Environmental, Social and Governance Proposals and Shareholder Activism

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Abstract

This paper studies shareholder activism through environmental, social and governance (ESG) proposals over the period 1996 to 2015. Larger, more mature firms with higher institutional holdings are more easily targeted by these proposals. Target firms spend less on capital expenditure and research and development. An equal-weighted portfolio of target firms earns a four-factor alpha of 0.22% on the date of proposal filing. Target firms with subsequent successful proposals earn higher buy-and-hold abnormal returns over the event period and better long-term operating performances than firms whose proposals subsequently fail. These findings provide new evidence on the mechanism and effect of shareholder activism on ESG issues, and support the view that corporate social responsibility is a value-enhancing strategic opportunity rather than an agency problem.

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1. Introduction

Socially responsible investing ("SRI") has gained momentum and moved into the mainstream over the past decade. The total assets under management in the U.S. using SRI strategies expanded 76% to $6.57 trillion in the years 2012 to 2014 according to The Forum for Sustainable and Responsible Investment ("USSIF"). The fastest growing area is mutual funds. The number of mutual funds considering environmental, social and governance ("ESG") factors in the U.S. grew from 333 to 456 in the 2012-2014 period, and their collective assets doubled to $1.93 trillion. Some SRI funds (known as SRI activists) not only use positive or negative screening on social issues when they make their investment, but also actively engage with the management of their portfolio firms to improve their ESG issues. Filing shareholder proposals is one formal and efficient form of activism.

More and more ESG resolutions have been filed over the past 10 years (Glac 2010), yet apart from some studies in the law literature summarizing the history of SRI or providing descriptive statistics, there has been limited empirical work investigating the economic value of these proposals, or their effect on financial markets. Flammer (2015) studies close-call corporate social responsibility ("CSR") proposals[2], and finds abnormal returns on the date of the annual general meeting (AGM) for these close-call proposals. Dimson et al. (2015) use a private dataset to study ESG engagements, and find successful engagements to be value-enhancing for the target firms. These pioneering empirical works on ESG shareholder activism have shed light on the value of ESG proposals, but some questions remain. What types of firms do these ESG proposals target? Can we see collaboration of multiple parties in filing the proposals? How successful are these ESG proposals? Do ESG proposals in general create value for target firms, including withdrawn proposals? When do markets react and incorporate this information into the stock price? Do shareholder proposals create more value than private engagements? And finally, do ESG proposals really create social value for the target firms?

To answer these questions, I study the ESG proposals filed by SRI investors over the period 1996 to 2015. SRI investors are the second most active sponsor group for CSR proposals, after religious groups. My sample comprises of 744 ESG proposals,

[2] ESG and CSR are used interchangeably in this paper.

targeting 310 different firms. My database enables me to analyze these proposals by their issues and outcomes, including withdrawn ESG proposals, which have not been studied before.

To start with, I analyze the proposals by the issue raised, by target firm industry, and by year of proposal. The number of ESG proposals is growing over time, targeting firms in diverse industries, and covering diverse issues from climate change, to diversity, labor, and business ethics. The success rate is measured by the sum of successfully withdrawn proposals and proposals going to vote with majority vote in favor, divided by the total number of proposals. The success rate for withdrawn proposals is quite high (75.5%), as the proposals are usually only withdrawn because agreement with the management has been reached prior to the AGM. Tkac (2006) shows that 79 percent of withdrawn resolutions were followed by a concrete outcome. When proposals do go to a vote, the percentage in favor for ESG proposals is relatively low (average vote in favor is about 22%). This result is consistent with findings in the literature for shareholder activism. The percentage in favor is lower for environmental and social ("ES") related proposals (about 20%) than for corporate governance ("CG") ones (about 32%). Although few proposals receive majority votes in favor, quite a number of them receive votes in favor of over 25 percent. For ESG proposals with relative higher votes in favor, substantial success can result, even without a majority vote in favor (Glac 2010).

Next I analyze what types of firm characteristics attract SRI investors to file ESG proposals. I find that SRI investors tend to target larger, more mature firms, with higher market share in their industry. This is quite different from other types of shareholder activism (eg. hedge fund activism), where small- or medium-sized firms are targeted, because for hedge fund activism, higher percentage ownership is crucial for the intervention to be influential. The power of ESG proposals on the other hand, relies on the reputational concern of large firms, and the campaign that draws the attention of the public. Also, target firms have higher institutional holdings than the matched group, especially pension activist holdings. This indicates potential collaboration between SRI investors and pension activists. Pension activists in general hold larger percentage shareholdings than SRI investors, thus making the negotiation process with target management easier. Although I see SRI

investors that target both their portfolio holding firms that show up in #S12 mutual fund filing, and other firms that do not appear in the filings (where they only hold nominal shares as to fulfill the legal requirement of filing a shareholder proposal) the voting outcome for the portfolio holding firms that show up are much better, which may hint at the use of their expertise and time in dealing primarily with their portfolio holding firms. Target firms also spend much less on capital expenditure and on research and development. These large mature firms lack incentive, but have the resources and capacity to implement the changes proposed by SRI investors.

I then study how the market reacts to these ESG proposals, to measure how investors value shareholder activism. I use the proxy filing date as my event date. I find that an equal-weighted portfolio of target firms earn a four-factor alpha of 0.22% on the date of proposal filing. The results are robust, as using the market model and value-weighted portfolios yield the same result. The CG sample receives higher event date abnormal return than the ES sample. Proposals filed for the first time, on average, generate a higher abnormal return than the whole sample. The subgroup of re-filed proposals does not generate an abnormal return on the event date. The information that these re-filed proposals may be filed again may already have leaked into the market before filing date. I find a positive significant abnormal return for the re-filed sample for event window (-10, 0), which seems to support this explanation. I also examine the market reaction by proposal outcome. As voting information is only available to the market on the date of meeting, I test the meeting date market reaction. There seems to be no abnormal return for the full sample and subsamples on the date of meeting, which is consistent with Flammer (2015). However, when I test the extended event window (-1,1), I find significant abnormal return. Target firms with successful proposals, including successfully withdrawn proposals and proposals going to vote and receiving majority vote in favor, earn higher abnormal returns than target firms whose proposals are unsuccessful. I then create two buy-and-hold portfolios, one for the target firms associated with successful proposals, and one for the firms with unsuccessful proposals. These portfolios are formed on the filing date and held until the meeting date. The unsuccessful portfolio earns negative buy-and-hold abnormal returns (-0.175%), while the successful portfolio earns positive returns (0.235%), and their difference is statistically significant (t-stat is 8.2).

I discuss potential alternative explanations for this abnormal return. One explanation is that the abnormal return represents SRI investors stock picking skill, which is not related to ESG proposals. However, in this case, SRI skills do not explain the abnormal return on proposal filing date. If this abnormal return indeed results from the skill, then I should find similar abnormal returns for subsamples and also for both successful and unsuccessful samples. Nonetheless, my results suggest otherwise. Another possible explanation is that there could be confounding effect due to other information. The only information that could confound the effect of filing date return is executive compensation data. In 2011, SEC added to the proxy rules that firms should provide shareholders an advisory vote on executive compensation. I restrict my sample to proposals before 2011 and find the results to remain similar.

To test whether ESG proposals create enduring value for the target firms, I look at long-term performance. I first test long-term operating performance. I find that Tobin's Q and return on assets for the target firms associated with successful proposals improves more than for those firms associated with unsuccessful proposals. One year after the proposal, target firms with successful proposal outcome increase ROA by 0.01 more and Tobin's Q by 0.28 more than target firms with unsuccessful proposal outcome. The numbers become 0.01 and 0.33 for two years after the proposal. Shareholdings by SRI investors also increase more for the target firms with successful proposals. I also test the long-term market reactions for firms associated with successful proposals and for those with unsuccessful ones, by cross-sectional analysis of monthly CARs and also calendar-time abnormal return (CTAR). Successful proposals earn 0.04 more in monthly CARs, and 0.41% monthly alpha for CTAR for the 2-year period after the proposal. Success has a significant positive effect, as monthly CARs and CTAR are significantly higher for the successful sample than the unsuccessful one for two years after the proposal. It seems that proposal success attracts more loyal, socially conscious customers, more satisfied employees, and more socially conscious investors, which in turn drive enhanced value creation in target firms.

Lastly, I look at the social performance of the target firms, and the role that SRI investors play in promoting social aspects. The primary goal of ESG proposals is to

promote social improvement of target firms. Thus it is important to check whether this goal has been achieved, and to ensure that SRI investors do not file proposals just for "window dressing" to attract socially conscious investors. I use MSCI ESG KLD Statistics to measure social ratings of target firms. I find that the social rating of the target firms related to the specific issue improves after the filing. More target firms have improved their social rating two years after proposal filing than one year after. 23% of the target firms improve in the proposal-related social rating after two years, while 11% of them improve after one year. I also show in a regression analysis that the presence of SRI and SRI activists as shareholders in the firm contribute significantly to the future improvement of the social scores for the firm.

The contribution of this paper is fourfold. Firstly, it adds to the limited empirical work on ESG related shareholder activism. It provides new results on firm characteristics of the targets and discusses potential collaboration between parties that file ESG proposals. Secondly, it provides new results for the market reactions on the date of proposal filing for ESG related shareholder activism and confirms the value-enhancing mechanism of CSR. Thirdly, it measures not only short-term, but long-term impact of ESG related shareholder activism on both operating and market performances. Lastly, it measures social improvements of ESG related proposals and complements the investment literature on socially responsible investing by studying the role and incentive of SRI funds.

In the next sections, Section 2 reviews extant literature and proposes testable hypotheses; Section 3 presents data; Section 4 summarizes the proposal issues and analyzes the characteristics of target firms; Section 5 tests for short-term market reaction; Section 6 examines long-term performance of target firms; Section 7 looks at social performance of target firms and discusses the role of SRI investors; Section 8 concludes.

2. Literature review and testable hypotheses

2.1. Literature review

Theoretical literature on corporate social responsibility is relatively novel and still developing. McWilliams and Siegel (2001) examine the supply and demand model of CSR. Benabou and Tirole (2010) discuss the individual and corporate

social responsibility framework. This paper identifies three views on CSR: first, CSR is consistent with long-term shareholder value maximizing; second, CSR is a form of delegated philanthropy that individuals involved in the business express personal values on behalf of stakeholders; third, CSR represents a value destroying agency problem. Albuquerque et al (2014) identify three potential channels that CSR could affect firm value, namely employee, customers, and investors. Gollier and Pouget (2014) propose a "washing machine" strategy where activist investors engage with their portfolio firms to achieve better CSR performance, and sell them back to the market to earn superior returns. Katz and Owen (2016) model activism from the time of acquisition through divesting of shares in the target firm. They evaluate the impact of activism on the activist, on the group of other shareholders, and on the combined group. Either the activist or the other group benefits from the activism, but not necessarily both will realize benefits.

There are a few papers analyze the relationship between CSR and corporate financial performance, but the results are still inconclusive. Margolis et al. (2007) review these papers discussing CSR and corporate financial performance in a meta-analysis. They find that the correlation between the two is positive in general, but very small. Hong et al. (2012) point out financial constraints as the potential missing variable in the relationship between CSR and corporate financial performance. To mitigate the endogeneity issue that better financially performed firms invest more in CSR, Philipp Kruger (2015) conducts event study on positive and negative events concerning CSR and tests for stock market reactions. In this event study setting, reverse causality is hard to explain the market reaction relating to these CSR events. Kruger finds that stock market responds negatively to both positive and negative CSR events. Flammer (2015) analyze close-call CSR shareholder proposals and find the proposals that marginally pass the majority in favor attract positive market reaction on the date of meeting, and those firms improve more in operating performance over the long term. Dimson et al. (2015) analyze private CSR engagement and market reaction. They find that successful engagements are associated with higher cumulative abnormal returns and improvements in operating performance over the long term.

Other papers discuss the channels through which CSR may affect corporate financial performance. Servaes and Tamayo (2013) examine the effect of CSR on firm value, especially through customer awareness channel. They find that firms with more customer awareness benefit more from CSR. Edmans (2011) and Edmans (2012) study the employee satisfaction channel. He finds that firms with satisfied employees earn a 3% abnormal return over 26 years. Edmans, Li and Zhang extend this to an international setting.

Some other papers evaluate the financial outcomes of socially responsible investing. Hong and Kacperczyk (2009) investigate sin stocks and show that their higher expected returns due to greater litigation risk. Galema et al. (2008) relate social scores to portfolio return, book-to-market values and excess stock returns.

My paper tries to answer the question on the relationship between ESG activities and financial performance by analyzing the ESG related shareholder proposals and evaluating market's reaction to such activities. Inferring from the market reaction, one could plausibly draw some conclusions on the mechanism and effect of shareholder activism on ESG issues. My study uses event study, which mitigates the endogeneity issue in some other papers that merely study the correlation between CSR and corporate financial performance. Apart from adding upon the results of Flammer (2015) to find positive abnormal returns on the date of filing the ESG shareholder proposals, my paper also complementing the results of Dimson et al (2015) by analyzing the publicly available CSR engagements – i.e. shareholder proposals, rather than private engagements. In my paper, I also discuss firm characteristics of the targets and suggest potential collaboration between parties that file ESG proposals. Similar evaluation has been done for corporate governance shareholder proposals, (for example, Gillan and Starks (2000)), but not for CSR shareholder proposals. Lastly, my paper also measures social improvements of ESG related proposals. Despite the fact that social performance is an important aspect to look at, especially for any research related to CSR, my paper is, to my best knowledge, among the very first papers to discuss explicitly the social performance of CSR related activities. Bialkowski et al. (2015) also briefly studies this – it looks at ESG profiles for SRI funds.

2.2. Testable hypotheses

Based on the theoretical and empirical groundwork summarized in the previous sections, I propose some predictions for the empirical testing.

First, I predict that the ESG proposal target firms possess certain unique characteristics. According to Dimson et al (2015), larger, mature firms are more likely to be conscious about their image and reputation, thus may react more to the shareholder proposals. Proposals targeting these large firms may be more eye-catching, generate interest and discussion from the public. Also, firms with lower spending in research and development and capital expenditures have more scope for improvement. Firms who have already invested extensively may be less willing to increase their investments; and managers in those firms are harder to justify their further spending in these areas to the board. Regarding the investor demographic, I expect that ESG shareholder activism benefits from collaboration among activists and investors. Existing literature on other forms of activism (such as Gillan and Starks 2007, Brav et al 2008) have shown evidence of investor collaboration and its influence on shareholder activism outcomes. Dimson et al. (2015) also identifies that collaborative engagements leads to higher success rates than engagements with no cooperation. On the same token, I predict that the collaboration between pension activists and SRI activists improve their bargaining power when they negotiate with the management of the target firms.

Second, I expect that over the short run, the financial markets react positively on the ESG proposals around proposal filing and meeting period; while over the long run, target firms with successful ESG proposal outcomes improve their operating performance and obtain superior market returns over the long term. Existing literature (such as Edmans 2011, Edmans 2012, Servaes and Tamayo 2013, Flammer 2015, Dimson et al. 2015) shows that there are many channels through which CSR positively contributes to firm value. Therefore it is reasonable to predict that ESG proposals that promote CSR would positively contribute to firm value, and this effect is anticipated by market reaction. Through these channels, the positive effects of CSR seem to be enduring, consistent with the view expressed in Benabou and Tirole (2010), that CSR is in line with shareholder profit maximization over the long term. Last, it seems reasonable to predict that the ESG proposals improve the

social performance of the target firms, if positive market reaction and better operating performance are present. Improving the target firms' social profile is the primary goal of the ESG proposals.

3. Data

My shareholder proposal data is obtained from SRI activist mutual funds and SEC EDGAR websites. These SRI activist mutual funds are a subset of the member list of SRI mutual funds from USSIF, who indicate they use shareholder advocacy strategy and provide a detailed list of the proposals including time, issue area and outcome. Being a member of USSIF provides them with more exposure to investors who have social concern**s**. (Bialkowski et al. 2015). For the years 1996 to 2015, 744 shareholder proposals were filed, targeting 310 different firms. Detailed proposal information, proxy filing date and meeting date are hand-collected from Schedule 14a on SEC EDGAR filing.

Financial information is collected from the following sources: mutual fund holdings (Schedule#12) and institutional holdings (Schedule#34) from Thomson Reuters, stock market return from CRSP and firm characteristics from Compustat. I use the above to evaluate the financial outcome of shareholder activism.

Social ratings for the target firms are obtained from MSCI ESG KLD Statistics, known as KLD scores. It is a dataset of positive and negative ESG performance indicators applied to a universe of publicly traded companies, evaluated annually. It is one of the longest continuous ESG time series data available, and the most trustworthy indicator for CSR performance widely used in academic research. (Deng, Kang and Low 2013, Galema, Plantinga and Scholtens 2008, etc.). I use this to evaluate the social outcome of shareholder activism.

4. Proposal types and target firms characteristic

4.1. Proposal types

Relying on the description of issue areas obtained from SRI investors' websites and further reconciliation for ambiguous proposals with EDGAR proxy statements, I divide the proposals into ten subcategories under three main areas: governance, environment and social. The categorization follows Dimson et al. (2015), except

that I classify proposals relating to board diversity into the social area, instead of the governance area as they reflect more a CSR concern. Table 1 lists the breakdown of proposal areas and issues.

[Insert Table 1 about here]

The largest subcategory is labor standards related issues, which advocates equal employment opportunities, sexual equality, - in total 157 proposals. The second largest is sustainable management and reporting, which requires preparation of sustainable reports, compliance with the United Nations Global Compact - in total 121 proposals. The third largest subcategory is environmental standards, which targets recycling issues, pollution control - in total 102 proposals. Business ethics (100) and climate changes (78) are also large issues among environment and social proposals. Corporate governance proposals (88) account for about 12% of my proposal sample, mainly targeting executive compensation.

Table 2 breaks down the proposals by year (2a) and by industry (2b). A proposal is considered successful if the outcome indicates "successfully withdrawn", or if the proposal goes to the voting stage and the vote in favor is greater than 50%. Successfully withdrawn proposals are those submitted by activists but reached agreement with the management and withdrawn before the annual meeting. Sometimes the agreement reached might be symbolic, and management takes little real action towards improving the issue raised by the activists. In such cases, activists are likely to submit a proposal with a similar concern to the target firm again the next year. Taking this into account, if a similar concern is filed by the same activist to the same target firm the following year for a successfully withdrawn proposal, I replace the outcome of successfully withdrawn in the previous year with "unsuccessful". SRI activists may also choose to submit the proposal again even the proposal received a majority vote in favor for the first time, if they do not see any improvement in the issue from the management. In such case, I replace it with "unsuccessful" as well. (3 proposals out of 13 are resubmissions after achieving majority vote for the first time) Over the years, SRI sponsored proposals increased in number; The success rate for ES subsample slightly improved, while CG subsample success rate is similar. The success rate is similar for ES and CG subsamples.

[Insert Table 2(a) about here]

Manufacturing is the industry that most proposals target, accounting for almost half of the sample. Manufacturing firms are most likely to be involved in pollution and climate changes issues, as well as labor issues. About 2/3 of the proposals target industries including mining, construction, manufacturing and transportation; the other 1/3 target trading, finance and service firms. The success rate is highest for trading and service targets, followed by mining. The success rate of the ES subsample for manufacturing and construction is lower than for finance and service industries, possibly because ES proposals for these targets are more costly and harder to implement.

[Insert Table 2(b) about here]

Table 3 summarises the success rate and vote in favor for those proposals that go to voting. For proposals that are subsequently withdrawn, the success rate is 75.5% on average. Unsuccessful withdrawals are mainly due to omission on technicality issues or when the agreement is symbolic, and the activists choose to file the proposal again the next year. This result is largely in line with other findings of social change outcomes in the literature, showing that success for withdrawals is a good indicator for outcome (79 percent of withdrawn resolutions on social changes were followed by a concrete outcome (Tkac (2006)). For proposals that go to voting, the success rate is much lower especially for ES sample. It is common that shareholder proposals do not obtain a very high vote in favor. My sample of SRI sponsored proposals have on average 21.7% vote in favor, while the ES sample receives 20.2% and the CG sample receives 31.9%. Majority vote is achieved by only 3.6% of my whole sample, higher in the CG sample (17.4%). In general the CG sample obtains higher vote in favor than the ES sample, because CG issues are usually more transparent in nature and less costly to implement. About 2/5 of my sample has a vote in favor greater than 25%. The percentage of vote in favor less than 3% and 6% are both very low. It is required that a proposal must receive at least 3% of vote on its first submission and 6% on its second submission to avoid exclusion from subsequently filing. Most of the proposals in my sample (93%) are thus qualified for potential resubmission. Even when a proposal receives a minority of votes, substantial success can result (Glac 2010). Therefore, my success rate is a

conservative measure of the desired outcome achieved by the proposals. However, it is more than double the average success rate (17.8%) obtained using the proprietary engagement data from Dimson et al. (2015). This seems to suggest that SRI-initiated proposals are more successful than the private engagement activities performed by the asset managers studied in the other paper. But it is also likely that SRI investors engage with target management prior to filing their proposals, and proposal filing is the last resort when previous engagement attempts fail. In this case, the sample including these prior engagements will receive a lower success rate.

[Insert Table 3 about here]

4.2. Target firms characteristic

What types of firms do SRI activists target for shareholder proposals? Table 4 reports the firm characteristics of the firms targeted by SRI activists and those of the matched firms. The matched sample is created from all available firms in Compustat, with matching techniques following Brav et al. (2008). Firstly, I divide the Compustat sample into 10x10 size and market-to-book sorted percentile portfolios. Secondly, I remove the target firms from the whole dataset, and create a pool of matching firms with the same year, industry (by 3-digit SIC) and sample size and market-to-book percentile portfolios. If no matching firm is retained by this criteria, I relax the matching requirement to 5x5 size and market-to-book sorted portfolios. Lastly, I create for each target firm a pseudo matched firm by averaging the firm characteristics across all the matched firms. The characteristics are measured in the year before the proposal. The average difference between target firm and matched group is calculated as follows:

$$Diff_i = X_i - 1/m \sum_{j=1}^{m} Xj, \quad (1)$$

where X is defined as a characteristic variable and firms j=1, …, m are from the matching group. Table 4 reports univariate analysis of targeting results. Columns (1) – (6) provide summary statistics for the target firms, for the whole sample, CG sample and ES sample. Columns (7) – (12) provide the difference statistics of target firms relative to matched firms calculated by formula (1) above, including mean difference and t-statistics of testing if the differences are statistically different from zero. The discussion in this section focusses on the results for the whole sample, but the results for CG and ES subsamples are similar.

[Insert Table 4 about here]

4.2.1. Firm size

Unlike hedge funds activists or other entrepreneurial activists who target medium or small-sized firms (Brav et al. 2008, Klein and Zur 2009), SRI investors target large-sized, mature firms with higher market share and lower sales growth compared to matched firms. SRI investors do not need considerable shareholdings in target firms to gain power for intervention as other activists do. SRI investors just need to have held $2,000 worth (or 1%) of the firm's securities for at least a year to meet the minimum legal requirement to submit shareholder proposals. Dimson et al. (2015) show that their CSR engagements are more likely to target larger firms as the activists may rely on economies of scale and benefit from reputational concerns faced by large firms. Reputational concern may explain why activists target larger, mature firms for ESG proposals as well. One important goal of the proposal is to raise the issue and hopefully open the door to bilateral communication with the target management for improvement. Activists may also launch campaigns to draw media attention and use it to negotiate with the management of target firms.

4.2.2. Institutional and activists holding

In my proposal sample, as shown in the #S12 mutual fund holding data, half of the target firms are held by SRI activists at the year of proposal. I call them "non-trivial shareholders". SRI activists only hold nominal shareholdings in the other half of the target firms, perhaps only to fulfill the minimum eligibility requirements for filing shareholder proposals. In such cases, these small shareholdings may be excluded from #S12 data. SRI activists hold non-trivial amounts of shares in 2/3 of the target firms, at least at one point of time during my sample period. Table 4 shows that the average shareholdings of SRI investors and activist SRI investors are significantly higher for target firms than for matched firms, likewise for the number of SRI investors and activist SRI investors. Meanwhile, pension activists also play a role in activism. The number and shareholding of pension fund activists for SRI target firms are significantly higher than for the matched firms. Pension fund activists hold non-trivial amounts of shares in 90% of the targets when the proposal is filed. When SRI activists are also non-trivial shareholders of the target firms, pension fund activists are always there. When SRI activists only hold nominal

shareholdings in the target firms at the time of filing the proposal, around 80% of the time pension fund activists are non-trivial shareholders of the target firms. Potential collaboration between SRI activists and pension activists for filing ESG shareholder proposals can be inferred. As SRI activists have expertise in ESG proposal filing, it is likely that they act as representatives for pension activists to file proposals, especially when they themselves do not hold non-trivial amount of shares of the target firms at the time.

The success rate for proposals is higher when SRI activists are non-trivial shareholders of the target firms at the time of filing, but the difference is not significant. Success rates for proposals when pension activists hold the firm is similar to when they do not hold non-trivial shares of the target firms. The average shareholding of SRI activists is only 0.1%, while the average shareholding of pension activists is 2.1%. The collaboration between SRI activists and pension activists is in line with the benefit of holding larger shareholding to voting power. Dimson et al. (2015) discuss the collaboration effect of multiple parties in CSR engagements. They find that cooperation with hard collaborators (usually activists) leads to a higher success rate than soft collaborators (usually passive principals), and collaborative engagements in general lead to higher success rates than engagements with no cooperation. In my sample, I find that the voting outcome for target firms when SRI activists have non-trivial shareholdings in the firm (24.7%) is higher than when they only hold nominal shares (18.9%), t-stat is 3.7. The voting outcome is also significantly higher when pension activists have non-trivial shareholdings in the firm (22.4%) than when they do not (15.5%), t-stat is 2.7. The vote in favor achieves highest outcome when both SRI and pension activists are both non-trivial shareholders (24.7%), while if neither SRI or pension activists hold non-trivial amount of shares, the voting outcome is the lowest (15.4%), t-stat 3.2.

4.2.3. Performance

Target firms seem to be less profitable than the matched firms, measured by a significantly lower stock return, t-stat is 5.4. This strategy of targeting less profitable firms is in line with pension fund activism (Smith 1996) and entrepreneurial activism (Klein and Zur 2009), but different from hedge fund activism (Brav et al. 2008). The target firms are also not as efficient as the matched

firms, measured by a lower but insignificantly different sales over employee ratio. (In unreported tests of just the initial proposal filing, this ratio is significantly lower.) The performance measures are in line with Dimson et al. (2015).

4.2.4. Capital and R&D expenditures

Target firms have significantly lower capital and R&D expenditure, t-stats -2.8 and -2.5. It seems that these large, mature firms lack the incentive for innovation and heavy investment into sustainable future businesses. The higher dividend payout ratio also shows that the target firms prefer distributing the profits over reinvesting, than the matched firms. However, as large firms, they do not lack the resources for these investments. SRI activists choose to target these firms to incentivize their actions.

4.2.5. Corporate governance

In contrast to Dimson et al. (2015), the target firms in my sample have lower scores in the entrenchment index compared to the matched firms, t-stat is -3.5. This indicates that they are better managed.

4.2.6. Customer awareness

Target firms spend more on advertising than the matched firms, although the difference is not significant. This suggests that they may be more concerned with their image and reputation. Servaes and Tamayo (2013) show that CSR and firm value are positively related for firms with high customer awareness, measured by advertising expenditures. SRI activists target these firms as they are the ones who care the most about CSR, and benefit more through these changes.

4.3. Multivariate analysis of targeting

In this section, I perform multivariate analysis of targeting, by running a profit analysis of targets using different firm characteristics analyzed above. Table 5 reports the results of a probit analysis from the following equation (2). y equals 1 if the firm is targeted for one or more shareholder proposals that year, 0 otherwise. X_1 to X_k are firm characteristics specific to each target and control firms, betas are the coefficients.

$$P[y=1| X_{1i},\ldots, X_{ki}; \beta_0,\ldots,\beta_k] = \phi\ (\beta_0 + \sum_{k=1}^{k} \beta_k X_{ki}),\ (2)$$

To measure the effect of each individual characteristic on the probability of targeting, marginal effect is computed by taking the first derivative of y on x. Table 5 reports the marginal effect.

[Insert Table 5 around here]

The results are similar to the univariate analysis. Using model 1, firm size and age are significantly positive, indicating that larger firms and more mature firms have higher probability of being targeted. They also have lower sales growth rates. Stock return is an insignificant variable for the probability of targeting, and sales over employees seem to be insignificant too. Dividend payout indicates a higher probability of being targeted, as large and mature firms usually are more likely to be paying dividends. Capital expenditure is significantly negative, indicating that firms with lower capital spending on more likely to be targeted, which is consistent with the analysis above. R&D expenditure is also negative, although not significant. Number of SRI activists contributes significantly and positively to the probability of targeting, showing that SRI activists focus their expertise on their non-trivial holding target firms, and that SRI activists potentially collaborate with each other. Using model 2, I also see that cash holding is significantly positive in determining whom to target, as firms with capacity are more able and likely to implement the changes required to address the proposed issues. Number of pension activists is also a positive indicator for targeting, which confirms the potential collaboration between SRI and pension activists. KLD score is a negative and significant indicator for targeting. Naturally, SRI activists choose firms with lower social scores to target, so there is room for improvement. In the ES and CG subsamples , the results are quite similar, although the CG sample seems to have more significant indicators for targeting. The CG sample shows a significant negative loading on the illiquidity measure, indicating that SRI activists have a higher probability of targeting more liquid firms. For both subsamples, R&D expenditure is a significant and negative indicator for targeting. Lastly, to compare ES and CG samples, SRI activists are more likely to target the firm for ES issues if the firm has higher age and lower return on assets.

5. Short-term market reaction

How does the market react to SRI sponsored ESG shareholder proposals? The market reaction is the direct measure of how investors value the success of shareholder activism. Follow Gillan and Starks (2000), I choose the proxy filing date as the event date, as this is the date that the market learns about the shareholder proposal. I use both the market model and four-factor model event study methodology to study the short-term market reaction around filing date. The models are estimated over 255 days, beginning 46 days before the event date. CAR over the event window on date of filing, (-1, 1), and (-10, 0) are calculated, taking into account the possible information leakage before the filing date of the content of shareholder proposals. The results are reported in Table 6. For simplicity, I only report alpha and related statistics, but not the coefficients on other market or four-factor variables. The reporting results are based on an equal-weighted portfolio using four-factor model. The results are robust to applying value-weighted portfolios, or using the market model. Statistical significance is measured using the Standardized Cross-sectional Test (Boehmer et al 1991), and Generalized Sign Test (Cowan 1992).

[Insert Table 6(a) around here]

5.1. Filing date market reaction

On the filing date, the market reacts positively as measured by a positive and significant alpha for the whole sample, and all subsamples, except the repeated filing sample. The abnormal return on the filing date for the whole sample is 0.22%, significant at the 1% level. The CG subsample receives higher CAR of 0.37%, significant at the 10% level. The ES subsample receives relatively lower CAR of 0.18%, significant at the 5% level. The initial filing sample refers to those shareholder proposals filed for the first time by the same SRI activist for the same issue to the same target firm. The initial filing sample receives a higher CAR than the whole sample, of 0.28%, significant at the 1% level. The only sample that receives an insignificant market reaction on the filing date is the repeated filing sample. CAR of only 0.06% is received by the repeated filing sample, and is not statistically significant. For repeated filings, as the proposal has already been filed in previous years, the market may already incorporate this information in the share price. Another possibility is that the market has anticipated filing this year from

previous years' information and reacted early. The CAR from event window (-10, 0) seems to support this explanation. CAR for repeated filing is 0.58%, significant at the 1% level, for a (-10, 0) event window. It is larger than the other subsamples and the whole sample, for the same event window. The magnitude of this CAR is also larger than the filing date CAR received by other subsamples, probably because market values repeated filing more, anticipating a better outcome. CAR for the whole sample at (-10, 0) window is 0.29%, significant at the 5% level; CAR for the ES sample is similar, while CAR for the CG sample is larger (0.53%), but only significant at the 10% level when measuring by Sign Z. The initial filing sample has a CAR of close to zero at (-10, 0) window. At (-1, 1) window, the whole sample earns CAR of 0.21%, significant at the 10% level, and the ES subsample earns CAR of 0.2%, significant at the 1% level. The repeated filing sample has a CAR 0.07%, only significant at the 10% level by Sign Z. The CARs at (-10,10) are in general not very significant. The whole sample, CG sample and repeated filing sample are only significant at the 10% level by Sign Z, but not significant measured by standard cross-sectional t. CG sample and repeated filing sample have positive CARs, while the whole sample has negative but very close to zero CAR. These results show that the market reacts positively to the ESG proposals; the market anticipates that these proposals create value for the target firms, thus incorporates this information into the share price. The CG sample earns higher abnormal return than the ES sample, which suggests that the market has a more positive view of CG proposals, probably because they are easier to implement. The filing date CARs are both statistically and economically significant.

5.2. Market reaction by proposal outcome

It appears that on the filing date, the ESG shareholder proposal target firms generate significant positive abnormal returns, on average. Before the meeting date, a portion of the proposals draw the attention of the management and they engage in discussion with SRI activists. The management may be proactive in solving these issues, or they have concern for the negative impact on the firm if the proposal goes to voting. Either way, there is a possibility that the two parties reach agreement on a solution to the proposed issue, and then SRI activists withdraw the proposal. On the meeting date, all the remaining proposals go to voting and the percent vote in favor is revealed to the market. I test the market reaction for target firms for the period

from the filing date to the meeting date, and divide the sample into successful and unsuccessful proposals based on the outcome of withdrawn and percent vote in favor. Table 6(b) reports the abnormal return around meeting date by outcome.

[Insert Table 6(b) around here]

On the date of meeting, the whole sample, and the successful and unsuccessful subsamples, all earn close to zero abnormal return. This result is consistent with Flammer (2015) who finds that ESG proposals with vote in favor far from 50% earn no abnormal returns on the date of meeting. However, for the extended event window (-1, 1), my sample of the target firms do realize significant abnormal returns of 0.33%, significant at the 1% level. Target firms associated with successful proposals earn greater abnormal return than those with unsuccessful proposals. These results are also economically significant. I also test the event window (-10, 0) to understand if the market has already reacted before the date of meeting. The CARs in general are not significantly different from zero, except for the unsuccessful sample earning a CAR of 0.10% only significant at the 10% level measured by signed Z.

Next, I analyze the cross-sectional variation of abnormal returns on success around the date of meeting, first using a simple t-test, and then in a regression analysis. The upper part of Table 6(c) reports the t-test of CAR difference for successful and unsuccessful samples. Both the date of meeting, and the extended window of (-1, 1) are tested. I perform the t-test for the whole sample, withdrawn sample and going to vote sample. Success is a factor that explain the difference in cross-sectional CAR only for going to vote subsample. On the date of meeting, it is positive and marginally insignificant, and for the extended window of (-1, 1), it is statistically significant.

[Insert Table 6(c) around here]

Then in the lower part of Table 6(c), I test the effect of success on the meeting date CAR in a regression analysis. I run the following OLS regression:

$$CAR_{itr} = a + \beta_1 * Success_{itr} + \beta_2 * X_{it} + \varepsilon_{itr}, \quad (3)$$

Success is a dummy variable which equals 1 if the proposal is successful, and 0 otherwise. The control variables include size, age, institutional ownership, sales growth, cash and leverage. Firm fixed effects and year fixed effects are used, and industry effect is controlled using Fama French 48 industry classification. The results are consistent with the t-test, where I observe the significant effect of success on CARs around meeting date, only for the going to vote subsample. This makes sense as the information about success for withdrawn sample should have already been incorporated in the price before the date of meeting, probably around or a few days after filing date.

To better understand the economic significance of the market reaction for ESG proposals around proposal filing date and meeting date, I create a buy-and-hold portfolio from 10 days prior to the filing date, to 10 days after the meeting date. If the meeting date is taken as day 0, the event window I test is (-40, 10). Graph 1 reports buy-and-hold abnormal return for the successful and unsuccessful proposal firms.

[Insert Graph 1 around here]

The two portfolios earn similar abnormal returns at the start of the event period. At around day -25 (5 days after filing and 25 days before meeting), the unsuccessful sample decreases dramatically below zero and starts to earn negative buy-and-hold abnormal return. It remains negative throughout the event window. This is likely to be the time when the market learns the outcome of the proposal. As shown in Table 3, very few proposals obtain greater than 50% vote in favor. In fact, the successful sample is largely comprised of successful withdrawn proposals. The information of the agreement to withdraw is likely to be made public and incorporated into the market around this time. The successful sample earns 0.235% buy-and-hold abnormal returns over the event window, while the unsuccessful sample earns 0.175%, the difference is statistically significant at the 1% level.

5.3. Alternative explanations

One alternative explanation for the short-term positive market reaction is that SRI activists are good at stock picking, and other investors follow them to buy the stocks, thus creating high demand and short-term abnormal return. This explanation

does not explain the results here, as the abnormal return is achieved on the date of filing the shareholder proposal, not the date that SRI purchases the stock. Also, if it is true that the effect does not come from the resolutions, all subsamples should earn similar abnormal returns, if any, and the abnormal return should not be different for proposals with different outcomes. However my subsamples earn different abnormal returns on the date of filing, and the abnormal return of my successful sample is also different from unsuccessful sample around date of meeting, and for the filing to meeting period. Moreover, SRI investors shareholdings are usually quite low and most extant literature do not find SRI investors to be superior in stock picking, so it is unlikely that other investors follow their buying decisions to move the stock price.

Another piece of information that could confound the event date market reaction is the issue of executive compensation. In 2011, SEC added to the proxy rules that firms should provide shareholders with advisory vote on executive compensation. Executive pay information is reviewed on the proxy filing date. The alternative explanation may be that this executive compensation information drives the market reaction. I then restrict my sample to only those ESG proposal filings before 2011, but the results remain similar. It seems that it is not executive compensation information that drives the market reaction.

Yet another argument may be that some other event happening at the same time of the proxy statement filing could possibly confound the effect of ESG proposals – one example being hedge fund activism. I have randomly checked my sample for potential hedge fund activism from SEC EDGAR schedule 13(d) for the target firms, and find none which overlap with the proxy filing time period of ESG proposals.

6. Long-term performance

Next I turn to long-term performance of the target firms to evaluate if ESG proposals create enduring value. I measure the long-term performance using both accounting measures and market returns.

6.1. Long-term operating performance

I follow Dimson et al. (2015) to use a difference-in-differences setting to test the operating performance improvements of the target firms. I run the following regression:

$$Y_{itr} = \alpha + \beta_1 * Success_{itr} + \beta_2 * Post_{it} + \beta_3 * Success_{itr} * Post_{it} + u_{itr}, \quad (4)$$

Where Post is a dummy variable equal to 1 if the observation is after year 0, and 0 otherwise. Success is another dummy variable if the observation is from a target firm that subsequently recorded a successful outcome for the proposal. The dependent variable is ROA or Tobin's Q, and independent variables in all regressions include Post, Success, and interaction term Post x Success. Firm fixed effects and year fixed effects are used, and industry effect is controlled using Fama French 48 industry classification. Other control variables include size, age, and leverage. I test the operating performance difference one year and two years after the proposal, compared to the year before the proposal.

[Insert Table 7 (a) around here]

Table 7 (a) reports the test results of operating performance and shareholding of SRI. Operating performance measured by return on assets and Tobin's Q are both positively significant for target firms after successful proposal outcome. The effect after two years is more pronounced that the effect after 1 year. Tobin's Q improves by 0.28 after one year and 0.33 after two years for the target firms with successful proposals after the event, significant at 10% and 5% respectively. Return on assets improves by 0.01 after one year and two years, significant at 10% and 5% respectively. This positive effect on performance may come from the following channel: these firms attract more socially conscious consumers and they have higher customer loyalty (Albuquerque et al. 2014); these firms foster employee satisfaction, which creates value (Edmans 2011); and these firms attract more socially conscious investors (Bialkowski et al. 2015). These results show underlying reasons for the short-term positive market reaction, and show that successful proposals contribute to enduring value improvement for the target firms.

6.2. Long-term market reactions

I use two measures to test for the long-term market reactions for the portfolio of target firms that subsequently record successful outcomes for proposals, and those

with unsuccessful outcomes. First, I run the cross-sectional regression of CARs on the success indicator and controls, as follows:

$$CAR_{itr} = a + \beta_1 * Success_{itr} + \beta_2 * X_{it} + \varepsilon_{itr}, \quad (5)$$

The variable definitions are the same as the test for short-term market reaction. Success is a dummy variable which equals to 1 if the proposal is successful, and 0 otherwise. The control variables include size, age, institutional ownership, sales growth, cash and leverage. Firm fixed effects and year fixed effects are used, and industry effect is controlled using Fama French 48 industry classification. The results are reported in Table 7(b).

[Insert Table 7 (b) around here]

The results show that the success indicator has positive significant effect on the long-term CAR. Over two years period after the proposal, successful firms earn on average 4% higher CAR than unsuccessful firms, significant at the 10% level. This effect is also economically significant. Other than this, institutional ownership improves CAR, sales growth negatively affects CAR, and cash holdings positively affect CAR.

Second, I compute the long-term calendar-time abnormal return (CTAR). I compute CTAR for the whole sample, for the portfolio of target firms that subsequently record successful outcome for the proposal, and those with unsuccessful outcome. CTAR is computed as follows:

$$e_{jt} = R_{jt} - R_{ft} - (b_j * (R_{Mt} - R_{ft}) + S_j * SMB_t + h_j * HML_t, \quad (6)$$

Then I form a portfolio of value-weighted e_{jt}. Table 7(c) reports the results.

[Insert Table 7(c) around here]

For the 1-year CTAR, abnormal returns are insignificantly different from zero for all three samples, but the successful sample earns higher CTAR than the whole sample on average, and the unsuccessful sample. For the 2-years CTAR, both the whole sample and the successful sample earn significantly positive abnormal return, while the unsuccessful sample earns insignificant positive abnormal returns. The

successful sample earns 0.41% CTAR, significant at 5%, and the whole sample earns 0.24% CTAR on average, also significant at 5%. This shows that the successful sample is evaluated more positively by the market, measuring by CTAR, and more so for longer period of time (two years). The annualized CTAR for the successful sample is around 5.03%, and for the whole sample is around 2.92%. This result is in line with the results present in Dimson et al (2015) for testing the active engagement returns. The successful active engagement earns 5.1%, and the whole sample earns 2.4% market-adjusted return. My results show that public shareholder proposal on CSR has similar effects in terms of cumulative abnormal returns as private engagement. On the one hand, the publicly available shareholder proposal information is easier to be valued and priced by the market than the private engagement (i.e. "information availability"), resulting in a potentially higher return; on the other hand, as public shareholder proposal is the last resolution, potentially after the failure of several unsuccessful private engagement, the market may cast a lower expectation for success (i.e. "enforcement difficulty"), thus a potentially lower return. These two effects offset each other, and shows similar returns for public shareholder proposals and private engagements. In both cases, the unsuccessful events obtained returns insignificant from zero.

7. Social performance and role of SRI funds

Lastly, I address the issue of "window dressing". Some concerns have been raised on the real outcome of environmental and social proposals – are they only used for "window dressing"? In the sense that SRI investors are filing the proposals for the sake of drawing the media attention. If SRI investors are only doing this to attract investors, but not deeply involved in the process of improving or solving the issue, we would see little improvement in the social aspects related to the filing proposals. Here, I use MSCI ESG KLD Statistics scores to measure the social improvement. First, the proposal related issue is identified. This identification relies on the description in SRI funds' proposal list, as well as the detailed proposal in the proxy statement filed to SEC by the target firms. Then, I match the proposal related issue to the specific item within the KLD measures. A success dummy is generated if the score for that specific item improves (increase in strength, or decrease in concern). I find that on average, concern scores decrease more than the increase in strength, indicating that SRI investors target more on mitigating the problems with

concerns, rather than further improving strengths. Dealing with concern issues may create higher value for the target firms and society, as more direct and immediate success may be achieved. For example, proposals to mitigate the concern may be closing down the polluting facilities, or reducing green gas emissions. Table 8 reports the result of success in terms of social score changes. On average 11% of the time, we see improvement in social scores in the specific area related to the issue filed, over one year. Over two-years' time, the success rate doubled to 23%. Among the issue areas, diversity seems to achieve the highest success rate, probably because the solutions to solve the issue are more direct and less costly. On the other hand, issues involving ecosystems, public health, human rights and business ethics are less likely to solve quickly and may incur larger cost, thus the success rates for these issue areas are lower.

[Insert Table 8 around here]

SRI funds play a major role in promoting corporation's CSR. Shareholder activism is one of the channels for them to raise issues and demand changes to the target firms. Table 9 reports the regression of future changes in social scores measured by KLD, on the dummy variable that indicates if the firm is held by SRI/SRI activists. The coefficient before the dummy variable indicates the effect of SRI/SRI activist presence as the firm's shareholder on its future changes of social scores. Regression as follow:

$$\text{Changes in } KLD_{it} = a + \beta_1 * \text{SRI(or SRI activist)} + \beta_2 * X_{it} + \varepsilon_{it}, \quad (7)$$

SRI activist presence significant improves its holding firms' KLD score by 0.07, KLD strength score by 0.03 and reduce KLD concern score by 0.05, more than non-SRI activist holding firms. When testing the effect of SRI activist, the sample only includes all firms being held by SRI investors. SRI presence significantly improves its holding firms' KLD score by 0.03, reduce KLD concern score by 0.04, more than non-SRI holding firms, but KLD strength score change is not that significant for the two groups. In unreported regressions, I use future KLD level (as oppose to changes) as the dependent variable, and control additionally for firm fixed effects. The results remain significant, and KLD strength score is also significant. The regression results show the positive influence of SRI investors and SRI activists on their portfolio holding firms. On the one hand, SRI investors have altruistic

incentives to help improve the social aspects of their holding firms, as listed in their mandate; On the other hand, SRI investors also benefit from such activities. Bialkowski et al. (2015) shows that SRI investors have less volatile flow and gain more flows than conventional funds. In unreported tests, I also find that SRI activists have less volatile flows than SRI non-activists, although the amount of flows to the two groups are similar.

[Insert Table 9 around here]

8. Conclusion

This paper studies SRI sponsored ESG shareholder proposals. SRI investors choose to target larger, more mature firms; firms with reputation concern, but tend to spend less on capital expenditure or R&D. ESG proposals are positively evaluated by the market as a sign that the firms will improve their corporate social responsibility, which in turn leads to value creation. I find positive significant abnormal returns on the date of filing ESG proposals. The results are robust to using different models or portfolio weighing. The firms for which ESG proposals are successful earn higher filing-meeting period buy-and-hold abnormal returns than firms for which proposals are unsuccessful, and their operating performance improves more in the long term. Inferring from the market reaction to ESG proposals, it seems that corporate social responsibility does create value for firms by improving their financial performances. The results of this study support the view that CSR is a strategic opportunity for firms to create value, rather than a signal that there is an agency problem. ESG proposals also increase the social ratings of the target firms, demonstrating that efforts have indeed been made by the SRI investors in negotiation with the management and that actions in response to the proposals have been carried out.

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Table 1: Breakdown of proposal areas and issues

This table summaries different shareholder proposals during the sample period 1996 to 2015. Shareholder proposals are categorized by two main areas: Corporate Governance (CG sample) and Environmental and Social (ES sample). Then ES sample is further divided into sub-categories. Environmental area includes issues covering for example climate change, environmental management, and social area includes issues such as human rights, labor, ethics and sustainable reporting.

Areas	Issues	No.
1. Governance		
1.1 Corporate governance	Audit and control, board structure, remuneration, shareholder rights, transparency	88
Total Governance Proposals		**88**
2. Environment		
2.1 Climate change	Biofuels, climate change strategy, emissions management and reporting	78
2.2 Ecosystem services	Access to land and water	18
2.3 Environmental management	Environmental standards, pollution control, supply chain environmental standards, recycling	102
3. Social		
3.1 Public health	Access to medicines, product safety	35
3.2 Human rights	Community relations, privacy and free expression, weak governance zones	39
3.3 Labor standards	Diversity, Health and safety, ILO core conventions, supply chain labor standards	157
3.4 Business ethics	Bribery and corruption, political influence	100
3.5 Sustainability management and reporting	Disclosure and reporting, governance of sustainability issues, UNGC compliance	121
3.6 Plant and animal rights	Protect plant and wild animals	6
Total Environment and Social Proposals		**656**
Total ESG Proposals		**744**

Table 2(a): Summary of proposals by year

This table summaries shareholder proposals by year. Column (2) and (3) report the number of proposals and % in the whole sample are submitted each year is reported. Column (4) reports the success rate of shareholder proposals for each year. Column (5) – (8) classify the whole sample into ES and CG subsample, and report the number of proposals and success rate for each year, respectively.

	Whole sample			ES sample		CG sample	
Year	**No.**	**%sample**	**%success**	**No.**	**%success**	**No.**	**% success**
1996	10	1.3%	40%	9	33%	1	100%
1997	14	1.9%	43%	11	45%	3	33%
1998	15	2.0%	27%	14	21%	1	100%
1999	13	1.7%	8%	12	8%	1	0%
2000	19	2.6%	21%	18	22%	1	0%
2001	38	5.1%	32%	32	31%	6	33%
2002	42	5.6%	31%	36	31%	6	33%
2003	36	4.8%	44%	29	41%	7	57%
2004	38	5.1%	45%	30	37%	8	75%
2005	26	3.5%	35%	25	36%	1	0%
2006	32	4.3%	50%	32	50%	0	0%
2007	35	4.7%	57%	32	56%	3	67%
2008	42	5.6%	43%	35	51%	7	0%
2009	36	4.8%	44%	23	35%	13	62%
2010	40	5.4%	50%	29	45%	11	64%
2011	60	8.1%	50%	54	52%	6	33%
2012	53	7.1%	51%	49	51%	4	50%
2013	41	5.5%	49%	39	49%	2	50%
2014	62	8.3%	53%	61	54%	1	0%
2015	92	12.4%	42%	86	43%	6	33%
Total /average	**744**	**100.0%**	**41%**	**656**	**40%**	**88**	**40%**

Table 2(b): Summary of proposals by industry

This table summarizes shareholder proposals by industry. The classification is obtained by industry SIC code. Category transportation comprises Transportation, Electric and Gas; Category Financial comprises Finance, Insurance and Real Estate. In addition to the number of proposals and % account in the sample, success rates are also reported by industry.

Industry	**Whole sample**			**ES sample**			**CG sample**		
	No.	**% sample**	**% success**	**No.**	**% sample**	**% success**	**No.**	**% sample**	**% success**
Mining	43	5.8%	48.8%	40	5.4%	50.0%	3	0.40%	33.30%
Construction	3	0.4%	33.3%	3	0.4%	33.3%	0	0.00%	0.00%
Manufacturing	335	45.0%	42.1%	302	40.6%	40.4%	33	4.40%	57.60%
Transportation	96	12.9%	35.4%	84	11.3%	34.5%	12	1.60%	41.70%
Wholesale Trade	10	1.3%	60.0%	10	1.3%	60.0%	0	0.00%	0.00%
Retail Trade	110	14.8%	46.4%	104	14.0%	44.2%	6	0.80%	83.30%
Finance	94	12.6%	46.8%	71	9.5%	52.1%	23	3.10%	30.40%
Services	51	6.9%	52.9%	42	5.6%	54.8%	9	1.20%	44.40%
Non-classifiable	2	0.3%	0.0%	0	0.0%	0.0%	2	0.30%	0.00%
Total/ Average	**744**	**100%**	**40.6%**	**656**	**88%**	**41.0%**	**88**	**12%**	**32.3%**

Table 3: Summary of proposal outcome

This table summarizes the proposal outcome. Success rate for the whole sample and ES, CG subsamples are reported. Then success rate for the proposals withdrawn and proposals go to voting are reported separately. Average vote in favor for the proposals that go to voting is also reported. Finally, the sample is classified by vote in favor for those proposals that go to voting, the percentage indicates the portion of proposals which fall in the range of vote in favor.

	Whole sample	ES sample	CG sample
Total number of proposals	744	656	88
Success rate	40.3%	39.9%	43.2%
Number of withdrawn	384	342	42
Success rate	75.5%	76.0%	71.4%
Number of go to voting	360	314	46
Success rate	2.8%	0.6%	17.4%
Average vote in favor	21.70%	20.20%	31.90%
Voting <3%	1.1%	0.6%	4.3%
3%<= Voting <6%	6.1%	6.7%	2.2%
6%<= Voting <10%	22.8%	22.9%	21.7%
10%<= Voting <25%	27.5%	29.3%	15.2%
25%<=Voting <50%	38.9%	39.5%	34.8%
Voting >=50%	3.6%	1.0%	21.7%

Table 4: Characteristics of target companies

This table reports the univariate analysis of target firm characteristics, compared to the matched firms. Columns (1) – (6) provide summary statistics for the target firms, for the whole sample, CG sample and ES sample, including the mean and number of observations. Columns (7) – (12) provides the difference statistics of target firms relative to matched firms calculated by the formula above. All variables are winsorized at 1st and 99th percentile. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

	Summary statistics				Relative to matched firms					
Firm characteristics	**Obs**	**Mean**	**CG Mean**	**ES Mean**	**Mean**	**t-stat**	**Mean**	**t-stat**	**Mean**	**t-stat**
Firm Size	630	60.28	60.33	60.27	43.42***	(14.12)	43.59***	(6.31)	43.37***	(12.63)
Market-to-book	630	5.22	3.66	5.67	0.81	(0.82)	(1.13)**	(-2.11)	1.35	(1.08)
Tobin's Q	626	2.70	2.76	2.69	0.04	(0.61)	(0.06)	(-0.38)	0.07	(1.00)
Firm age	630	36.66	33.29	37.61	12.23***	(13.09)	9.04***	(4.26)	13.13***	(12.69)
Sales growth	627	7.9%	6.9%	8.2%	(0.07)***	(-7.51)	(0.08)***	(-3.98)	(0.07)***	(-6.38)
Stock return	568	12.6%	11.0%	13.9%	(-8.2%)***	(-5.37)	(-11.1%)***	(-3.34)	(-7.5%)***	(-4.32)
Stock return volatility	511	0.08	0.10	0.07	(0.02)***	(-7.22)	(0.02)**	(-2.22)	(0.02)***	(-7.54)
Return on assets	625	0.17	0.16	0.17	0.01*	(1.93)	(0.00)	(-0.27)	0.01**	(2.53)
Asset turnover	630	1.00	0.83	1.05	0.02	(0.59)	(0.07)	(-1.56)	0.03	(1.38)
Sales over employees	619	0.71	0.64	0.74	(0.14)	(-1.46)	(0.13)	(-0.48)	(0.14)	(-1.50)
Cash flow	623	0.12	0.11	0.12	0.01**	(2.35)	0.00	(0.67)	0.01**	(2.41)
Leverage	626	0.36	0.40	0.35	0.02**	(2.08)	0.06***	(3.02)	0.01	(0.85)
Cash holding	614	0.08	0.09	0.08	(0.01)***	(-2.91)	(0.02)	(-1.37)	(0.01)***	(-2.62)
Dividend yield	625	0.02	0.02	0.02	0.00	(0.27)	(0.00)	(-0.37)	0.00	(0.38)
Dividend payout	627	0.37	0.21	0.41	0.07	(0.79)	0.01	(0.16)	0.08	(0.78)
R&D expenditure	318	0.03	0.05	0.03	(0.00)**	(-2.47)	(0.01)	(-1.49)	(0.00)**	(-1.99)
Capital expenditure	618	0.06	0.05	0.06	(0.01)***	(-2.81)	(0.01)**	(-2.13)	(0.00)**	(-2.16)
Advertising expenditure	630	0.02	0.03	0.03	0.00	(1.40)	0.00	(0.06)	(0.01)***	(-3.00)
Industry Herfindahl index	630	0.26	0.22	0.27	0.14***	(12.85)	0.11***	(5.77)	0.15***	(11.53)
Shareholding of pension activists	630	2.1%	2.0	2.1%	0.9%***	(15.20)	0.6%***	(4.97)	1.0%***	(14.65)
Shareholding of SRI funds	630	0.10%	0.06%	0.11%	0.00*	(1.91)	-0.02%	(-0.92)	0.04%**	(2.23)
Shareholding of SRI activist	630	0.09%	0.05%	0.10%	0.03%*	(1.85)	-0.01%	(-0.84)	0.04%**	(2.16)
Amihud illiquidity	511	0.001	0.00	0.001	(0.02)***	(-4.62)	(0.03)*	(-1.76)	(0.01)***	(-3.99)
Entrenchment index	223	1.03	0.96	1.05	(0.39)***	(-4.63)	(0.58)**	(-2.31)	(0.34)***	(-2.72)
Number of SRI funds	630	3.63	3.51	3.65	2.56***	(20.25)	2.25***	(7.74)	2.63***	(18.96)
Number of SRI activist funds	630	2.55	2.56	2.54	1.85***	(20.20)	1.75***	(8.57)	1.86***	(18.35)
Number of pension activists	630	11.13	10.29	11.36	5.27***	(21.63)	4.02***	(7.29)	5.61***	(20.89)
Tangibility	626	0.31	0.23	0.33	0.01	(1.33)	(0.00)	(-0.05)	0.01	(1.50)
Market share(segment)	630	0.12	0.13	0.12	0.07***	(12.04)	0.07***	(5.99)	0.07***	(10.48)
KLD	402	0.21	0.25	0.20	0.158***	(2.63)	0.30**	(2.35)	0.11*	(1.66)
KLD strengths	402	1.25	1.41	1.20	0.595***	(9.69)	0.81***	(5.57)	0.53***	(7.97)
KLD concerns	402	1.04	1.16	1.00	0.434***	(9.44)	0.51***	(4.98)	0.41***	(8.01)

Table 5: Probit analysis on targeting

This table reports proit analysis on targeting. Dependent variable is a dummy variable equal to one if the firm is targeted, and zero for the matched firm. Independent variables are the firm characteristics measured the year before proposal. The regression performed writes as: $P[y=1| X_{1i},\ldots, X_{ki}; \beta_0,\ldots,\beta_k] = \phi (\beta_0 + \sum_{k=1}^{k} \beta_k X_{ki})$. Columns 1-4 test the whole sample using two different models. Column 5-8 test CG and ES sample separately. Column 9 and 10 test on the difference of ES and CG sample, dependent variable is a dummy variable equals to one if the proposal is ES related, and 0 if CG related. Year fixed effect and firm fixed effect are included in all regressions. Standard errors are clustered at the firm level. All variables are winsorized at the 1st and 99th percentile levels. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

Firm characteristics	**Whole sample: (1)**		**Whole sample: (2)**		**CG sample**		**ES sample**		**ES-CG sample**	
	Marginal effect	t-stat	Marginal effect	t-stat	Marginal effect	t-stat	Marginal effect	t-stat	Marginal effect	t-stat
Size	0.000***	(2.59)	0.000	(0.98)	0.000***	(4.69)	0.000***	(3.61)	0.000	(0.00)
Tobin's q	-0.012	(-0.85)	-0.025*	(-1.89)	0.089***	(3.95)	-0.024	(-1.47)	0.011	(0.75)
Age	0.003*	(1.73)	0.000	(0.29)	0.001	(0.54)	0.004**	(2.27)	0.003*	(1.84)
Sales growth	-0.333***	(-2.93)	-0.101	(-0.82)	-0.997***	(-3.21)	-0.343***	(-2.91)	0.144	(1.11)
Stock return	0.007	(0.15)	0.216	(0.23)	0.75	(0.84)	0.452	(0.68)	-0.547	(-0.60)
Stock return volatility	0.061	(0.10)	-0.018	(-0.37)	-0.253***	(-3.59)	0.065	(1.07)	-0.002	(-0.03)
Return on assets	1.156*	(1.96)	2.044***	(3.23)	0.824	(0.82)	0.778	(1.23)	-1.331*	(-1.75)
Asset turnover	0.024	(0.75)	-0.013	(-0.37)	-0.143**	(-2.30)	0.016	(0.49)	-0.054	(-1.26)
Sales over employees	0.000	(0.02)	0.000	(0.41)	0.001***	(3.87)	0.000	(-0.56)	0.000*	(1.69)
Cash flow	-0.752	(-1.25)	-1.809***	(-2.67)	-0.473	(-0.67)	0.224	(0.33)	1.589*	(1.78)
Leverage	0.032	(0.20)	-0.127	(-0.88)	-1.022**	(-2.39)	0.159	(1.08)	0.165	(1.24)
Cash holding	0.412	(1.42)	0.527**	(2.02)	0.592	(1.16)	0.545*	(1.69)	-0.625**	(-2.19)
Dividend yield	-3.232*	(-1.68)	0.112**	(2.17)	-0.157**	(-2.29)	0.044**	(2.03)	0.066*	(1.66)
Dividend payout	0.026**	(2.37)	-5.666**	(-2.35)	-0.529	(-0.21)	-3.339*	(-1.73)	-3.128	(-1.46)
R&D expenditure	-1.037	(-1.44)	-0.1	(-0.13)	-6.078***	(-3.97)	-1.324*	(-1.89)	0.221	(0.23)
Capital expenditure	-2.717***	(-3.14)	-2.325***	(-2.72)	-5.269**	(-2.27)	-2.471***	(-2.74)	-0.703	(-0.59)
Advertising expenditure	-0.7	(-1.14)	-0.409	(-0.82)	-3.673**	(-2.29)	-0.817	(-1.34)	-1.275*	(-1.89)
Shareholding of pension activists	-0.003	(-0.09)	-0.004	(-0.11)	0.183**	(2.28)	0.004	(0.13)	0.018	(0.52)
Shareholding of SRI funds	-0.027	(-0.08)	-0.32	(-1.01)	9.457***	(3.87)	0.379	(1.05)	-0.85	(-1.33)
Shareholding of SRI activist	-0.015	(-0.04)	0.334	(0.96)	-13.957***	(-4.17)	-0.421	(-1.08)	1.222	(1.52)
Amihud illiquidity	-0.684	(-1.17)	0.267	(1.23)	-55.848**	(-2.15)	-0.391	(-1.35)	58.619*	(1.66)
Number of SRI funds	-0.029	(-0.97)	-0.018	(-0.68)	-0.339***	(-7.82)	0.007	(0.25)	0.008	(0.34)
Number of SRI activist funds	0.126***	(3.35)	0.117***	(2.99)	0.619***	(8.49)	0.088**	(2.47)	0.008	(0.23)
Number of pension activists	0.01	(0.94)	0.044***	(5.22)	0.013	(0.97)	0.007	(0.66)	-0.009	(-0.92)
Tangibility	0.369	(1.64)	0.536**	(2.45)	-0.294	(-0.64)	0.284	(1.26)	0.683**	(2.51)
KLD	-0.052	(-1.58)	-0.071**	(-2.47)	-0.123*	(-1.93)	-0.096***	(-2.96)	-0.071**	(-2.52)
KLD concerns	0.015	(0.31)	0.077	(1.57)	-0.306***	(-2.82)	-0.025	(-0.58)	-0.063	(-1.31)
Entrenchment index			0.021	(0.94)						
Market share(segment)			0.165	(0.76)						
R-squared	0.42		0.52		0.72		0.47		0.29	
N	559		341		124		430		283	

Table 6(a): Abnormal return for ESG proposals around filing date

This table reports short-term market reaction for the ESG shareholder proposals around filing date. Filing date abnormal return, event window of (-1, 1) and (-10, 0) are tested. Column (1) reports the result for the whole sample; Column (2) (3) report result for ES and CG subsample. Column (4) (5) divide the whole sample into initial filing and repeated filing, and report result separately. For each test, Standard cross-sectional test and generalized Z test scores are reported for computation statistical significance. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

		Whole sample	ES sample	CG sample	Initial filing	Repeated filing
Date of filing	**(t=0)**	0.22%***	0.18%**	0.37%*	0.28%***	0.06%
	StdCsect	(2.93)	(2.25)	(1.96)	(2.89)	(0.91)
	Sign Z	(1.97)	(2.01)	(0.41)	(2.35)	(-0.04)
Days	**(t-1, t+1)**	0.21%*	0.20% (***)	0.24%	0.26%	0.07% (*)
	StdCsect	(1.78)	(1.54)	(0.91)	(1.43)	(1.08)
	Sign Z	(2.34)	(2.60)	(0.09)	(1.57)	(1.91)
Days	**(t-10, t)**	0.29**	0.23%*	0.53% (*)	0.0018	0.58%***
	StdCsect	(2.01)	(1.65)	(1.17)	(0.55)	(2.85)
	Sign Z	(1.90)	(1.18)	(1.84)	(1.13)	(1.77)
N		727	570	157	522	205

Table 6(b): Abnormal return for ESG proposals around meeting date

This table reports abnormal return around meeting date. On the meeting date, event window of (-1, 1) and (-10, 10) are tested. Column (1) reports results for the whole sample. Column (2) and (3) report abnormal return by proposal outcome. Results for successful sample and unsuccessful sample are reported respectively. For each test, Standard cross-sectional test and generalized Z test scores are reported for computation statistical significance. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

		Whole sample	**Successful sample**	**Unsuccessful sample**
Date of meeting	**(t=0)**	-0.01%	-0.03%	0.01%
	StdCsect	(0.74)	(0.11)	(0.82)
	Sign Z	(0.22)	(-0.58)	(0.76)
Days	**(t-1, t+1)**	0.33%***	0.44%**	0.25%**
	StdCsect	(3.26)	(2.37)	(2.30)
	Sign Z	(2.60)	(1.89)	(1.81)
Days	**(t-10, t)**	0.24%	0.45%	0.10%(*)
	StdCsect	(1.55)	(1.04)	(1.15)
	Sign Z	(1.63)	(0.48)	(1.72)
N		725	289	436

Table 6(c): Cross-sectional variation of abnormal return around meeting date

The two tables below report the cross-sectional variation of abnormal return, by the proposal outcome. The first table reports t-test results for comparing CARs of successful subsample, versus unsuccessful subsample, for the period around meeting date. Date of meeting, and an alternative extended window of (-1, 1) are tested. Columns 1 and 2 report result for the whole sample; columns 3 and 4 report for withdrawn sample; columns 5 and 6 report going to vote sample. The second table reports a similar analysis in a regression setting. The dependent variable is CARs around meeting date. Success is a dummy variable which equals 1 if the proposal is successful, and 0 otherwise. The control variables X_{it} include size, age, institutional ownership, sales growth, cash and leverage. Firm fixed effects and year fixed effects are used, and industry effect is controlled using ff48 industry classification. All variables are winsorized at the 1st and 99th percentile levels. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

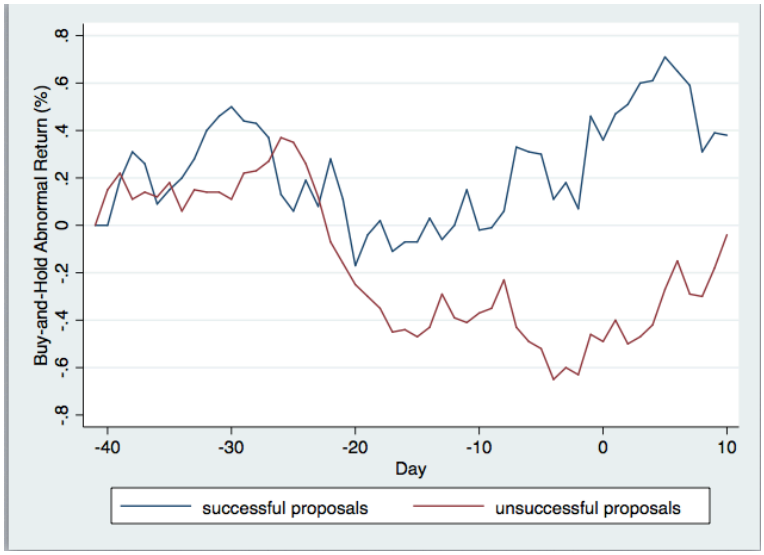
T-test	**Whole sample**		**Withdrawn**		**Going to vote**	
Subsamples	**Date of meeting t=0**	**Extend window (-1,1)**	**Date of meeting t=0**	**Extend window (-1,1)**	**Date of meeting t=0**	**Extend window (-1,1)**
Successful	0.00%	0.45%	-0.03%	0.39%	1.02%	2.44%
Unsuccessful	0.10%	0.33%	0.09%	0.36%	0.10%	0.32%
Difference	-0.10%	0.0012	-0.12%	0.0003	0.91%	2.12%**
T-stat	(-0.74)	(0.58)	(-0.57)	(0.11)	(1.54)	(2.06)
N	647	647	322	322	325	325

$$CAR_{itr} = a + \beta_1 * Success_{itr} + \beta_2 * X_{it} + \varepsilon_{itr},$$

	Whole sample		**Withdrawn**		**Going to vote**	
	Date of meeting t=0	**Extend window (-1,1)**	**Date of meeting t=0**	**Extend window (-1,1)**	**Date of meeting t=0**	**Extend window (-1,1)**
Success	(0.00)	0.00	(0.00)	(0.00)	0.01**	0.03**
	(-0.57)	(0.43)	(-0.73)	(-0.21)	(2.70)	(2.78)
Size	0.00	(0.00)	0.00	0.00	0.00	(0.00)**
	(1.21)	(-0.54)	(1.14)	(0.83)	(0.50)	(-2.09)
Age	(0.00)	(0.00)	(0.00)	(0.01)	0.00	0.00
	(-1.47)	(-0.93)	(-0.35)	(-1.37)	(0.09)	(0.70)
Institutional ownership	(0.00)	0.01	(0.00)	0.02**	(0.00)	(0.01)
	(-0.67)	(1.05)	(-0.35)	(2.02)	(-0.84)	(-0.44)
Sale growth	(0.01)	0.00	(0.01)	0.00	(0.01)	0.01
	(-1.21)	(0.13)	(-0.59)	(0.21)	(-1.25)	(0.37)
cash	0.02*	0.01	0.02	0.03	0.00	(0.05)
	(1.70)	(0.43)	(1.18)	(1.27)	(0.12)	(-1.62)
leverage	0.01	0.01	0.00	0.02**	0.01	0.00
	(1.04)	(1.64)	(0.74)	(2.13)	(0.82)	(0.19)
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
N	647	647	322	322	325	325

Graph 1: Compound abnormal return for ESG proposals: from filing to meeting date period

This graph reports buy-and-hold abnormal return for ESG proposals, from 10 days before filing date to 10 days after meeting date. Two portfolios are created to test the buy-and-hold abnormal return: target firms with successful proposals and with unsuccessful proposals. T-test testing the mean difference for the two portfolios are shown on the right. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.



T-test	Mean	t-stat
Successful	0.235%	
Unsuccessful	-0.175%	
Difference	0.410%***	(8.2)

Table 7 (a): Long-term effect of ESG proposals

This table summarizes difference-in-differences regression results on the target firms for the operating performance. The year of proposal is defined as year 0. The year before the proposal is -1, and the year after the proposal is +1, 2 years after the proposal is +2. Column (1) and (2) are computed comparing variables in year 1 over year -1; Column (3) and (4) are computed comparing variables in year 2 over year -1. Post is a dummy variable if the observation is after year 0, and 0 otherwise. Success is another dummy variable if the observation is from a target firm that subsequently record successful outcome for the proposal. Dependent variable is ROA or Tobin's Q, and independent variables in all regressions include Post, Success, and interaction term Post x Success. Firm fixed effects and year fixed effects are used, and industry effect is controlled using ff48 industry classification. Other control variables include size, age, and leverage. All variables are winsorized at 1st and 99th percentile. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

$$Y_{itr} = \alpha + \beta_1 * Success_{itr} + \beta_2 * Post_{it} + \beta_3 * Success_{itr} * Post_{it} + u_{itr},$$

	1 year after		2 years after	
Variables	**ROA**	**Tobin's q**	**ROA**	**Tobin's q**
Post	(0.01)***	(0.10)	(0.01)***	(0.20)*
	(-3.94)	(-1.09)	(-3.91)	(-1.84)
Success	(0.01)*	(0.28)**	(0.01)	(0.27)**
	(-1.66)	(-2.40)	(-1.58)	(-2.10)
Post * Success	0.01*	0.28*	0.01**	0.33**
	(1.66)	(1.95)	(1.98)	(2.17)
Size	(0.01)**	(0.48)***	(0.01)***	(0.40)***
	(-2.00)	(-5.13)	(-3.07)	(-4.96)
Age	0.00	(0.07)	0.01	0.03
	(0.20)	(-0.29)	(1.39)	(0.11)
Leverage	(0.13)***	(3.10)***	(0.11)***	(2.45)***
	(-5.70)	(-4.51)	(-7.07)	(-4.41)
Firm fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.41	0.29	0.44	0.28
N	1,276	1,282	1,208	1,213

Table 7(b): Cross-sectional variation of long-term monthly abnormal returns

This table reports cross-sectional analysis of long-term monthly abnormal returns (CARs). The dependent variable is monthly CARs. I test both for a 1-year period and 2-year period after the proposal. Success is a dummy variable which equals 1 if the proposal is successful, and 0 otherwise. The control variables X_{it} include size, age, institutional ownership, sales growth, cash and leverage. Firm fixed effects and year fixed effects are used, and industry effect is controlled using ff48 industry classification. All variables are winsorized at the 1st and 99th percentile levels. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

$$CAR_{itr} = a + \beta_1 * Success_{itr} + \beta_2 * X_{it} + \varepsilon_{itr},$$

	Whole sample	
	For 1 year	**For 2 years**
Success	0.05	0.04*
	(1.47)	(1.81)
Size	0.02	0.01
	(1.51)	(1.26)
Age	-0.003	-0.006
	(-0.11)	(-0.28)
Institutional ownership	0.05	0.114*
	(0.55)	(1.88)
Sale growth	-0.28**	-0.20**
	(-2.42)	(-2.46)
cash	0.51**	0.36**
	(2.04)	(2.37)
leverage	0.14	0.08
	(1.11)	(1.07)
Year fixed effect	Yes	Yes
Firm fixed effect	Yes	Yes
N	600	600

Table 7(c): Long-term calendar-time abnormal return analysis

This table reports the result of calendar-time abnormal return (CTAR) for the whole sample, successful sample and unsuccessful sample respectively. Fama-French three factor model is used here; alpha and the coefficients for the three factors are reported. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

	Whole sample		**Successful sample**		**Unsuccessful sample**	
	For 1 year	**For 2 years**	**For 1 year**	**For 2 years**	**For 1 year**	**For 2 years**
$\boldsymbol{\alpha}$	0.19%	0.24%**	0.27%	0.41%**	0.04%	0.09%
	(1.42)	(2.16)	(1.30)	(2.33)	(0.29)	(0.80)
$\boldsymbol{\beta MKT}$	0.95***	0.95***	0.92***	0.91***	0.98***	0.97***
	(31.63)	(37.83)	(19.94)	(23.24)	(30.84)	(37.24)
$\boldsymbol{\beta HML}$	0.44***	0.40***	0.48***	0.46***	0.46***	0.41***
	(10.11)	(11.05)	(7.26)	(8.16)	(10.16)	(11.00)
$\boldsymbol{\beta SMB}$	0.009	-0.016	-0.027	-0.06	0.023	-0.0013
	(0.21)	(-0.48)	(-0.43)	(-1.17)	(0.53)	(-0.04)
N	725	725	436	436	289	289

Table 8: Summary of social rating changes of ESG proposals

This table reports the ESG proposal success rate in terms of social rating changes. MSCI ESG KLD Statistics is used. Each proposal is matched to specific KLD item by the content of the issue raised. Success is a dummy indicator for the increase in strength score or decrease in concern score after the proposal.

Areas	No. of resolution	Success rate over 1 year	No. of resolution	Success rate over 2 year
1. Governance				
1.1 Corporate governance	99	12%	93	28%
2. Environment				
2.1 Climate change	56	18%	45	36%
2.2 Ecosystem services	15	7%	12	33%
2.3 Environmental management	98	15%	88	27%
3. Social				
3.1 Public health	35	0%	35	0%
3.2 Human rights	26	8%	24	25%
3.3 Labor standards	107	12%	101	22%
3.4 Business ethics	86	3%	74	12%
3.5 Sustainability management and reporting	102	8%	80	16%
3.6 Plant and animal rights	3	0%	2	0%
3.7 Diversity	26	38%	23	48%
Total Environment and Social Resolutions	554	11%	484	22%
Total/ Average	**653**	**11%**	**577**	**23%**

Table 9: Summary of social change regression of SRI holdings

This table reports regression results for the effect of SRI/SRI activists holdings on the future changes in social scores. The dependent variable is the future changes in KLD scores, KLD strength scores, and KLD concerns scores, respectively. The main independent variable is SRI for (1) to (3) and SRI activist for (4) to (6). This indicates the firm is held by SRI/SRI activist and 0 otherwise, lagged for one year. Control variables include aggregated institutional shareholding, beginning level of KLD scores, size, market-to-book, standardization of returns, leverage, ROA, dividend payout, R&D, SG&A, all lagged for one year. Year fixed effects are also controlled. Industry is controlled by ff48 industry classification. All variables are winsorized at 1st and 99th percentile. t-Statistics are in parentheses. ***, ** and * indicate significance of the coefficient at the 1%, 5% and 10% levels, respectively.

$$\text{Changes in } KLD_{it} = a + \beta_1 * SRI(\text{or SRI activist}) + \beta_2 * X_{it} + \varepsilon_{it},$$

	(1)	(2)	(3)	(4)	(5)	(6)
SRI	0.02***	(0.00)	-0.04***			
	(3.33)	(-0.56)	(-7.12)			
SRI activist				0.04***	-0.00	-0.04***
				(3.53)	(0.86)	(0.00)
Institutional ownership	-0.02	0.01	0.022**	-0.05	-0.04**	0.00
	(-1.62)	(1.20)	(2.14)	(0.05)	(0.03)	(0.98)
Size	0.05***	0.06***	0.02***	0.05***	0.07***	0.02***
	(15.66)	(26.17)	(11.15)	(-0.00)	(0.00)	(0.00)
Market to book	-0.01**	-0.02***	-0.01**	-0.03***	-0.03***	-0.01
	(-2.52)	(-4.17)	(-2.5)	(-0.00)	(0.00)	(0.20)
Std	-0.96**	0.18	1.25***	-1.71***	-0.25	1.56***
	(-2.54)	(0.70)	(5.16)	(-2.85)	(0.56)	(0.00)
Leverage	0.00	0.00	0.00	0.00	0.00	0.00
	(1.14)	(1.44)	(0.84)	(0.96)	(0.79)	(0.42)
ROA	-0.02	-0.00	0.02	-0.02	-0.00	0.01
	(-0.73)	(-0.13)	(0.91)	(0.69)	(0.91)	(0.75)
Dividend pay	0.00	0.00	0.00	0.01	0.01	-0.00
	(0.02)	(0.14)	(0.17)	(0.35)	(0.45)	(0.61)
R&D	0.06	0.11***	0.06	0.20*	0.14	-0.06
	(0.98)	(2.54)	(1.36)	(0.08)	(0.12)	(0.36)
SG&A	0.08***	0.06***	-0.01	0.13***	0.11***	-0.01
	(3.99)	(4.26)	(-0.82)	(0.00)	0.00	(0.73)
KLD	-0.15***			-0.14***		
	(-25.38)			(0.00)		
KLD strength		-0.12***			-0.13***	
		(-20.18)			(0.00)	
KLD concern			-0.17***			-0.17***
			(-29.57)			(0.00)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.19	0.08	0.24	0.13	0.07	0.18
N	16,469	16,469	16,469	8,076	8,076	8,076