.38	0.7058	−0.0079	−2.31	0.0208
Board size	0.0014	4.61	<0.0001	0.0018	5.44	<0.0001	0.0007	1.03	0.3028
Classified board dummy	−0.0062	−1.56	0.1193	−0.0040	−1.01	0.3142	0.0097	1.12	0.2643
% of external directors	0.0007	3.93	<0.0001	0.0012	3.90	<0.0001	0.0009	4.22	<0.0001
Anti-takeover score	−0.0021	−2.33	0.0197	−0.0027	−2.97	0.0030	−0.0055	−2.79	0.0053
% of shares held by non-mutual fund institutional investors	0.0005	3.71	0.0002	0.0005	3.48	0.0005	−0.0003	−1.19	0.2354
% of shares held by mutual funds	0.0005	5.05	<0.0001	0.0005	4.73	<0.0001	−0.0002	−0.82	0.4137
% of shares held by insiders	0.0008	6.43	<0.0001	0.0009	7.14	<0.0001	0.0007	2.90	0.0038
Vote no dummy	−0.0132	−1.67	0.0944	−0.0085	−1.00	0.3162	−0.1576	−3.31	0.0010
Majority vote dummy	0.0072	3.83	0.0001	0.0069	3.23	0.0013	0.0149	2.92	0.0036
Unequal voting rights dummy	0.0260	4.78	<0.0001	0.0306	5.29	<0.0001	0.0393	3.31	0.0010
CEO compensation							0.0000	−6.06	<0.0001
Intercept	0.8470	38.75	<0.0001	0.7965	22.55	<0.0001	0.8496	27.10	<0.0001
<i>Model statistics</i>									
F statistic		82.47			69.78			88.61	
Prob. > F		<0.0001			<0.0001			<0.0001	
Adjusted R ²		0.4854			0.5519			0.6555	
Number of observations		26,948			3,918			2,693	

Notes: Industry and year fixed effect included, but not tabulated.

Firm-clustered standard errors.

T statistics and p values are based on two-tailed tests.

Table 5
CSR variables by component dependent variable:% of votes in favor.

Variable	% of Votes in favor of each director			Mean % of votes in favor of directors by company per year			% of Votes in favor of Say-on-pay		
	Parameter estimate	Variable	P > T	Parameter estimate	T value	P > T	Parameter estimate	T value	P > T
<i>CSR variables</i>									
Social CSR strengths	0.0010	2.75	0.0060	0.0010	2.03	0.0425	0.0011	1.06	0.2902
Social CSR concerns	0.0002	0.27	0.7900	-0.0003	-0.30	0.7631	-0.0027	-1.24	0.2168
Environmental CSR strengths	0.0008	0.92	0.3571	0.0006	0.59	0.5550	0.0063	2.31	0.0211
Environmental CSR concerns	-0.0006	-0.36	0.7202	0.0015	0.75	0.4561	-0.0056	-1.22	0.2225
Governance CSR strengths	-0.0006	-0.32	0.7484	-0.0015	-0.62	0.5373	0.0056	0.87	0.3868
Governance CSR concerns	-0.0002	-0.06	0.9492	-0.0003	-0.10	0.9235	0.0078	1.22	0.2221
<i>Control variables</i>									
ISS recommendation residual	0.1867	21.89	<0.0001	0.2177	17.72	<0.0001	0.3180	28.12	<0.0001
Total assets	0.0000	-0.04	0.9674	0.0000	0.66	0.5098	0.0000	-2.65	0.0082
ROA	0.0001	1.17	0.2421	0.0001	1.10	0.2714	0.0007	3.01	0.0026
Sales growth	0.0000	-0.51	0.6080	0.0000	1.05	0.2928	0.0000	-4.40	<0.0001
Two-year return	0.0000	3.49	0.0005	0.0000	2.32	0.0205	0.0003	8.29	<0.0001
Beta	-0.0009	-0.57	0.5657	-0.0006	-0.35	0.7230	-0.0083	-2.43	0.0153
Board size	0.0014	4.64	<0.0001	0.0018	5.41	<0.0001	0.0006	0.93	0.3524
Classified board dummy	-0.0063	-1.57	0.1154	-0.0040	-1.01	0.3107	0.0099	1.13	0.2577
% of external directors	0.0007	3.93	<0.0001	0.0012	3.87	0.0001	0.0009	4.14	<0.0001
Anti-takeover score	-0.0021	-2.34	0.0196	-0.0027	-2.96	0.0031	-0.0054	-2.75	0.0061
% of shares held by non-mutual fund institutional investors	0.0005	3.71	0.0002	0.0005	3.50	0.0005	-0.0003	-1.16	0.2476
% of shares held by mutual funds	0.0005	5.06	<0.0001	0.0005	4.76	<0.0001	-0.0002	-0.82	0.4119
% of shares held by insiders	0.0008	6.45	<0.0001	0.0009	7.16	<0.0001	0.0007	2.92	0.0036
Vote no dummy	-0.0132	-1.67	0.0942	-0.0083	-0.97	0.3325	-0.1561	-3.24	0.0012
Majority vote dummy	0.0072	3.82	0.0001	0.0069	3.20	0.0014	0.0149	2.91	0.0036
Unequal voting rights dummy	0.0259	4.75	<0.0001	0.0307	5.31	<0.0001	0.0396	3.35	0.0008
CEO compensation							0.0000	-6.11	<0.0001
Intercept	0.8486	39.14	<0.0001	0.7971	22.60	<0.0001	0.8508	26.91	<0.0001
<i>Model statistics</i>									
F statistic		57.15			22.50			99.88	
Prob. > F		<0.0001			<0.0001			<0.0001	
Adjusted R ²		0.4853			0.5516			0.6558	
Number of observations		26,948			3,918			2,693	

Notes: Industry and year fixed effects included, but not tabulated.

Firm-clustered standard errors.

T statistics and p values are based on two-tailed tests.

related to % of votes case in favor of executive compensation at $p < 0.01$. The additional control variable, *Total CEO compensation*, is also significantly negatively related to shareholder support for executive compensation at $p < 0.01$ indicating shareholders are less supportive of executive compensation when such compensation is already higher.¹⁷

4.3. Supplemental analyses

4.3.1. Components of CSR strengths and CSR concerns

In order to assess which components of CSR may be driving our results, we examine whether various components of CSR are associated with shareholder voting on director elections and executive compensation. We run the same OLS regression models but separate CSR strengths and CSR concerns into the MSCI ESG STATS components of social, environmental, and governance activities.

For director elections, Table 2 indicates that the mean *Social CSR strengths*, *Environmental CSR strengths*, and *Governance CSR strengths* scores are 1.146, 0.416 and 0.100, respectively. The mean *Social CSR concerns*, *Environmental CSR concerns*, and *Governance CSR concerns* are 0.604, 0.118 and 0.074, respectively. Table 5 presents the results of our two OLS regression models which include breakdowns of CSR strengths and CSR concerns into their respective constituent components of social, environmental and governance, and the % of votes in favor of individual directors and the mean % of votes in favor of all directors by company per year. Both models are significant at $p < 0.01$ and have adjusted R-squares of 0.4853 and 0.5516, respec-

¹⁷ In untabulated analyses, we also use executive pay divided by company size and company performance, and the residual from a model of executive pay. Results of our main variables of interest (i.e., measures of CSR performance) were unaffected by the different definition of CEO compensation. The CEO compensation variable with the most explanatory power (i.e., highest adjusted R-squared) is the raw dollars of executive compensation, suggesting that the raw amount of CEO pay (rather than size-adjusted or performance-adjusted compensation) is the main focus of shareholders when considering their support for executive compensation.

Table 6

Including CSR * Sales growth interaction variables dependent variable: % of votes in favor.

Variable	% of votes in favor of each director			Mean % of votes in favor of directors by company per year			% of votes in favor of say-on-pay		
	Parameter estimate	T value	P > T	Parameter estimate	T value	P > T	Parameter estimate	T value	P > T
<i>CSR and interaction variables</i>									
CSR Strengths	0.0009	2.55	0.0108	0.0009	2.03	0.0421	0.0021	2.21	0.0272
CSR strengths * Sales growth	0.0000	-0.19	0.8525	0.0000	-1.03	0.3028	0.0001	1.54	0.1231
CSR concerns	0.0000	0.05	0.9636	-0.0001	-0.14	0.8909	-0.0014	-0.77	0.4396
CSR concerns * Sales growth	0.0000	-1.11	0.2692	0.0000	0.27	0.7836	-0.0001	-1.59	0.1113
<i>Control variables</i>									
ISS recommendation residual	0.1866	21.87	<0.0001	0.2178	17.75	<0.0001	0.3181	28.12	<0.0001
Total assets	0.0000	-0.06	0.9508	0.0000	0.56	0.5780	0.0000	-1.93	0.0535
ROA	0.0001	1.11	0.2676	0.0001	1.08	0.2798	0.0008	2.98	0.0029
Sales growth	0.0000	0.44	0.6584	0.0000	3.54	0.0004	0.0000	-4.05	<0.0001
Two-year return	0.0000	3.55	0.0004	0.0000	2.34	0.0192	0.0003	8.10	<0.0001
Beta	-0.0010	-0.62	0.5329	-0.0007	-0.41	0.6825	-0.0080	-2.32	0.0203
Board size	0.0014	4.62	<0.0001	0.0018	5.46	<0.0001	0.0006	0.96	0.3354
Classified board dummy	-0.0065	-1.64	0.1008	-0.0042	-1.06	0.2891	0.0100	1.15	0.2519
% of external directors	0.0007	3.93	<0.0001	0.0012	3.89	0.0001	0.0009	4.22	<0.0001
Anti-takeover score	-0.0021	-2.28	0.0228	-0.0027	-2.96	0.0031	-0.0056	-2.82	0.0048
% of shares held by non-mutual fund institutional investors	0.0005	3.69	0.0002	0.0005	3.48	0.0005	-0.0003	-1.22	0.2211
% of shares held by mutual funds	0.0005	5.00	<0.0001	0.0005	4.73	<0.0001	-0.0002	-0.86	0.3925
% of shares held by insiders	0.0008	6.41	<0.0001	0.0009	7.16	<0.0001	0.0007	2.79	0.0054
Vote no dummy	-0.0130	-1.66	0.0979	-0.0084	-0.99	0.3208	-0.1579	-3.33	0.0009
Majority vote dummy	0.0072	3.83	0.0001	0.0069	3.21	0.0014	0.0149	2.90	0.0038
Unequal voting rights dummy	0.0259	4.76	<0.0001	0.0306	5.27	<0.0001	0.0394	3.31	0.0010
CEO compensation							0.0000	-6.05	<0.0001
Intercept	0.8469	38.59	<0.0001	0.7965	22.52	<0.0001	0.8510	27.05	<0.0001
<i>Model statistics</i>									
F statistic		85.36			70.95			73.66	
Prob. > F		<0.0001			<0.0001			<0.0001	
Adjusted R ²		0.4855			0.5519			0.6555	
Number of observations		26,948			3,918			2,693	

Notes: Industry and year fixed effects included, but not tabulated.

Firm-clustered standard errors.

T statistics and p values are based on two-tailed tests.

tively. We find that only *Social CSR strengths* is significant in the individual director voting model at $p < 0.01$ and in the mean director voting model at $p < 0.05$. No other components of CSR strengths or concerns are related to support for directors in either model. These results indicate that the level of shareholder support is higher for directors when a company's CSR performance in the social areas of CSR is better. These results suggest that the social strengths component of CSR is the most important CSR factor associated with shareholder support for directors.

For say-on-pay voting, the descriptive statistics presented in Table 2 indicate that the mean *Social CSR strengths*, *Environmental CSR strengths*, and *Governance CSR strengths* scores are 1.201, 0.412 and 0.095, respectively. The mean *Social CSR concerns*, *Environmental CSR concerns*, and *Governance CSR concerns* are 0.591, 0.121 and 0.072, respectively. Table 5 presents the results of our regression model of executive compensation with the components of CSR strengths and CSR concerns broken down into the components of social, environmental and governance. The overall model is significant at $p < 0.01$, and the adjusted R-squared is 0.6558. *Environmental CSR strengths* are significantly positively related to voting support for executive compensation at $p < 0.05$. No other component of CSR is related to shareholder support for executive compensation. Overall, these results provide additional support for H2 and suggest that investors primarily consider environmental CSR strengths when casting their votes on executive compensation.

4.3.2. Interaction between financial performance and CSR performance

Shareholders' perceptions of CSR activities may differ based on the financial performance of the organization. For example, if the company is not experiencing strong sales growth, CSR may be a lower priority for shareholders than when the company has more vigorous sales growth. To test this possibility, we test the same OLS regression models as previously but include interaction variables between *Sales growth* and CSR performance (*CSR strengths* and *CSR weaknesses*) and the same control variables. Table 6 presents these results. All models are significant at $p < 0.01$ and have adjusted R-squares (0.4855, 0.5519 and 0.6555) similar to the models without the interaction terms. In both director voting models, none of the interaction terms are significant. *CSR strengths* is still significantly positively related to support for director elections at the $p < 0.05$ in both the individual director voting models and the mean director model. These results provide additional

support for Hypothesis 1 that CSR is related to shareholder voting on director elections. In particular, when a company has higher CSR strengths, directors receive a higher level of support.

In the say-on-pay voting model, similar to the director voting models, none of the interaction terms is significant. *CSR strengths* is still significantly positively related to support for executive compensation at $p < 0.05$. These findings provide additional support for Hypothesis 2 and indicate that shareholders are more supportive of executive pay if a company has more CSR strengths.

4.3.3. Executive vs. non-executive directors (based on individual director elections)

Shareholders may have differing perceptions of the roles and responsibilities of management and the board when it comes to CSR activities. While directors on the board set strategic direction for the company, management is charged with carrying out these responsibilities. We examine whether there is a different relationship between CSR and shareholder support for board members who are also management (executive directors) and those who are not part of management (non-executive directors). Using data on the executive/non-executive status of individual board directors, we run three different OLS regression models testing the relationship between shareholder voting for individual directors and CSR. In the first model, we run the same regression models as earlier, but we add two interaction variables of *Executive director * CSR strengths* and *Executive director * CSR concerns*. In the second and third models, we split the sample between executive and non-executive director elections and run the same OLS regression model with the % of votes in favor of executive directors as the second model's dependent variable and the % of votes in favor of non-executive directors as the third model's dependent variables.

Table 7 presents the results of our analyses of whether the relationship between CSR and shareholder voting for director elections differs between executive directors and non-executive directors. The first model includes the interaction variables, while the second and third models are those for the executive director voting observations and non-executive director voting observations. All models are significant at $p < 0.01$, and the adjusted R-squares are 0.5101, 0.4922, and 0.5481, respectively. In the first model, the interaction terms are not significant, but *CSR strengths* is still significant at $p < 0.01$. For the models of executive director and non-executive director voting, *CSR strengths* is significantly positively related to shareholder support for director elections in both our executive ($p < 0.05$) and non-executive ($p < 0.01$) director models, while *CSR concerns* is not significantly related in either model. These results support our prior findings that shareholders may consider CSR strengths in their voting decision on director elections. The type of director does not appear to affect the relationship between CSR and shareholder voting support for directors.

4.4. Robustness analysis: two stage model

CSR may be related to a variety of factors, some of which may be difficult to control. To test the robustness of our findings, we develop a two-stage least-squares model in which CSR is the dependent variable in the first model, while CSR is an independent variable in the second model (of director elections and say-on-pay voting). The difficulty in such a model is identifying variables that are likely to be associated with CSR, yet unlikely to be associated with shareholder voting. Based on models of CSR (e.g., Iwata and Okada, 2011), we identify variables that may be associated with CSR, but have not been included in (or were not significant in) our shareholder voting models.

In the first stage model of CSR strengths,¹⁸ per Iwata and Okada (2011) we include industry dummy variables for the chemical, refining, mining and paper industries. Table 8 presents the second stage models of director elections and say-on-pay. Both models are significant at $p < 0.01$ and have adjusted R-squared of 0.4407 and 0.5700, respectively. Consistent with our other findings, *CSR strengths* is significantly positively associated with both director elections and say-on-pay voting at $p < 0.05$ while *CSR concerns* are not. The two stage models provide further support for Hypotheses 1 and 2 as these findings also suggest that shareholders may consider CSR strengths in their support for directors and executive compensation and that our findings are robust.

5. Summary and implications

In this study, we seek to assess whether a company's CSR performance is associated with shareholder support for directors and management. Shareholders may value CSR activities because they believe that CSR may have a financial payoff. They may also value CSR activities by themselves regardless of the financial outcomes (Mackey et al., 2007). As a result, shareholders may be more supportive of directors and managers of companies with good CSR performance as they perceive the company's value systems to be more congruent with their own. We measure support for directors based on shareholder support for corporate directors in voting at the annual shareholder meeting. Similarly, we measure support for management based on shareholder voting support in say-on-pay votes.

Using director elections from 2013 to 2015, we find robust evidence that CSR strengths are associated with higher shareholder support for directors. In particular, companies with more strengths in the social component of CSR have greater sup-

¹⁸ We focus on *CSR Strengths*, rather than *CSR Concerns* because the strengths measure was significant in the shareholder voting models, whereas the concerns variable was not.

Table 7
Consideration of executive and non-executive directors dependent variable: % of votes in favor.

Variable	% of votes in favor of all directors with executive director * CSR interaction			% of votes in favor of executive directors			% of votes in favor of non-executive directors		
	Parameter estimate	T value	P > T	Parameter estimate	T value	P > T	Parameter estimate	T value	P > T
<i>CSR and interaction variables</i>									
CSR strengths	0.0013	3.67	0.0003	0.0014	2.02	0.0432	0.0012	3.48	0.0005
CSR strengths * Executive director	−0.0004	−0.46	0.6477						
CSR concerns	−0.0003	−0.48	0.6290	0.0003	0.31	0.7538	−0.0001	−0.18	0.8600
CSR concerns * Executive director	0.0015	1.32	0.1877						
<i>Control variables</i>									
ISS recommendation residual	0.1895	20.15	<0.0001	0.1222	10.42	<0.0001	0.2199	23.13	<0.0001
Total assets	0.0000	0.11	0.9114	0.0000	−0.82	0.4108	0.0000	0.67	0.5002
ROA	0.0001	1.18	0.2402	−0.0001	−0.81	0.4165	0.0001	1.26	0.2087
Sales growth	0.0000	−0.42	0.6724	0.0000	−2.40	0.0164	0.0000	−0.33	0.7390
Two-year return	0.0000	3.15	0.0017	0.0000	1.52	0.1280	0.0000	3.00	0.0027
Beta	−0.0014	−0.82	0.4152	−0.0025	−0.97	0.3324	−0.0008	−0.46	0.6479
Board size	0.0015	4.76	<0.0001	0.0014	2.57	0.0102	0.0013	4.68	<0.0001
Classified board dummy	−0.0045	−0.94	0.3469	−0.0067	−1.23	0.2189	−0.0047	−0.98	0.3284
% of external directors	0.0008	4.57	<0.0001	0.0008	4.65	<0.0001	0.0008	4.62	<0.0001
Anti-takeover score	−0.0021	−1.90	0.0580	−0.0023	−1.82	0.0690	−0.0019	−1.64	0.1007
% of shares held by non-mutual fund institutional investors	0.0006	3.89	0.0001	0.0009	3.58	0.0004	0.0005	3.73	0.0002
% of shares held by mutual funds	0.0006	5.12	<0.0001	0.0003	1.93	0.0540	0.0006	6.49	<0.0001
% of shares held by insiders	0.0008	6.14	<0.0001	0.0009	4.95	<0.0001	0.0006	5.48	<0.0001
Vote no dummy	0.0032	0.38	0.7035	0.0126	1.22	0.2225	0.0016	0.19	0.8475
Majority vote dummy	0.0048	2.27	0.0232	−0.0026	−0.77	0.4429	0.0058	2.94	0.0034
Unequal voting rights dummy	0.0216	3.61	0.0003	0.0362	5.18	<0.0001	0.0166	2.79	0.0054
Executive director dummy	0.0075	4.17	<0.0001						
Intercept	0.8254	45.60	<0.0001	0.8490	27.43	<0.0001	0.8200	48.36	<0.0001
<i>Model statistics</i>									
F statistic		9310.39			287.59			160.65	
Prob. > F		<0.0001			<0.0001			<0.0001	
Adjusted R ²		0.5101			0.4922			0.5481	
Number of observations		18,707			2,908			15,799	

Notes: Industry and year fixed effects included, but not tabulated.

Firm-clustered standard errors.

T statistics and p values are based on two-tailed tests.

Table 8

Two stage least squares results second stage model of shareholder voting dependent variable: % of votes in favor.

Variable	Mean % of votes in favor of directors by company per year			% of Votes in favor of say-on-pay		
	Parameter estimate	T value	P > T	Parameter estimate	T value	P > T
<i>CSR variables</i>						
CSR strengths	0.0112	2.10	0.0358	0.0182	2.23	0.0258
CSR concerns	−0.0002	−0.19	0.8488	0.0004	0.24	0.8082
<i>Control variables</i>						
ISS recommendation residual	0.2196	50.54	<0.0001	0.3236	55.47	<0.0001
Total assets	0.0000	1.70	0.0889	0.0011	6.24	<0.0001
ROA	0.0001	1.57	0.1163	0.0000	−1.11	0.2684
Sales growth	0.0000	0.51	0.6115	0.0000	−1.29	0.1971
Two-year return	0.0000	2.13	0.0331	0.0002	8.65	<0.0001
Beta	−0.0005	−0.37	0.7080	−0.0053	−1.88	0.0598
Board size	0.0021	7.31	<0.0001	0.0009	1.40	0.1622
Classified board dummy	−0.0032	−0.97	0.3344	0.0077	1.12	0.2645
% of external directors	0.0009	12.28	<0.0001	0.0007	4.14	<0.0001
Anti-takeover score	−0.0031	−4.09	<0.0001	−0.0037	−2.32	0.0203
% of shares held by non-mutual fund institutional investors	0.0004	4.94	<0.0001	−0.0005	−2.74	0.0062
% of shares held by mutual funds	0.0005	6.49	<0.0001	−0.0003	−1.63	0.1040
% of shares held by insiders	0.0008	9.25	<0.0001	0.0005	2.67	0.0077
Vote no dummy	−0.0103	−0.86	0.3880	−0.1715	−6.09	<0.0001
Majority vote dummy	0.0092	5.10	<0.0001	0.0214	5.64	<0.0001
Unequal voting rights dummy	0.0301	9.16	<0.0001	0.0398	5.17	<0.0001
CEO compensation				0.0000	−12.26	<0.0001
Intercept	0.8017	63.68	<0.0001	0.8599	35.01	<0.0001
<i>Model statistics</i>						
F statistic		107.42			123.88	
Prob. > F		<0.0001			<0.0001	
Adjusted R ²		0.4407			0.5700	
Number of observations		3918			2693	

Notes: Industry and year dummy variables included, coefficients not tabulated.

T statistics and p values are based on two-tailed tests.

port for directors. We find no support for the notion that they consider environment and governance CSR performance in their voting decisions. We also find no support that shareholders consider CSR concerns in their director voting decisions. Overall our results suggest that shareholders value positive CSR performance, in particular social CSR performance, and that directors should focus on improving these areas in order to gain additional shareholder support.

We also gather data on say-on-pay votes from 2013 to 2015. Similar to our results for director elections, we find that higher levels of positive CSR performance are related to higher shareholder support for executive compensation. Unlike the director- election models, we find the environmental aspect of CSR strengths to be the most important component associated with higher support for executive compensation and not the social component. As with director voting, the governance aspect of CSR is not associated with shareholder support. Similar to the director voting findings, these results suggest that executives should focus more on the positive aspects of CSR, in particular the environmental component, to gain more shareholder support on say-on-pay votes.

Our results make several contributions. First, our findings imply that shareholders seem to perceive value in CSR activities; shareholders are more supportive of directors and managers in companies with stronger CSR performance. As directors and managers make choices about whether to pursue CSR activities and whether there is a benefit to doing so, our results suggest that there may be a benefit for directors and managers in pursuing CSR in the form of enhanced shareholder support.

Second, while most existing literature examines market-based information to measure investor views of CSR, we add to the literature on the relationship between CSR performance and investor perceptions of company performance/value by using shareholder proxy voting for both directors and executive compensation (e.g., [Arya and Zhang, 2009](#); [Griffin and Sun, 2013](#)). This is one of the first studies to examine the relationship between CSR performance and shareholder voting. Third, we expand the factors typically used in director-election research beyond financial and governance measures (e.g., [Cai, et al., 2009](#)) by considering these elections' relationship with CSR performance. Finally, we add to the emerging stream of research on say-on-pay voting (e.g., [Ferri and Maber, 2013](#)) by examining whether corporate CSR may be related to the level of shareholder support for executive compensation arrangements.

Like all research, ours has limitations associated with the measures and methodology. MSCI data are the result of an independent company's analysis and thus are subject to its definitions and evaluations ([Schreck, 2011](#); [Chatterji and Levine, 2006](#); [Orlitzky and Swanson, 2008](#); [Porter and Kramer, 2006](#)). Future research on the construct validity of MSCI CSR ratings and on other aspects of the MSCI would aid in the development of this research stream. Also, while we interpret the rela-

tionship between CSR and shareholder voting support for directors and management as indicating that shareholders value CSR, we cannot disentangle why investors appear to value CSR activities. Investors may perceive that CSR activities enhance the company's profitability or the company's stock price/market performance. Alternatively, as suggested by Mackey et al. (2007), investors may simply value CSR activities for their own sake even if the activities may have a neutral or even a negative impact on the company's financial or stock market performance. Finally, the ISS and MSCI CSR databases from which the main data were obtained focus on larger companies. The relationship we find between social CSR and shareholder voting may differ among smaller companies.

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