Directors' Reelection Pressure and Corporate Social Responsibility: Evidence from Majority Voting Legislation

Zhe Li

School of Business and Management, Queen Mary University of London, Mile End Road, London, United Kingdom E1 4NS
Email: zhe.li1@qmul.ac.uk ; ORCID: https://orcid.org/0000-0003-1442-4499

Bo Wang

Corresponding author. Southampton Business School, University of Southampton, Southampton, United Kingdom SO17 1BJ
Email: b.wang@soton.ac.uk; ORCID: https://orcid.org/0000-0001-9417-2214

Directors' Reelection Pressure and Corporate Social Responsibility: Evidence from Majority Voting Legislation

Abstract

This article employs the enactment of majority voting (MV) legislation in the U.S. as an exogenous shock to directors' reelection pressure to investigate its effect on corporate social responsibility (CSR). Difference-in-difference tests reveal that heightened reelection pressure induced by MV legislation leads to a reduction in firms' overall CSR performance. This decline is primarily driven by cuts to less critical CSR activities that are financially immaterial to shareholders but critically important to other stakeholders. The reduction in CSR is more pronounced in firms where directors face a higher threat of replacement, are more actively involved in decision-making, are financially constrained, and have lower ownership by responsible investors. Further analysis reveals that directors in firms with greater CSR reductions gain increased shareholder support, and these firms also achieve higher shareholder returns. Overall, our research underscores how directors' reelection pressure, intensified by shareholder empowerment, exacerbates conflicts between shareholders and other stakeholders, influencing corporate strategies to deprioritize non-shareholder stakeholder interests.

Keywords: Board of Directors; Reelection Pressure; Corporate Social Responsibility; Material and Immaterial CSR; Majority Voting Legislation

JEL Classifications: G34 G38 M14

1. INTRODUCTION

Corporate Social Responsibility (CSR) has gained significant prominence in the corporate world. While CSR initiatives can be viewed as valuable intangible assets that foster positive relationships with diverse stakeholders and potentially enhance firm value (e.g., Athanasakou, Ferreira and Goh, 2022, Gillan, Koch and Starks, 2021), they do not always align with shareholders' priorities of maximizing value (Borghesi, Houston, & Naranjo, 2014). This is because CSR initiatives allocate resources to non-shareholder stakeholders, providing benefits that do not exclusively serve shareholders (Gloßner, 2019). Shareholders are increasingly concerned that the expected benefits of CSR may not always justify its costs (Buchanan, Cao, & Chen, 2018; Deng, Kang, & Low, 2013). These conflicts have become more apparent as firms increasingly adopt a "follow-the-herd" approach, engaging in CSR initiatives merely to align with trends, public expectations, or political pressures (Edmans, 2023).

Given the complexity and strategic importance of CSR investments, the board of directors plays a crucial role in shaping corporate sustainability strategies, with sustainability becoming a key item on board agendas (Chowdhury, Doukas, & Park, 2021; Ni, 2020). However, directors have a fiduciary duty to safeguard shareholders' interests. If CSR investments fail to align with shareholders' priorities, dissatisfaction may grow, heightening directors' reelection risk and increasing the likelihood of their removal. Consequently, reelection pressure can significantly influence directors' approach to CSR initiatives. Despite its importance, there is limited understanding of how such concerns affect a firm's CSR policies.

With ongoing debate over whether CSR truly serves shareholders' best interests and the recognition that shareholder and stakeholder interests are not always aligned, the ex-ante effect of directors' reelection pressure on their approach to facilitating a firm's CSR activities remains uncertain. If CSR investments are costly to shareholders, will directors facing heightened reelection pressure refrain from supporting CSR activities altogether? Alternatively, if CSR

initiatives benefit shareholders and enhance firm value, will directors advocate for greater CSR involvement to align with shareholder interests? Furthermore, if only certain types of CSR initiatives add value to shareholders while others do not, will directors selectively pursue those that enhance shareholder value to appease shareholders and mitigate reelection risk?

In this article, we aim to answer these questions by examining the impact of directors' reelection pressure on firm CSR performance and activities. However, the presence of apparent endogeneity concerns makes it challenging to identify the causal effect, as the relationship may be influenced by director-firm matching or unobservable firm heterogeneity that simultaneously correlates with directors' reelection pressure and the firm's CSR outcomes. To address this issue, we employ an exogenous shock in director election standards that amplifies directors' job insecurity, namely the adoption of majority voting legislation (hereafter MV legislation), to establish causality and draw meaningful inferences.

MV legislation has been adopted by eleven U.S. states since 2006, granting binding status to the majority voting standard proposed by shareholders and requiring directors to secure a majority of votes to be elected. This standard addresses a critical flaw in the plurality voting system, where directors face minimal election pressure, particularly in uncontested elections (Bebchuk, 2007). By doing so, MV legislation seeks to enhance corporate democracy and increase directors' accountability to shareholders. Previous studies indicate that MV legislation intensifies directors' reelection pressure and influences their strategic decisions (Bebchuk, 2003; Cuñat, Lü, & Wu, 2019; Hsu, Lü, Wu, & Xuan, 2024). Since the legislation increases non-compliance costs for directors who fail to meet shareholder expectations, it encourages directors to focus more on aligning with shareholder priorities (Ertimur, Ferri, & Oesch, 2015; Ertimur, Ferri, & Stubben, 2010).

To answer our research questions, we use the enactment of MV legislation as an exogenous shock to directors' reelection pressure. We empirically analyze a sample of U.S.

firms from 2003 to 2019 using a difference-in-differences (DiD) design. To examine whether heightened directors' reelection pressure leads to an overall change in CSR, we analyze the impact of MV legislation on firm CSR ratings from the MSCI ESG KLD (KLD) database. Our analysis reveals that, on average, firms incorporated in states that implemented MV legislation experience a significant decline in overall CSR performance compared to firms in states where no MV legislation was enacted. Specifically, treated firms in the enacted states exhibit significant reductions in the environmental, employee relations, product responsibility, diversity, and human rights dimensions. Given that CSR seeks to address the interests of stakeholders beyond shareholders, this decline in CSR performance suggests that directors, under increased reelection pressure from shareholders, may be deprioritizing broader stakeholder interests by shifting focus away from CSR initiatives.

To answer the question regarding whether directors selectively reduce CSR initiatives, we follow the procedure outlined in Khan, Serafeim, and Yoon (2016) and Chen, Dong, and Lin (2020) and use the Sustainability Accounting Standards Board (SASB) materiality map to categorize various CSR issues into material and immaterial categories based on their relevance to firm value from shareholders' perspectives. Material CSR issues directly influence a firm's financial performance and value, while immaterial CSR issues are expected to have little financial impact. Our analysis reveals that the exogenous increase in directors' reelection pressure leads to a significant reduction in immaterial CSR, with no observed effect on material CSR. As material CSR directly aligns with shareholder value (Chen et al., 2020), directors appear to preserve these initiatives while scaling back on immaterial ones, which, although less relevant to shareholders, often align with the interests of non-shareholder stakeholders. These findings support the view that MV legislation enhances directors' accountability to shareholders (Choi, Fisch, Kahan, & Rock, 2016; Ertimur et al., 2015). Moreover, our results reveal an important novel insight: heightened director reelection pressure, driven by

shareholder empowerment, can exacerbate conflicts of interest between shareholders and other stakeholders, as directors may prioritize shareholder demands to safeguard their careers, even at the expense of non-shareholder stakeholder interests.

Furthermore, we conduct a detailed analysis of CSR subcategories within the KLD CSR rating matrix, which breaks down each CSR dimension into multiple subcategories. These subcategories vary in importance to firms and shareholders, with some representing substantial risks to firm value while others have a comparatively minor impact. Our findings indicate that the decline in overall CSR performance is largely attributable to reductions in less critical subcategories within each CSR dimension. In contrast, more significant areas that could expose firms to legal actions or regulatory penalties, such as violations of environmental regulations or workplace safety standards, remain unaffected. This aligns with the evidence from Chen et al. (2020), which demonstrates that shareholders are primarily concerned with critical CSR subcategories. These findings further confirm that directors do not disregard all CSR activities. Rather, they selectively avoid addressing minor CSR issues that are less likely to concern shareholders, while ensuring that critical CSR activities are not overlooked. Although the reduction in less critical CSR categories may not directly affect shareholders' interests, it undermines the interests of other stakeholders. This reinforces our argument that heightened director reelection pressure exacerbates conflicts between shareholders and other stakeholders.

Next, we find that the reduction in CSR performance is more pronounced when directors face greater replacement threats, such as in regions with a deep director pool or in firms with a unitary board, supporting the argument that the observed policy changes are driven by directors' reelection risk. Additionally, the reduction is greater in firms where directors are more actively involved in decision-making, such as those with inexperienced CEOs or less co-opted boards, suggesting that the reduction is indeed facilitated by directors. Furthermore, financially constrained firms exhibit sharper declines in CSR, consistent with the idea that

heightened reelection pressure prompts directors to prioritize shareholders' interests over CSR activities that primarily benefit non-shareholder stakeholders (Iliev & Roth, 2023).

We further explore the role of sustainable investors and investor horizons in shaping the observed reduction in CSR performance. Our findings indicate that the reduction in CSR performance is primarily driven by firms with a lower proportion of shares held by responsible investors, while firms with a higher proportion of shares held by responsible investors do not exhibit such reductions. Since responsible investors prioritize sustainable performance (Gibson Brandon, Glossner, Krueger, Matos, & Steffen, 2022), these firms may maintain CSR activities to align with the priorities of their responsible shareholders. However, we do not find a statistically significant difference in the reduction of CSR between firms with long-term and short-term investors. This may be because not all CSR initiatives align with the interests of long-term investors (Dyck, Lins, Roth, & Wagner, 2019), as certain sustainability efforts can be pursued at the expense of long-term value (Edmans, 2023).

Our results are robust across various validity tests, including dynamic analyses to verify parallel trends, falsification tests with 1,000 simulations, stacked DiD analysis, and matched sample analysis. The main findings remain consistent even after excluding firms with director changes following the legislation or firms with CEOs holding outside directorships, effectively ruling out the influence of director-firm matching or changes in CEO incentives. This further mitigates concerns about reverse causality. Additionally, our results hold when restricting the treatment period, excluding firms incorporated in Delaware and voluntary adopters before the MV legislation, and using alternative measures of CSR. We also observe that firms reduce investments in environmental and social commitments, reflecting a decline in CSR inputs consistent with the observed drop in CSR performance.

Finally, we examine the implications of the CSR policy changes on directors' election outcomes and shareholder returns. Our analysis reveals that firms with greater CSR reductions

following the legislation not only see directors receiving higher overall "for" votes but also experience improved shareholder returns. These findings suggest that the reduction in CSR, prompted by heightened reelection pressure, aligns with shareholders' interests.

This paper contributes to the literature by providing firsthand evidence on whether and how an exogenous increase in directors' reelection pressure, driven by shareholder empowerment in board elections, influences directors' commitment to non-shareholder stakeholder interests through CSR engagement. Previous studies examining the impact of directors' career concerns or reelection pressure have primarily focused on outcomes directly relevant to shareholders, such as shareholder payouts, executive compensation (Zhang, 2021), and innovation (Hsu et al., 2024). Our study contributes by expanding the scope of inquiry to include the concerns of stakeholders beyond shareholders, as directors in modern firms face a complex dilemma where they are expected to strike a balance between the interests of both shareholders and other stakeholders. Despite the importance of this issue, the effect of heightened reelection pressure on firm CSR policies has been largely overlooked in the existing literature. Prior research suggests that managers and directors may engage in CSR activities to enhance their reputation as socially responsible and improve their career prospects (Chen, Liao, Tsang, & Yu, 2023; Vo, Le, & Kim, 2023). However, such activities can sometimes be perceived as greenwashing and misaligned with shareholder interests. By examining the disciplinary effects of MV legislation, we address the moral hazard between directors and shareholders, contributing to an understanding of how structural changes in governance frameworks reshape directors' engagement with CSR activities. Our findings confirm that directors strategically shift their focus away from CSR categories considered less important to shareholders while maintaining involvement in those critical to shareholder value to mitigate reelection pressure. While reducing less critical CSR activities may not significantly affect shareholders, these initiatives remain relevant to other stakeholders. Thus, we demonstrate that

stronger shareholder discipline curtails directors' ability to pursue reputation-enhancing CSR activities that are misaligned with shareholder priorities. More importantly, we provide a unique perspective by illustrating how shareholder empowerment shapes board priorities and influences the balance between shareholder and stakeholder interests in CSR policy.

Our results also reveal a mechanism distinct from those proposed by Hsu et al. (2024), Li, Neupane, and Tan (2024) and Wu, Lü, Meng, and Ng (2022), who argue that heightened reelection pressure drives directors to exhibit myopic behavior. Although director myopia could lead to a general reduction in CSR activities due to their long-term nature, the consistent decline across firms with both long-term and short-term horizon investors, coupled with the selective reduction in only financially immaterial CSR categories, suggests that myopia alone does not fully explain the observed outcomes. If myopia were the primary driver, reductions would be observed across all CSR activities. Instead, directors appear to strategically prioritize shareholder-aligned CSR initiatives while deprioritizing those benefiting non-shareholder stakeholders, consistent with the argument that directors prioritize shareholder interests (Ertimur et al., 2015).

This study also contributes to the ongoing debate on the role of voting standards in shaping directors' strategies and their effectiveness in addressing diverse stakeholder concerns in today's business environment. Recent shifts in corporate governance highlight an increasing push to expand boardroom representation beyond shareholders. For instance, during a recent proxy fight at Starbucks, unions advocated for increased employee representation on the board to better address stakeholder concerns. However, the outcome remains tied to shareholder votes. Thus, the current director election process incentivizes directors to prioritize shareholder interests over those of non-shareholder stakeholders, as other stakeholders (e.g., employees) lack representation in board elections. In this regard, our findings align with the literature on stakeholder orientation as a proposed alternative model for modern business practices

(Chowdhury et al., 2021; Ni, 2020). Our results underscore the critical role of voting standards in director elections as key determinants of directors' strategic approaches and engagement with stakeholders.

Finally, we advance the literature on board influence in CSR by shifting the focus from board demographics to incentive-driven behavior under exogenous regulatory changes. While previous studies have primarily concentrated on board characteristics such as gender, talent, or experience (e.g., Bu, Chan, Choi and Zhou, 2021, Iliev and Roth, 2023, Liu, 2018), our study broadens the understanding of the determinants of CSR policies and offers practical insights into aligning governance structures with multi-stakeholder objectives.

The paper is structured as follows: Section 2 covers the institutional background and hypotheses. Section 3 details the methodology and data. Section 4 examines the impact of MV legislation on CSR, explores cross-sectional implications, and presents robustness checks. Section 5 investigates the effects of CSR reduction on shareholder outcomes, and the final section concludes.

2. INSTITUTIONAL BACKGROUND, LITERATURE REVIEW, AND HYPOTHESIS DEVELOPMENT

2.1 Majority Voting Legislation

Until 2006, the default mode for director elections in the U.S. was the plurality voting standard, where directors with the most votes won, regardless of whether they achieved a majority. In uncontested elections, where the number of directors nominated equals the number of available board seats, directors could be elected with minimal support—sometimes with just one vote if all other votes are withheld. Consequently, directors faced limited election pressure, and shareholders had little influence over the election or removal of directors (Bebchuk, 2007). The system has been heavily criticized for failing to promote corporate democracy (Norris, 2004),

and the Council of Institutional Investors regards the plurality system as a fundamental flaw in the U.S. corporate governance framework.

To address the above concerns, shareholder activists advocated for the majority voting standard in director elections. Under this standard, a director must secure more "for" votes than "against" votes to be elected.[1] Otherwise, they might be required to step down, or the board might need to reconsider their nomination. Beginning in 2006, shareholder proposals to amend bylaws and establish an MV standard became binding in some U.S. states. For example, the Delaware General Corporation Law (DGCL) and the Model Business Corporation Act (MBCA) enabled shareholders to amend bylaws for director elections, prohibiting boards from unilaterally overturning these changes. Since then, eleven states have enacted similar legislation, and firms in these states are more likely to implement MV in director elections compared to firms in states that have not enacted such laws (Cuñat et al., 2019).

However, the transition to the MV standard has sparked intense debate. Critics argue that implementing majority voting could cause excessive disruption in the boardroom and, consequently, in firm policies. For instance, to reduce the likelihood of dismissal, directors may act myopically by prioritizing short-term firm performance at the expense of long-term investments (Hsu et al., 2024; Li et al., 2024) and may be more likely to engage in upward earnings management (Wu et al., 2022). The effectiveness of majority voting in disciplining directors has also been questioned. Cai, Garner, and Walkling (2013) find that majority voting has limited effects on director turnover or market reactions.[2] Strikingly, evidence from Choi et al. (2016) and Ertimur et al. (2015) even shows that directors are more likely to receive a majority of "for" votes under the majority voting standard than under the plurality voting

[1] Any shares that abstain from voting are not counted in the calculation of the majority. See details at https://www.sec.gov/spotlight/proxymatters/voting mechanics.shtml.

[2] Cai et al. (2013) performs event studies around the announcement of MV and the proxy filing dates to conduct their study. However, as Ertimur et al. (2015) and Gillan and Starks (2007) note, event studies centered on these dates face several issues, such as event contamination, which may distort the findings.

system. Based on these findings, several studies regard majority voting as ineffective in disciplining directors.

Advocates of majority voting argue that it enhances shareholder influence by providing a structural mechanism to remove directors, thereby offering shareholders a direct way to express their preferences and promote better corporate governance practices (Choi et al., 2016). Since MV legislation increases directors' noncompliance costs—such as time-consuming proxy fights, reputation loss, or even dismissal—related to shareholder demands, this heightened job insecurity ensures greater accountability to shareholders by motivating directors to align with their expectations.[3] Choi et al. (2016) find that directors under the MV system are more likely to regularly attend board meetings and less likely to receive a "withhold" recommendation from Institutional Shareholder Services (ISS) compared to those under the plurality voting system. Similarly, Ertimur et al. (2015) report that the adoption of MV legislation is associated with positive abnormal stock returns and increased implementation of shareholder proposals. These findings help explain the higher shareholder support for directors under the majority voting standard documented by Choi et al. (2016) and Ertimur et al. (2015), reinforcing the argument that MV legislation fosters a stronger alignment of interests between directors and shareholders (Bebchuk, 2007; Choi et al., 2016; Ertimur et al., 2015).[4]

In summary, the minimal ex-post effect of MV legislation on director turnover documented in some studies may not reflect its ineffectiveness but rather its success in motivating directors' behavioral changes. MV adoption amplifies directors' reelection pressure, increasing scrutiny even for those who retain their positions. The need to secure majority shareholder votes drives directors to proactively demonstrate their value and responsiveness to shareholders (Ertimur et al., 2015). Consequently, MV adoption acts as an exogenous shock

[3] Previous studies also indicate that directors who are voted out at one firm may also lose board seats at other firms where they serve (Fos & Tsoutsoura, 2014), further exacerbating the non-compliance costs.
[4] See also https://www.wsj.com/articles/SB10001424052748703632304575451892123490472.

that heightens directors' reelection pressure, providing a foundation to establish causality between directors' reelection pressure and firm policies (Hsu et al., 2024; Wu et al., 2022).

2.2 Director Reelection Pressure and Overall CSR Performance

Implementing CSR strategies often requires substantive changes in corporate practices related to environmental stewardship, human rights protection, employee benefits, product sustainability, community engagement, and more. While CSR strategies may primarily aim to enhance the welfare of diverse stakeholders beyond shareholders, their direct impact on shareholder value remains inconclusive, as prior research has documented mixed results (see Malik, 2015, for a review). On the positive side, stakeholder theory perceives that CSR activities can help build good relationships with various stakeholders, which may, in turn, reduce the cost of capital (Dhaliwal, Li, Tsang, & Yang, 2011), improve financial performance (Lins, Servaes, & Tamayo, 2017), and increase firm value (Ferrell, Liang, & Renneboog, 2016). However, another strand of literature argues that implementing CSR policies represents a costly diversion of a firm's valuable resources or reflects agency issues, coming at the direct expense of shareholders and thereby decreasing firm value (Brammer, Brooks, & Pavelin, 2006; Di Giuli & Kostovetsky, 2014; Masulis & Reza, 2014).

Although CSR activities may provide certain benefits for various stakeholders, a substantial portion of these benefits is directed toward non-shareholder stakeholders, and not all CSR initiatives align with shareholders' best interests (Bénabou & Tirole, 2010; Gloßner, 2019). Shareholders may remain dissatisfied, perceiving that the resources allocated to CSR could be better utilized on activities more directly aimed at increasing their wealth, and that the limited gains from CSR may not justify its costs (Margolis, Elfenbein, & Walsh, 2011). Di Giuli and Kostovetsky (2014) show that firms often struggle to recoup CSR-related expenses through increased sales, and that higher CSR ratings are associated with negative future stock returns and decreased accounting performance. Additionally, managers may engage in CSR

activities due to agency issues, such as improving their own public image, which can come at the expense of shareholder value (Cheng, Hong, & Shue, 2023; Masulis & Reza, 2014).

Evidence suggests that shareholders may react negatively to CSR activities that appear misaligned with their interests. For instance, Gillan, Hartzell, Koch, and Starks (2010) show that institutional ownership declines when firms improve their sustainable investments (and thus their green ratings), implying that shareholders view such actions as potentially detrimental to their value. Krüger (2015) provides direct evidence that shareholders respond unfavorably to positive CSR announcements, reflecting broader skepticism toward CSR investments perceived as self-serving or diverging from a shareholder wealth-maximization focus.

Recent trends in the investment world highlight a shift in investor sentiment regarding sustainable investments. Prominent advocates of responsible investing, such as BlackRock and Vanguard, have begun scaling back their sustainable initiatives amid growing concerns that the benefits of these investments may have been overstated (Pucker, 2023). Notably, global climate funds experienced net outflows of nearly $24 billion in the first nine months of 2024. This downturn is attributed to the underperformance of renewable energy stocks, concerns about greenwashing, and rising anti-ESG sentiment.[5] These adjustments reflect broader skepticism about CSR's capacity to generate shareholder value.

To ensure that firms engage in activities aligned with shareholder interests, investors may rely on directors to monitor and advise management. Empirical studies demonstrate that boards play a pivotal role in shaping CSR practices by integrating discussions into committee meetings, approving resource allocations, linking executive compensation to sustainability performance, adhering to global reporting frameworks, and opting for third-party verification

[5] See https://www.reuters.com/sustainability/sustainable-finance-reporting/global-climate-funds-set-first-annual-outflows-morningstar-says-2024-11-21/?utm_source=chatgpt.com for details.

of disclosures (Iliev & Roth, 2023). Board characteristics are closely tied to CSR outcomes: for instance, Borghesi et al. (2014) find that firms led by female directors perform better on sustainability, Bu et al. (2021) highlight the role of talented directors in enhancing CSR effectiveness, and Iliev and Roth (2023) show that U.S. firms benefit from directors with experience in foreign sustainability reforms, as these directors contribute to improvements in their firms' sustainability performance. These findings underscore the board's essential role in shaping CSR strategies.

The increased reelection pressure for directors following the implementation of MV legislation has significantly influenced their behavior. Shareholders have utilized the MV standard as a mechanism to push boards to address their concerns, and heightened reelection pressure has prompted directors to be more responsive to shareholder preferences and demands (Ertimur et al., 2015; Ertimur et al., 2010). As a result, potential conflicts of interest between shareholders and other stakeholders become particularly relevant. CSR benefits are often disproportionately directed toward non-shareholder stakeholders and may not directly enhance shareholder value (Sun, Yao, & Govind, 2019). Shareholders may perceive such initiatives as a diversion of resources that could otherwise be allocated to activities with clearer financial returns. Given these dynamics, shareholders may expect their board representatives to advocate for activities that deliver measurable financial benefits rather than CSR initiatives primarily aimed at addressing broader societal and environmental concerns.

In conclusion, under the majority voting standard, directors guiding a firm's CSR policies face an increased risk of dismissal if these investments fail to deliver satisfactory returns for shareholders. This heightened job insecurity motivates directors to facilitate policy changes and prioritize shareholder expectations (Ertimur et al., 2015; Zhang, 2021). Given the board's role in guiding resource allocation and implementing CSR initiatives (Amin, Chourou, Kamal, Malik, & Zhao, 2020; Jo & Harjoto, 2011), changes in directors' incentives driven by

MV legislation can significantly impact a firm's CSR outcomes. Considering the uncertain impact of CSR on shareholder value, the potential agency issues it presents, and concerns that much of its benefits flow to non-shareholder stakeholders, shareholders may prefer their board representatives to limit substantial resources allocated to CSR initiatives. To mitigate their reelection pressure, directors may choose to scale back the firm's broader CSR activities, potentially leading to a decline in overall CSR performance. Based on this reasoning, we propose the following hypothesis:

H1: *Majority voting legislation-induced heightened directors' reelection pressure causes significant reductions in firms' CSR performance.*

2.3 Director Reelection Pressure, Material and Immaterial CSR

Shareholders may still recognize the positive value impact of CSR activities. For instance, as society increasingly scrutinizes the negative externalities produced by firms, companies face mounting pressure to address sustainability challenges. Failure to do so can result in negative consequences, such as regulatory penalties or reputational harm (Nofsinger, Sulaeman, & Varma, 2019). Krüger (2015) finds that CSR-related incidents can lead to significant negative abnormal stock returns. Similarly, Fairhurst and Greene (2022) show that both very low and very high CSR scores can be detrimental, highlighting the need for a balanced approach to CSR engagement. Consequently, firms may adopt CSR policies as a strategic tool for managing these risks (Kim, Lee, & Kang, 2021). This perspective suggests that CSR may still hold value for shareholders, and directors who are more accountable to shareholders may not necessarily reduce CSR activities entirely.

It is worth noting that CSR is a broad concept, and not all CSR activities align with shareholders' interests (Gloßner, 2019). Research suggests that the materiality of CSR issues to shareholders varies across industries, with certain sustainability issues holding greater importance than others (Eccles & Serafeim, 2013; Khan et al., 2016). For instance, greenhouse

gas emissions might be highly material for industrial firms, but they may be immaterial for financial firms. The SASB has developed standards to distinguish between financially material and immaterial Environmental, Social, and Governance (ESG) practices for firm operating in different sectors. Positive material sustainability performance has the potential to enhance firm performance and shareholder value (Khan et al., 2016), whereas immaterial incentives generally do not significantly impact shareholder value but primarily benefit non-shareholder stakeholders. Recent studies indicate that shareholders primarily focus on maintaining strong material CSR performance to mitigate risks that could harm firm value (Chen et al., 2020).

Under the majority voting system, heightened reelection pressure drives directors to become more accountable to shareholders (Choi et al., 2016; Ertimur et al., 2015). This accountability may incentivize them to be more diligent with CSR, assessing not only the overall level of CSR activities but also the materiality of specific CSR initiatives to determine their impact on shareholder value. As such, directors may closely monitor and advise on CSR activities, limiting those misaligned with shareholder priorities or associated with agency issues, while prioritizing initiatives that are more shareholder centric. This argument draws on the findings of Gloßner (2019), who shows that blockholders, who have a greater interest tied to the firm and substantial influence over its policies, tend to scrutinize CSR strategies carefully. They are incentivized to carefully analyze different types of CSR initiatives, supporting only those that serve shareholder interests.

In summary, the adoption of MV laws places directors under increased pressure to align more closely with shareholder interests. This pressure motivates directors to ensure that the firm adopts a CSR strategy that serves shareholders' best interests, thus alleviating their reelection pressure. Immaterial CSR activities, which primarily benefit non-shareholder stakeholders and are often associated with agency issues, do not provide direct benefits to shareholders (Hoang & Phang, 2023). As a result, immaterial CSR initiatives may increase

shareholder dissatisfaction and amplify directors' reelection pressure. In contrast, material CSR initiatives, which directly impact shareholder interests, tend to receive stronger support from shareholders (Chen et al., 2020). Directors are therefore more likely to endorse material CSR efforts, as doing so aligns with shareholder preferences and mitigates career risks. Thus:

H2: *The heightened reelection pressure on directors induced by majority voting legislation leads to a significant reduction in firms' immaterial CSR performance rather than their material CSR performance.*

3. EMPIRICAL FRAMEWORK AND DATA

3.1 Estimation Strategy

To enhance corporate governance practices and increase board accountability, eleven states implemented MV legislation in staggered phases beginning in 2006. Table A.1 of the Appendix lists the states and the year of adoption. Delaware, California, and Florida were the first states to adopt MV legislation in 2006, while New Hampshire was the most recent state to do so in 2013. The enactment of MV legislation leads to increased implementation of the MV standard in firms incorporated in these states (Cuñat et al., 2019), subjecting directors to heightened reelection pressure and an increased risk of removal (Hsu et al., 2024). We, therefore, use the implementation of the majority voting standard in U.S. states as an exogenous shock to directors' job insecurity to identify the causal relationship between heightened directors' reelection pressure and firm CSR performance and activities.

Previous studies, such as Hsu et al. (2024) and Wu et al. (2022), document an increased director turnover-performance sensitivity following the implementation of MV legislation. Notwithstanding the prior evidence, we corroborate the validity of MV legislation as an exogenous shock to director job security by examining its impact on director turnover-performance sensitivity in Item IA.1 of the Internet Appendix. Our evidence confirms that the adoption of MV legislation introduces a plausible exogenous shock to directors' reelection

pressure. In addition, to address concerns that the enactment of MV legislation could be influenced by varying state-level economic conditions or sustainability initiatives, which may, in turn, affect firm CSR performance, we follow the methodology of Acharya, Baghai, and Subramanian (2014). Specifically, we employ Weibull hazard models, with the adoption of MV legislation as the "failure event", to assess whether state-level macroeconomic conditions and CSR outcomes influence its adoption. Our findings show no significant relationship between local CSR initiatives, economic and political conditions, and the adoption of MV legislation, supporting the assumption that the implementation of MV legislation is unlikely to be directly related to firm-specific reasons for CSR. Detailed results are discussed in Item IA.2 of the Internet Appendix. Furthermore, we conduct multiple tests in Section 4.6 to confirm the validity of MV legislation as an exogenous shock.

Due to the staggered implementation of MV laws in U.S. states, we adopt a DiD framework with multiple sets of treated groups and time intervals, as in Bertrand and Mullainathan (2003), to design our test. Specifically, the treated group includes firms incorporated in states that implemented MV legislation. As such, our control group includes observations of firm-years in states that refrained from adopting MV legislation during our sample period, as well as firm-year data preceding the enactment of MV legislation in states that eventually adopted it. We estimate the following model to test our hypotheses:

$$CSR\ Performance_{i,s,t} = \alpha + \beta_1 MV\ Law_{i,s,t} + \sum \beta_m Controls_{i,s,t-1} + \sum \beta_n FE_{i,j,t} + \varepsilon_{i,s,t} \quad (1)$$

where *CSR Performance* represents the CSR rating scores for the firm from KLD. *MV Law* is a dummy variable that takes a value of one for years after the adoption of MV legislation by the state of incorporation *s* of the firm *i*, and zero otherwise. We control for an array of firm, board, CEO, and ownership variables used in prior research to explain firm CSR performance (Adhikari, 2016; Chen et al., 2020; Dyck et al., 2019; Ferrell et al., 2016). These include *Firm*

Size, *Tobin's Q*, *Sales Growth*, *Leverage*, *ROA*, *Cash Holding*, *PPE*, *R&D*, *Dividend*, *Board Size*, *Board Independence*, *CEO Duality*, and *Institutional Ownership*. Detailed variable constructions are presented in Table A.2 of the Appendix.

As our setting involves multiple treatment groups and time periods, we include both group and time effects (Imbens & Wooldridge, 2009). Specifically, firm fixed effects (FE_i) are included to control for firm-level, time-invariant omitted variables. Additionally, because many U.S. public firms have different incorporation and headquarter states, we follow Bertrand and Mullainathan (2003) and Hsu et al. (2024) by including headquarter state region-by-year fixed effects ($FE_{j,t}$) to control for various shocks in the headquarter region that may affect CSR.[6] Following Gopalan, Gormley, and Kalda (2021) and Zhang (2021), standard errors are adjusted for heteroskedasticity and clustered by firm and year. β_1 captures the difference-in-differences in CSR performance between the treated and control firms due to the adoption of MV legislation. *H1* predicts a significantly negative β_1, as heightened director' reelection pressure following the enactment of MV legislation results in reduced firm-level overall CSR performance. *H2* predicts a significantly negative β_1 only when the dependent variable is the firm's immaterial CSR performance, but not when it is material CSR performance.

3.2 Data and Sample

We obtain data on company CSR from the KLD database, which provides performance ratings for assessing public firms' CSR activities and disclosure quality. The KLD database identifies several key stakeholder dimensions: environment, community, human rights, employee relations, diversity, product quality, and corporate governance. Since the corporate governance dimension primarily serves shareholder interests, and majority voting is designed to enhance corporate governance mechanisms, we exclude the corporate governance dimension from the

[6] In unreported tests, we find our results are robust when controlling for firm, year, and headquarters state region fixed effects, as well as when only controlling for firm and year fixed effects.

CSR score construction to isolate the influence of internal governance regulations on changes in company CSR strategies (Cronqvist & Yu, 2017). For each dimension, KLD identifies positive indicators (strengths) and negative indicators (concerns) for a series of subcategories. Strength indicators represent firms that have notable stakeholder-oriented engagement programs for a given subcategory, while concern indicators reflect the severity of controversies related to a firm's activities. A value of one is assigned to a subcategory if the firm meets the relevant condition, and zero otherwise. Next, we follow previous studies to sum up the strengths (concerns) indicators as the *CSR Strength* (*CSR Concern*) score. The firm's overall CSR performance (*CSR Performance*) is calculated as the difference between *CSR Strength* and *CSR Concern*.

To determine the materiality of firm-level CSR ratings, we adopt the approach outlined by Chen et al. (2020) and Khan et al. (2016) to hand map the CSR performance ratings from KLD to industry-specific materiality guidelines established by the SASB. Each KLD subcategory is classified as either material or immaterial for firms within each sector based on the SASB materiality map.[7] We calculate the material CSR strength score as the sum of all material strength indicators and the material CSR concern score as the sum of all material concern indicators. We then construct firm-level material CSR performance by subtracting material concerns from material strengths. Similarly, immaterial CSR performance is constructed using categories that are not classified as material.

Data on company fundamentals are retrieved from Compustat, and data on the board of directors are from BoardEx. We extract data on institutional ownership from Refinitiv Institutional (13f) Holdings. Information on the firm's incorporated state and historical

[7] As in Chen et al. (2020), firms are classified into ten SASB sectors: Consumption, Financials, Healthcare, Infrastructure, Nonrenewable Resources, Renewable Resources and Alternative Energy, Resource Transformation, Services, Technology and Communications, and Transportation. In Item IA.3 of the Internet Appendix, we present the mapping of material SASB topics to KLD data items for different sectors, as outlined by Chen et al. (2020) and Khan et al. (2016).

headquarters' state is collected from the SEC Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database. The sample period starts in 2003 because BoardEx's coverage is limited before that year.[8] The sample ends in 2019 because this is the last year of KLD data available through the Wharton Research Data Services (WRDS) data portal. Financial institutions (SIC codes 6000–6999) and regulated utilities (SIC codes 4900–4999) are excluded from the analysis. The final dataset includes 19,730 firm-year observations from 2,677 unique firms.

Table 1 presents summary statistics for the sample. Approximately 55.4% of our firm-year observations are from the post-MV legislation period, a proportion within the range (47.1% - 65.5%) reported by Hsu et al. (2024) and Wu et al. (2022). The mean (median) *CSR Performance* for our sample firms is 0.192 (0.000), consistent with the values reported by Adhikari (2016) and Chen et al. (2020). Key firm and board characteristics, including *Firm Size*, *Sales Growth*, and *Board Independence*, align with those reported in prior studies (e.g., Hsu et al., 2024, Iliev and Roth, 2023).

[Table 1 about here]

4. THE EFFECT OF MV LEGISLATION-INDUCED DIRECTORS' REELECTION PRESSURE ON FIRM CSR PERFORMANCE

4.1 Main Results

We begin our analysis by examining the effect of the staggered adoption of MV legislation on firm overall CSR performance, using Eq. (1). Table 2 presents the regression results. The dependent variable in Column (1) is *CSR Performance*, representing the overall CSR performance ratings of the firm. The coefficient on *MV Law* is -0.238 and statistically significant at the 1% level. This finding suggests that, on average, the overall CSR performance

[8] Starting the sample in 2003 also eliminates the potential impact of the adoption of the Sarbanes–Oxley Act in 2002 on director elections.

rating decreases by 0.238 for treated firms following the enactment of MV legislation. Given the standard deviation for *CSR Performance* is 2.083 for our sample firms, the reduction is approximately 11.43% variation in *CSR Performance*.[9]

[Table 2 about here]

Since the firm's overall CSR performance is the net result of its CSR strengths and concerns, we separately examine the influence of MV legislation on *CSR Strength* and *CSR Concern* in Columns (2) and (3), respectively, to provide deeper insight into the decreased CSR performance.[10] We do not find a significant reduction in firms' CSR strength scores, albeit the negative coefficient on *MV Law* (-0.073) in Column (2). On the contrary, the coefficient on *MV Law* is positive (0.191) and statistically significant at the 1% level in Column (3) for CSR concern scores. Thus, the declines in the overall CSR performance following the adoption of MV legislation is predominantly attributed to the increase in CSR concerns, rather than a reduction in CSR strengths.

The absence of significant changes in CSR strengths suggests that firms have maintained their existing positive CSR initiatives, potentially due to the reputational and relational benefits these initiatives offer to shareholders and other stakeholders. In contrast, CSR concerns often indicate adverse outcomes that were not promptly addressed. The increase in CSR concerns implies that directors are not actively mitigating new or ongoing negative impacts on broader stakeholders arising from firm operations. One possible explanation is that

[9] Determining the economic significance of changes in CSR rating is challenging. Chen et al. (2020) and Di Giuli and Kostovetsky (2014) demonstrated that a one-point increase in the KLD CSR rating score results in a 6.1% to 6.4% rise in Selling, General, and Administrative (SG&A) expenses. This increase occurs because many CSR activities, such as charitable giving, pollution prevention, and employee health and safety programs, require additional spending categorized under SG&A expenses. In an unreported test following Di Giuli and Kostovetsky (2014), we find that a one-point increase in the KLD CSR rating score corresponds to a 6.22% increase in SG&A expenses within our sample. Given that our sample mean value of SG&A is $859.459 million, the observed 0.238-point reduction in CSR rating translates into estimated savings of $12.723 million (=859.459 × 6.22% × 0.238) in SG&A costs. Considering that the mean net income of our sample firms is $279.198 million, this effect constitutes 4.56% of the net income, representing a substantial saving for shareholders.

[10] Mattingly and Berman (2006) and Walls, Berrone, and Phan (2012) contend that positive and negative social actions represent distinct empirical and conceptual constructs. As such, the CSR strengths and concerns are not anchors on a shared continuum, and CSR concern is not merely the inverse of CSR strength, nor *vice versa*.

discontinuing established positive CSR activities might trigger stronger backlash from the market than neglecting new or emerging concerns. Additionally, addressing CSR concerns typically entails substantial upfront costs, directors may choose to uphold the current positive CSR initiatives while refraining from investing in efforts to address new concerns that primarily affect non-shareholder stakeholders.

In summary, consistent with *H1*, the negative relationship between heightened directors' reelection pressure and firm CSR performance shown in Table 2 suggests that the increased reelection risk following the adoption of MV legislation incentivizes directors to re-evaluate their approach to CSR. This results in the board placing less emphasis on CSR activities, which often have uncertain and diffuse benefits shared among a broad range of stakeholders.

4.2 Dimensions of CSR Performance

CSR is a multidimensional concept, and our CSR performance measure is based on six dimensions. To better understand which social constructs are most affected by directors' reelection pressure, we examine the effect of MV legislation on each CSR dimension separately and report the results in Table 3.

[Table 3 about here]

Panel A presents the impact of heightened directors' reelection pressure on the overall performance of each CSR dimension. The coefficients of *MV Law* are consistently negative and statistically significant in all columns, except in Column (6), where the dependent variable is the community dimension score. Treated firms in the enacted states exhibit significant reductions in the environmental, employee relations, product responsibility, diversity, and human rights dimensions. However, the community dimension does not show a significant decline. A plausible explanation for the community dimension's insignificance is that, unlike other dimensions directly tied to corporate stakeholders (e.g., employees, customers), this dimension focuses on broader community well-being. Strong community engagement can

enhance directors' public image (Masulis & Reza, 2014), potentially helping them maintain their current board positions or secure future roles. As a result, heightened reelection pressure may not lead to a significant reduction in this dimension.

We then extend our analysis on firm CSR strengths and concerns of each dimension in Panels B and C, respectively. In Panel B, we find no significant reductions in CSR strengths across any dimension. Consistent with our baseline results in Table 2, Panel C shows a significant increase in CSR concerns across five of the six dimensions (excluding the community dimension) for treated firms after the implementation of MV legislation.

4.3 Material and Immaterial CSR Performance

Although CSR initiatives require substantial financial outlays, they have the potential to generate tangible benefits for shareholders (Ferrell et al., 2016). Furthermore, failure to address critical CSR issues may expose firms to legal disputes, which could decrease firm value and heighten shareholder dissatisfaction. In such instances, reducing CSR might actually intensify, rather than alleviate, directors' reelection pressure. To further explore the dynamics between directors' reelection pressure and CSR, we test *H2* by investigating the reduction in material and immaterial CSR according to the SASB materiality map.

Table 4 presents the results of how the adoption of MV legislation affect firm material and immaterial CSR performance. We find statistically insignificant coefficients on *MV Law* in Columns (1) to (3) when examining firm material CSR performance, strengths, and concerns, suggesting the exogenous increase in directors' reelection pressure does not change firms' policies regarding material sustainability issues. In contrast, the coefficient on *MV Law* is negative and significant in Column (4) when the dependent variable is the firm's immaterial CSR performance. Columns (5) and (6) reveal that the reduction in immaterial CSR performance is attributable to both a decrease in immaterial CSR strengths and an increase in immaterial CSR concerns. Thus, heightened reelection pressure primarily motivates directors

to scale back the firm's immaterial CSR initiatives, while leaving financially material issues, which hold greater relevance to shareholders, unchanged.

[Table 4 about here]

The meaning of the results is twofold. First, since material CSR issues significantly impact firm value and are prioritized by shareholders (Chen et al., 2020), the lack of change in these issues aligns with the notion that directors are putting shareholders' interests at the forefront (Ertimur et al., 2015). Second, although immaterial CSR issues may not have a direct financial impact on shareholders, they do benefit other stakeholders. Directors' policies that reduce immaterial CSR performance suggests that they are willing to neglect the interests of non-shareholder stakeholders when facing heightened job insecurity. Overall, the findings in Table 4 indicate that the implementation of MV legislation intensifies the conflicts between shareholders and other stakeholders, as directors may sacrifice the interests of non-shareholder stakeholders in favor of prioritizing shareholders' interests.

4.4 CSR Subcategories under Each Dimension

Note that the KLD database categorizes each dimension of the CSR matrix into various subcategories of strengths and concerns. While our classification of material and immaterial CSR is based on the SASB grouping of these subcategories, in this section, we examine each subcategory independently to gain deeper insight into specific aspects of CSR that may experience changes. Specifically, we investigate a total of 70 subcategories of CSR strengths and concerns across the six CSR dimensions used to construct our CSR performance measure. For conciseness, Table 5 presents only the coefficients on *MV Law* for those subcategories most significantly impacted by MV legislation.

[Table 5 about here]

Panel A shows that only certain concerns that either not classified as immaterial for any sector by SASB or relegated to the "Other" categories in KLD ratings become relevant when

director job insecurity is heightened. For instance, concerns regarding union relations significantly increased for firms in states that enacted the MV legislation. This uptick indicates that treated firms are involved in disputes concerning unions, which include activities such as anti-union measures, and attempts to prevent non-unionized employees from unionizing and strikes. We also observe an increase in other concerns regarding employee relations, products, and diversity dimensions. These results suggest that the firm may be entangled in employee relations issues, controversies involving its franchise or product-related disputes, and diversity-related concerns that are not covered by MSCI ESG Research.

While the overall CSR strength remains unaffected by the enactment of MV legislation, Panel B reveals significant reduction in certain immaterial subcategories. For example, the strength in packaging materials and waste within the environmental dimension is significantly reduced. The decrease suggests that firms may have ceased utilizing recycled materials for their packaging. Additionally, human capital other strength in the employee dimension that is not covered by MSCI ESG Research also experiences a significant reduction. Furthermore, charitable giving under the community dimension decreased significantly, consistent with findings by Chen et al. (2020), who show that shareholders do not encourage investment in this initiative. Nevertheless, these changes are considered immaterial and less critical.

Collectively, findings from Tables 4 and 5 show that changes in CSR performance are primarily associated with immaterial CSR issues rather than material ones, suggesting that directors strategically adjust CSR policies in response to heightened reelection pressure. Directors maintain efforts on critical CSR issues to avoid potential legal or reputational risks that could harm firm value.[11] However, they reduce involvement in immaterial CSR activities that are less directly tied to shareholder value. Although these changes may not be financially

[11] Such as violations of employee health and safety standards, breaches of environmental regulation, or the offering of unsafe products and services.

material for shareholders, they can still disadvantage non-shareholder stakeholders, such as employees affected by increased concerns in union relations. Thus, these findings further support our argument that directors' increased attention towards shareholder interests, resulting from shareholder empowerment, disadvantages other stakeholders.

4.5 Cross-sectional Variations

We've demonstrated that the exogenous increase in directors' reelection pressure leads to a reduction in firm CSR performance. However, the board's influence on firm policies may vary depending on characteristics at the director, firm, or investor level. In this section, we examine several contextual factors that may impact the effect of MV legislation on firm CSR performance and present our results in Table 6.

[Table 6 about here]

4.5.1 Directors' Reelection Pressure Intensity

We first exploit variations in the intensity of directors' reelection pressure. To the extent that greater reelection pressure leads directors to shift away from broader CSR initiatives, we can expect the effect of MV legislation on the reduction in CSR performance to be more pronounced in situations where directors face a higher threat of replacement.

In Columns (1) and (2) of Panel A, we examine the threat from the local labor market on directors' CSR decisions. Prior research indicates that directors experience greater job insecurity in regions with a deeper pool of available directors, as replacement becomes easier for firms (Knyazeva, Knyazeva, & Masulis, 2013). Consequently, directors serving firms located in areas with a deep director pool may have stronger incentives to shift away from CSR to align with shareholder interests. Following Knyazeva et al. (2013), we measure the depth of the local director pool as the number of firms headquartered within 60 miles of the focal firm,

excluding those in the same industry.[12] We then split firms into two groups based on the median local director pool size and re-estimate Eq. (1) for each subgroup. Column (1) presents results for firms in areas with an above-median local director pool (Deep director pool), while Column (2) shows results for those in areas with a below-median pool (Shallow director pool). The coefficient on *MV Law* is negative and highly significant in Column (1) but statistically insignificant in Column (2), with the difference between the coefficients significant at the 5% level. This finding suggests that the enactment of MV legislation has a stronger impact on CSR performance reduction for those located in areas with a deep director pool, where directors are under greater replacement threats and have greater incentives to meet shareholders' expectation.

In Columns (3) and (4), we analyze job insecurity related to board structure. Staggered boards consist of multiple director classes, with typically only one class up for election each year, thereby offering directors greater job security than a unitary board (Zhang, 2021). Directors on a unitary board, therefore, may be more inclined to support policy changes that align with shareholder interests to mitigate reelection pressure. Columns (3) and (4) report results for firms with a unitary board and a staggered board, respectively. There is a clear difference between the coefficients on *MV Law* between the two groups, as the coefficient on *MV Law* is negative and statistically significant in Column (3), but statistically insignificant in Column (4). The results confirm that directors exhibit stronger policy responses when serving on unitary boards, where job insecurity is greater following the enactment of MV legislation.

In summary, the results in Panel A support the director election risk perspective, with CSR performance reductions being more pronounced where directors face heightened reelection pressure and incentives to prioritize shareholder interests.

[12] Knyazeva et al. (2013) show that only 2% to 3.5% of independent directors come from the same industry due to concerns about disclosing proprietary information to competitors. In addition, by excluding firms in the same industry, the measure of the local director pool becomes unrelated to local industry clusters.

4.5.2 Directors' Scope of Action in Firm Strategies

In Panel B of Table 6, we explore variations in the relationship between directors' reelection pressure and CSR performance based on directors' latitude of action in shaping firm policies. If reduced CSR performance is indeed instrumented by directors, we can expect a greater reduction for firms whose directors are more actively involved in corporate strategies.

First, we consider CEO experience. Prior studies document that the board of directors plays a more important role in determining firm policies when the CEO is less experienced, as such CEOs rely more on the board's counsel (Westphal, 1999). Therefore, we anticipate a larger reduction in CSR performance in firms with less experienced CEOs. To test this prediction, we divide firms into two groups based on the median CEO tenure. Column (1) reports results for firms with shorter-tenured CEOs (Inexperienced CEOs), and Column (2) presents results for firms with longer-tenured CEOs (Experienced CEOs). The coefficient on *MV Law* is -0.444 in Column (1) and -0.176 in Column (2). The statistically significant difference between the two confirms a greater reduction in CSR performance for firms with inexperienced CEOs, where directors exert more influence over firm policies.

In Columns (3) and (4), we consider board co-option. Directors appointed after the CEO assumes office are often viewed as co-opted, as they may feel allegiance to the CEO who was involved in their selection. As a result, co-opted boards typically exhibit lower levels of engagement in strategic decision-making (Baghdadi, Nguyen, & Podolski, 2020; Coles, Daniel, & Naveen, 2014). If directors are indeed instrumental in driving CSR policy changes, we would expect a more pronounced decline in CSR performance for firms with fewer co-opted directors. Columns (3) and (4) display the regression results for firms with low and high proportions of co-opted directors, respectively. Although the coefficients on *MV Law* are negative in both columns, only the coefficient in Column (3) is statistically significant for firms with a low proportion of co-opted directors, where directors are more actively involved in firm policies.

Collectively, the heterogeneous effects presented in Panel B support the notion that CSR reductions are mainly driven by directors.

4.5.3 The Firm's Financial Position

Next, we examine the firm's financial position in Panel C of Table 6. Previous studies suggest that financial constraints may lead firms to deprioritize sustainable initiatives, as addressing long-term sustainability issues may not align with immediate financial priorities, and CSR spending constitutes a significant cost (Bartram, Hou, & Kim, 2022; Xu & Kim, 2021). Directors of financially constrained firms face pressure from shareholders to prioritize restoring the firm's financial health. Therefore, we anticipate a more pronounced reduction in CSR performance for these financially constrained firms.

Columns (1) and (2) of Panel C assess financial constraints using cash flow volatility. Firms with higher cash flow volatility are more reliant on external funding and face financial constraints more frequently (Iliev & Roth, 2023). The coefficient on *MV Law* is -0.907 and statistically significant at the 1% level in Column (1) for firms with above-sample-median cash flow volatility, while in Column (2), it is -0.101 and statistically insignificant for firms with relatively stable cash flows. The statistically significant difference between the two coefficients at the 1% level confirms a greater reduction in CSR performance for firms with high cash flow volatility, where shareholders prioritize resolving financial constraints.

In Columns (3) and (4) of Panel C, we use Merton's distance to default model to assess the firm's financial constraints (Bharath & Shumway, 2008). We observe a more pronounced reduction in CSR performance following the enactment of MV legislation for firms with a high probability of default, as evidenced by the negative and statistically significant coefficient on *MV Law* in Column (3) for the high-default probability subsample, compared to the insignificant coefficient on *MV Law* in Column (4) for the low-default probability subsample.

The findings in Panel C suggest that directors of financially constrained firms may devote less attention to CSR activities (Bartram et al., 2022). These findings also correspond with the potential conflicts between debtholders and shareholders, where shareholders may resist directors' efforts to implement costly CSR policies if a substantial portion of the benefits would accrue to debtholders (Iliev & Roth, 2023). Thus, these results further affirms how shareholder empowerment strengthens director-shareholder alignment (Ertimur et al., 2015) while intensifying conflicts with other stakeholders.

4.5.4 Investors' Preferences

In the final set of cross-sectional tests, we examine the role of investor preferences, particularly regarding responsible investing and investors' time horizons. Many institutional investors are committed to responsible investment, and prior studies show that these investors actively encourage firms to enhance their CSR performance (Dyck et al., 2019; Gibson Brandon et al., 2022). If heightened reelection pressure prompts directors to prioritize shareholder interests, we expect firms with low responsible investor ownership to experience a more pronounced reduction in CSR performance compared to firms with higher responsible investor ownership.

Following Gibson Brandon et al. (2022), we classify institutional investors who are signatories to the United Nations Principles for Responsible Investment (UN PRI) as responsible investors and calculate the proportion of each firm's shares held by these investors. Our analysis reveals a negative and statistically significant coefficient on *MV Law* in Column (1) for firms with below-median responsible investor ownership, whereas in Column (2), the coefficient is negative but not statistically significant for firms with above-median responsible investor ownership. This suggests that in firms with fewer responsible investors, directors reduce CSR activities to align with broader shareholder preferences and mitigate reelection pressure. In contrast, directors in firms with significant responsible investor ownership appear to uphold these investors' preferences, resulting in no significant reduction in CSR performance.

These findings confirm that post-MV legislation reelection pressure drives directors to align their CSR decisions with the preferences of both responsible investors and general shareholders.

We also examine the influence of investors' investment horizons. CSR activities require sustainable upfront costs with benefits that may only materialize in the distant future (Iliev & Roth, 2023; Van Marrewijk, 2003). Given the inherent uncertainty and extended time frame associated with CSR investments, firms with short-term orientations may choose to forego CSR initiatives, resulting in poor CSR performance. However, long-term investors prioritize the firm's long-term value and are more likely to support CSR investments if they offer long-term benefits. Accordingly, directors in firms with a long-term investor base may feel less pressured to deliver immediate results and thus experience reduced reelection pressure.

Following Derrien, Kecskés, and Thesmar (2013) and Gaspar, Massa, and Matos (2005), we measure the investment horizon at the firm level by first calculating the average turnover rate of each investor's portfolio over the preceding four quarters and then computing a weighted average turnover rate for all institutional investors in the firm's ownership structure. Columns (3) and (4) of Panel D investigate the impact of MV legislation on firm CSR performance for firms with long (below median turnover rate) and short (above median turnover rate) investors' investment horizons, respectively. We observe significant reductions in CSR performance for both groups, with no statistically significant difference between the two coefficients on *MV Law*. This suggests that the reduction in CSR is not strongly influenced by investor time horizons. One possible explanation is that not all sustainable investments align with the goals of long-term investors, who may not universally prioritize CSR over other value-focused factors (Dyck et al., 2019; Edmans, 2023).

Moreover, these findings help address an alternative explanation for our results. Hsu et al. (2024) suggest that increased reelection pressure following MV legislation could induce directors to exhibit myopia, leading them to cut investments in uncertain, long-term projects.

If the reduction in CSR activities were solely driven by director myopia, we would expect a smaller reduction in CSR for firms with longer investor horizons. However, the lack of a significant difference between firms with long- and short-term investors implies that the observed CSR reduction cannot be fully attributed to director myopia. Nevertheless, we interpret these results with caution, and we do not rule out the possibility that the reduction in (immaterial) CSR could partly reflect cost-cutting associated with myopic behavior. While directors may exhibit myopic behavior and engage in self-interested actions to alleviate reelection pressure, as noted by Hsu et al. (2024) and Wu et al. (2022), they can also exert genuine efforts align with shareholder preferences to gain their support, as documented by Ertimur et al. (2015) and Zhang (2021). These strategies to mitigate reelection pressure are not mutually exclusive.

4.6 Validity of the Empirical Design

4.6.1 Dynamic DiD

The key identifying assumption in our DiD design is that MV legislation represents an exogenous shock to directors' reelection pressure, and both the treatment and control firms should display parallel trends in CSR performance in the absence of this exogenous shock. Despite the difficulty in testing the parallel trend assumption, we follow previous studies, including Bertrand and Mullainathan (2003), Cornaggia, Mao, Tian, and Wolfe (2015), and Deng, Mao, and Xia (2021) to perform a dynamic analysis surrounding state's MV legislation enactment. Specifically, we construct six time indicators representing the years before and after the enactment of MV legislation for each state. *Before 1* and *After 1* are set to 1 for the year immediately before and after the state adopts MV legislation. Similarly, *Before 2* and *After 2* are set to 1 for the two years before and after the enactment year. *Before 3+* and *After 3+* are dummy variables equal 1 for all years up to and including three years before and after the year

of MV legislation.[13] We replace *MV Law* in Eq. (1) with these six indicators and estimate the dynamic specification. Figure 1 depicts the coefficients of the six indicators and the corresponding 90% confidence intervals when the dependent variable is *CSR Performance*. The coefficients of *Before 3+*, *Before 2*, and *Before 1* are statistically insignificant, suggesting no significant pre-MV legislation differences in CSR performance trends between treated and control firms. In contrast, the coefficients for *After 1*, *After 2*, and *After 3+* are negative and significant. These findings suggest that differences in CSR performance trends between treated and control firms emerge only after the enactment of MV legislation, thereby supporting the parallel trend assumption and validating our DiD design.

[Figure 1 about here]

4.6.2 Placebo Tests

We then perform a set of falsification tests with placebo regressions to rule out spurious correlations between the treated firms and CSR performance. Specifically, rather than using the actual adoption year, we assign a random pseudo-adoption year between 2003 and 2019 for each enacted state in our sample. The variable, *Pseudo MV Law*, is set to one for firms incorporated in states that enacted MV legislation after the pseudo-adoption year. We re-estimate Eq. (1) using *Pseudo MV Law* replacing the actual *MV Law* variable when the dependent variable is *CSR Performance*. To minimize the likelihood that the falsification tests are influenced by random chance or coincidental factors, we execute 1,000 simulations of the process and plot the distribution of coefficients for *Pseudo MV Law* in Figure 2. The mean of pseudo coefficients on *Pseudo MV Law* from these simulations is 0.014, with a standard deviation of 0.059. Importantly, the mean value of these pseudo coefficients is significantly different from the actual coefficient on *MV Law* (-0.238), as the difference is approximately

[13] We group the years up to three years before because our sample begins in 2003, and the first year any state adopts MV legislation is 2006. Grouping the three years before the MV legislation year allows us to retain all observations in the dynamic DiD test.

four standard deviations of the pseudo coefficients. These tests affirm that our key finding is caused by MV legislation-induced change in directors' reelection pressure, as they corroborate the shock strength and enhance the credibility of our identification strategy.

[Figure 2 about here]

4.6.3 Alternative Identifications

While the staggered difference-in-difference design adopted in the main analyses effectively captures the treatment effect with multiple shocks, it may produce biased estimates if the treatment effects are heterogeneous (Baker, Larcker, & Wang, 2022). To alleviate this concern, we apply the stacked difference-in-difference estimation from Cengiz, Dube, Lindner, and Zipperer (2019) and Gormley and Matsa (2011). Specifically, we create separate datasets for each state group that enacted MV legislation, assigning observations from each enactment state to the treated group and those from states that never enacted MV legislation to the control group. Each dataset is considered a cohort. We then stack all datasets to run the DiD regression with firm-by-cohort and state-region-by-year-by-cohort fixed effects.[14] Column (1) of Table 7 reports the results from the stacked DiD estimation. The coefficient on *MV Law* is significantly negative (-0.226), consistent with Table 2. This similarity in magnitude suggests that the staggered DiD estimates are unlikely to be biased in our setting.

[Table 7 about here]

Furthermore, although Figure 1 suggests that the parallel trend assumption is likely to be valid, we additionally execute our test based on a matched sample of observationally similar control firms to further address potential violations of the parallel trend assumption stemming from existing differences in characteristics between the treated and control firms. Specifically, we use firms incorporated in states that never enacted MV legislation throughout the sample

[14] In Item IA.4 of the Internet Appendix, we conducted the stacked DiD estimation with firm-by-cohort fixed effects and year-by-cohort fixed effects and obtained qualitatively similar results.

period as the pool of matched firms. For each treated firm, we follow Gopalan et al. (2021) to select up to three matched firms that belong to the same three-digit SIC industry and size decile, and that are closest to the treated firm's size and profitability in the year prior to the adoption of MV legislation, based on the nearest Mahalanobis distance.[15] Column (2) of Table 7 presents the DiD estimation results using the matched sample. We consistently observe significantly reduced CSR performance. Collectively, the results from Tables 7 provide convincing evidence supporting our findings and further bolster the credibility of the DiD design.

4.7 Robustness Tests

4.7.1 Alternative Explanations

While our findings show that heightened reelection pressure following the enactment of MV legislation leads directors to shift away from CSR initiatives, potential alternative explanations may challenge this interpretation.[16] In this section, we run out additional alternative explanations.

First, given that the adoption of MV legislation may affect director turnover and elections, the changes in the composition of directors could potentially influence a firm's CSR policies. It can be the case that shareholders carefully select directors who are less inclined to prioritize the firm's CSR activities to implement the policy change. This also raises a potential reverse causality concern. To rule out this concern, we follow Hsu et al. (2024) to exclude the year and all subsequent years for treated firms that undergo changes in directors from our sample and re-estimate Eq. (1). In Column (1) of Table 8, we continue to find a negative and significant coefficient of *MV Law*.

[Table 8 about here]

[15] Table IA.5 in the Internet Appendix presents the covariate balance between the treated and matched control firms in the year immediately prior to the enactment of MV legislation. We do not find significant differences in the matching variables between the average treated firms and the average matched control firms.

[16] Evidence from Panel D of Table 6, which examines investor horizons, addresses the possibility of a director myopia explanation.

Second, although MV legislation directly impacts directors' reelection pressure, it may also have an impact on CEOs' incentives. As some CEOs may hold outside directorships at other firms, the new legislation has heightened the insecurity associated with these CEOs' outside directorships and altered their incentives. This change may prompt them to prioritize actions aimed at pleasing shareholders at their current firm, aligning their efforts with CEO responsibilities to maximize shareholder value. As a result, the observed reduction in CSR performance may not be facilitated by directors but rather by these CEOs. While our results in Panel B of Table 6 suggest that the reduction in CSR is instrumented by directors, we conduct additional tests to further rule out this explanation. Specifically, we follow Hsu et al. (2024) to remove firms from our sample in which the CEO held outside directorships during the sample period. By doing so, we ensure that the changes in CSR performance is not attributed to changes in incentives of CEOs with outside directorship following the enactment of MV legislation. The results presented in Column (2) of Table 8 are consistent with the main results.

4.7.2 Additional Robustness Checks

To further evaluate the robustness of our findings, we conduct a battery of tests and report them in the Internet Appendix. First, we show that the influence of MV legislation is not concentrated in the immediate years following adoption but persists in the long run. The details are discussed in Item IA.6 of the Internet Appendix. Second, the results presented in Items IA.7 and IA.8 of the Internet Appendix confirm that our findings are not driven by local spillover effects in Delaware, where a large portion of our sample firms are incorporated, nor by firms that voluntarily adopted majority voting before the state's implementation of MV law. Thirdly, Item IA.9 of Internet Appendix shows that the effects are not driven by the CSR performance of industry peers. Furthermore, Item IA.10 of the Internet Appendix presents qualitatively similar results when using alternative measures of CSR performance. Last, in Item IA.11 of the Internet

Appendix, we find that treated firms also reduce CSR input, including environmental and social spending.

5. THE EFFECTS OF CSR REDUCTION AROUND MV LEGISLATION ON SHAREHOLDER SUPPORT AND RETURNS

Our key findings suggest that CSR reductions align with shareholders' interests. In this section, we directly test whether directors gain greater shareholder support when they facilitate larger CSR reductions and whether these reductions are associated with improved shareholder returns.

We obtain shareholder voting data on director elections from ISS.[17] Following Cuñat et al. (2019), *For Vote* is the median of the percentage of "for" votes received by all independent directors of the firm. We use the variable *Large CSR Reduction* to indicate firms with the greatest changes in CSR performance around the adoption of MV legislation. To construct this variable, we first compute the five-year median *CSR Performance* of each treated firm for the five-year period before and after the enactment of MV legislation.[18] We then sort the change in CSR performance between the pre- and post-period medians into quartiles. The variable *Large CSR Reduction* is set to one for treated firms in the first quartile of CSR changes in the years after the adoption of MV legislation (e.g., firms with the most significant reductions in CSR performance), and zero for other firms.[19]

Column (1) of Table 9 reports the results when the dependent variable is *For Vote*. We find a positive (0.008) and significant coefficient of *Large CSR Reduction*. Given the sample standard deviation of *For Vote* is 0.073, this increase represents approximately 11.00% of the variation in *For Vote*. The results suggest that, on average, directors receive greater support in elections if they facilitate more significant reductions in the firm's CSR following the

[17] Since ISS has limited coverage of S&P 1500 firms, the sample size of this analysis is reduced to 12,003.
[18] In an unreported test, our results hold if we compute the change using the median *CSR Performance* for all the years in the pre- and post-period of MV legislation.
[19] The mean value for changes in *CSR Performance* for the first quartile is -1.53, suggesting a reduction in CSR performance rating for these firms. In contrast, the mean value for the change is 2.14 for firms in the fourth quartile, suggesting an increase in CSR Performance for these firms.

enactment of MV legislation. This indicates that the reduction in CSR for treated firms pleases shareholders and alleviates directors' reelection pressure.

[Table 9 about here]

To assess whether CSR reduction aligns with shareholders' interests, we examine the value implications of the CSR policy change after the enactment of MV legislation. Since CSR is a long-term strategy and the market may not immediately recognize the value impact of the changes in CSR (Deng & Gao, 2013), we estimate the 36-month cumulative stock return for shareholders in Column (2) of Table 9.[20] We find that the coefficient of *Large CSR Reduction* is positive and statistically significant, implying that the reduction in CSR is beneficial to shareholders. This finding supports the argument that heightened reelection pressure better aligns directors' decisions with shareholders' interests (Ertimur et al., 2015).

6. CONCLUSIONS

This paper investigates how increased reelection pressure resulting from the implementation of MV legislation influences directors' motivations in shaping firms' CSR strategies and performance. Using a difference-in-difference design, we find that affected firms experience a significant reduction in CSR performance in the years following the legislation. However, these reductions primarily stem from immaterial CSR subcategories, rather than material subcategories that are more directly relevant to shareholders' interests. The effects are more pronounced in firms facing heightened director replacement threats, substantial director involvement in policies, financial constraints, and low ownership by sustainable investors. Finally, the reduction in CSR is linked to increased shareholder support in director elections and improved stock returns.

[20] Results are qualitatively similar if we examine cumulative shareholder returns over 24 months, 48 months, and 60 months.

Since CSR activities often prioritize a broader range of stakeholders' interests with uncertain benefits to shareholders, our findings suggest that heightened reelection pressure encourages directors to shift their focus from a stakeholder-oriented approach to one that prioritizes shareholder interests. The reduction in CSR initiatives, particularly in financially immaterial activities, may disadvantage non-shareholder stakeholders, thereby exacerbating conflicts between shareholders and other stakeholders. This study contributes to the ongoing debate on directors' roles in balancing shareholder and stakeholder interests by providing new insights into how corporate governance reforms aimed at shareholder empowerment affect a company's CSR initiatives. Policymakers may consider increasing stakeholder representation in board meetings to ensure that firms address the interests of a broader range of stakeholders, beyond just shareholders.

Figures

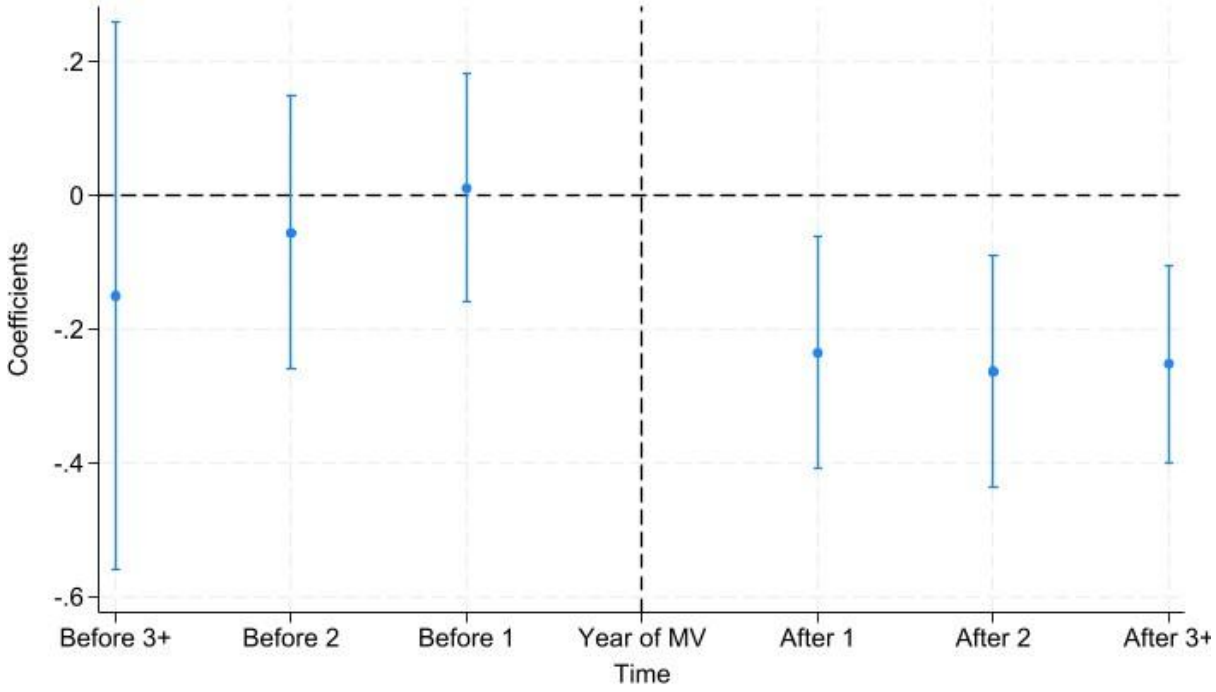

Figure 1. Dynamic effects of MV legislation on firm CSR performance. This figure plots the coefficients for six time indicators from the dynamic difference-in-differences (DiD) multivariate regression analyzing the impact of MV legislation on firm CSR performance. Results are estimated using Eq. (1), where the dependent variable is *CSR Performance*. *Before 1* and *After 1* are dummy variables that take the value of one for the year immediately before and after the year the state adopts MV legislation, respectively. *Before 2* and *After 2* are dummies variables that take the value of one for the two years prior to and following the year the state adopts MV legislation, respectively. *Before 3+* and *After 3+* are dummies variables that take the value of one for all years up to and including three years before and after the adoption year, respectively. Vertical bars through the coefficients represent 90% confidence intervals.

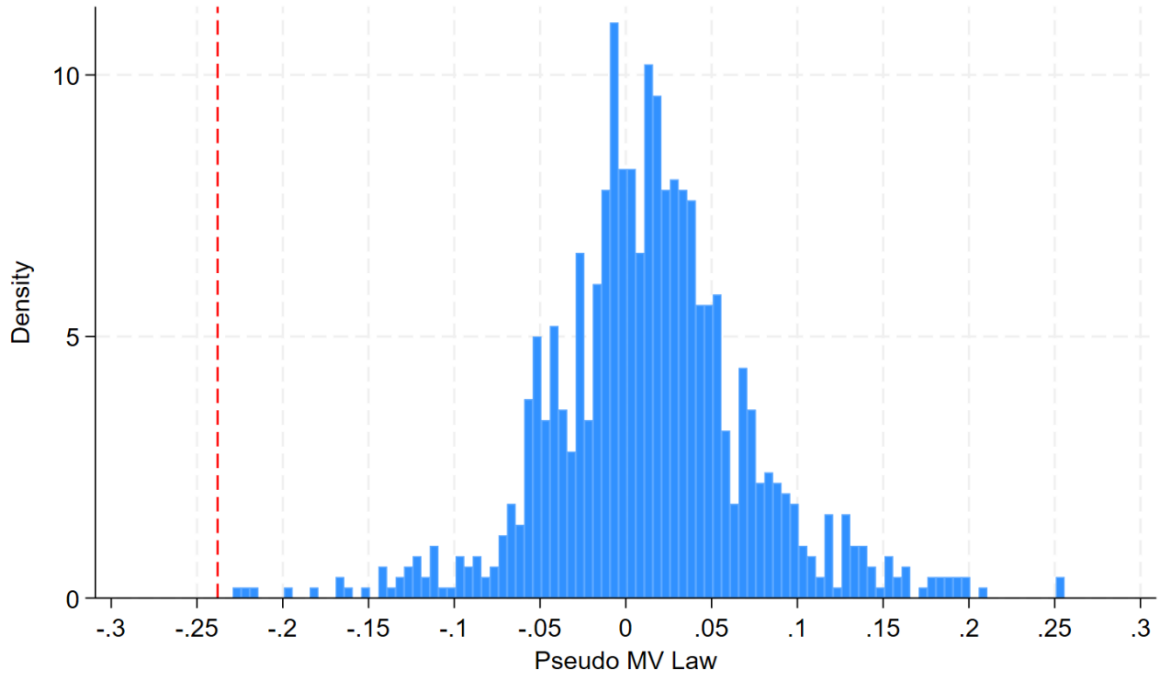

Figure 2. Coefficient distribution in falsification tests. This figure plots the coefficients of *Pseudo MV Law* obtained from 1,000 simulated falsification tests. *Pseudo MV Law* is assigned a value of one for firms incorporated in states that implemented MV legislation in years following a randomly assigned pseudo-adoption year between 2003 and 2019. The estimation is based on Eq. (1). The average value of the coefficients of *Pseudo MV Law* is 0.014, with a standard deviation of 0.059. The red vertical line represents the coefficient of *MV Law* from Column (1) in Table 2.

REFERENCES

Acharya, V. V., Baghai, R. P., & Subramanian, K. V. (2014). Wrongful discharge laws and innovation. *The Review of Financial Studies, 27*(1), 301-346.

Adhikari, B. K. (2016). Causal effect of analyst following on corporate social responsibility. *Journal of Corporate Finance, 41*, 201-216.

Amin, A., Chourou, L., Kamal, S., Malik, M., & Zhao, Y. (2020). It's who you know that counts: Board connectedness and CSR performance. *Journal of Corporate Finance, 64*, 101662.

Athanasakou, V., Ferreira, D., & Goh, L. (2022). Changes in CEO stock option grants: A look at the numbers. *Journal of Corporate Finance, 75*, 102226.

Baghdadi, G. A., Nguyen, L. H. G., & Podolski, E. J. (2020). Board co-option and default risk. *Journal of Corporate Finance, 64*, 101703.

Baker, A. C., Larcker, D. F., & Wang, C. C. (2022). How much should we trust staggered difference-in-differences estimates? *Journal of Financial Economics, 144*(2), 370-395.

Bartram, S. M., Hou, K., & Kim, S. (2022). Real effects of climate policy: Financial constraints and spillovers. *Journal of Financial Economics, 143*(2), 668-696.

Bebchuk, L. A. (2003). The case for shareholder access to the ballot. *The Business Lawyer*, 43-66.

Bebchuk, L. A. (2007). The myth of the shareholder franchise. *Virginia Law Review, 93*, 675.

Bénabou, R., & Tirole, J. (2010). Individual and corporate social responsibility. *Economica, 77*(305), 1-19.

Bertrand, M., & Mullainathan, S. (2003). Enjoying the quiet life? Corporate governance and managerial preferences. *Journal of Political Economy, 111*(5), 1043-1075.

Bharath, S. T., & Shumway, T. (2008). Forecasting Default with the Merton Distance to Default Model. *The Review of Financial Studies, 21*(3), 1339-1369.

Borghesi, R., Houston, J. F., & Naranjo, A. (2014). Corporate socially responsible investments: CEO altruism, reputation, and shareholder interests. *Journal of Corporate Finance, 26*, 164-181.

Brammer, S., Brooks, C., & Pavelin, S. (2006). Corporate social performance and stock returns: UK evidence from disaggregate measures. *Financial Management, 35*(3), 97-116.

Bu, L., Chan, K. C., Choi, A., & Zhou, G. (2021). Talented inside directors and corporate social responsibility: A tale of two roles. *Journal of Corporate Finance, 70*, 102044.

Buchanan, B., Cao, C. X., & Chen, C. (2018). Corporate social responsibility, firm value, and influential institutional ownership. *Journal of Corporate Finance, 52*, 73-95.

Cai, J., Garner, J. L., & Walkling, R. A. (2013). A paper tiger? An empirical analysis of majority voting. *Journal of Corporate Finance, 21*, 119-135.

Cengiz, D., Dube, A., Lindner, A., & Zipperer, B. (2019). The effect of minimum wages on low-wage jobs. *The Quarterly Journal of Economics, 134*(3), 1405-1454.

Chen, L., Liao, C. H., Tsang, A., & Yu, L. (2023). CEO career concerns in early tenure and corporate social responsibility reporting. *Contemporary Accounting Research, 40*(3), 1545-1575.

Chen, T., Dong, H., & Lin, C. (2020). Institutional shareholders and corporate social responsibility. *Journal of Financial Economics, 135*(2), 483-504.

Cheng, I.-H., Hong, H., & Shue, K. (2023). Do managers do good with other people's money? *The Review of Corporate Finance Studies, 12*(3), 443-487.

Choi, S. J., Fisch, J. E., Kahan, M., & Rock, E. B. (2016). Does majority voting improve board accountability? *The University of Chicago Law Review*, 1119-1180.

Chowdhury, R., Doukas, J. A., & Park, J. C. (2021). Stakeholder orientation and the value of cash holdings: Evidence from a natural experiment. *Journal of Corporate Finance, 69*, 102029.

Coles, J. L., Daniel, N. D., & Naveen, L. (2014). Co-opted Boards. *The Review of Financial Studies, 27*(6), 1751-1796.
Cornaggia, J., Mao, Y., Tian, X., & Wolfe, B. (2015). Does banking competition affect innovation? *Journal of Financial Economics, 115*(1), 189-209.
Cronqvist, H., & Yu, F. (2017). Shaped by their daughters: Executives, female socialization, and corporate social responsibility. *Journal of Financial Economics, 126*(3), 543-562.
Cuñat, V., Lü, Y., & Wu, H. (2019). Managerial Response to Shareholder Empowerment: Evidence from Majority Voting Legislation Changes. *European Corporate Governance Institute-Finance Working Paper*(622).
Deng, S., Mao, C. X., & Xia, C. (2021). Bank geographic diversification and corporate innovation: Evidence from the lending channel. *Journal of Financial and Quantitative Analysis, 56*(3), 1065-1096.
Deng, X., & Gao, H. (2013). Nonmonetary benefits, quality of life, and executive compensation. *Journal of Financial and Quantitative Analysis, 48*(1), 197-218.
Deng, X., Kang, J.-k., & Low, B. S. (2013). Corporate social responsibility and stakeholder value maximization: Evidence from mergers. *Journal of Financial Economics, 110*(1), 87-109.
Derrien, F., Kecskés, A., & Thesmar, D. (2013). Investor Horizons and Corporate Policies. *Journal of Financial and Quantitative Analysis, 48*(6), 1755-1780.
Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review, 86*(1), 59-100.
Di Giuli, A., & Kostovetsky, L. (2014). Are red or blue companies more likely to go green? Politics and corporate social responsibility. *Journal of Financial Economics, 111*(1), 158-180.
Dyck, A., Lins, K. V., Roth, L., & Wagner, H. F. (2019). Do institutional investors drive corporate social responsibility? International evidence. *Journal of Financial Economics, 131*(3), 693-714.
Eccles, R. G., & Serafeim, G. (2013). The performance frontier. *Harvard Business Review, 91*(5), 50-60.
Edmans, A. (2023). The end of ESG. *Financial Management, 52*(1), 3-17.
Ertimur, Y., Ferri, F., & Oesch, D. (2015). Does the director election system matter? Evidence from majority voting. *Review of Accounting Studies, 20*, 1-41.
Ertimur, Y., Ferri, F., & Stubben, S. R. (2010). Board of directors' responsiveness to shareholders: Evidence from shareholder proposals. *Journal of Corporate Finance, 16*(1), 53-72.
Fairhurst, D. D., & Greene, D. T. (2022). Too much of a good thing? Corporate social responsibility and the takeover market. *Journal of Corporate Finance, 73*, 102172.
Ferrell, A., Liang, H., & Renneboog, L. (2016). Socially responsible firms. *Journal of Financial Economics, 122*(3), 585-606.
Fos, V., & Tsoutsoura, M. (2014). Shareholder democracy in play: Career consequences of proxy contests. *Journal of Financial Economics, 114*(2), 316-340.
Gaspar, J.-M., Massa, M., & Matos, P. (2005). Shareholder investment horizons and the market for corporate control. *Journal of Financial Economics, 76*(1), 135-165.
Gibson Brandon, R., Glossner, S., Krueger, P., Matos, P., & Steffen, T. (2022). Do responsible investors invest responsibly? *Review of Finance, 26*(6), 1389-1432.
Gillan, S., Hartzell, J. C., Koch, A., & Starks, L. T. (2010). Firms' environmental, social and governance (ESG) choices, performance and managerial motivation. *Unpublished working paper, 10*.

Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance, 66*, 101889.
Gillan, S. L., & Starks, L. T. (2007). The evolution of shareholder activism in the United States. *Unpublished working paper.*
Gloßner, S. (2019). Investor horizons, long-term blockholders, and corporate social responsibility. *Journal of Banking & Finance, 103*, 78-97.
Gopalan, R., Gormley, T. A., & Kalda, A. (2021). It's not so bad: Director bankruptcy experience and corporate risk-taking. *Journal of Financial Economics, 142*(1), 261-292.
Gormley, T. A., & Matsa, D. A. (2011). Growing out of trouble? Corporate responses to liability risk. *The Review of Financial Studies, 24*(8), 2781-2821.
Hoang, H., & Phang, S.-Y. (2023). Building Trust with Material and Immaterial Corporate Social Responsibility: Benefits and Consequences. *Contemporary Accounting Research, 40*(2), 868-896.
Hsu, P.-H., Lü, Y., Wu, H., & Xuan, Y. (2024). Director job security and corporate innovation. *Journal of Financial and Quantitative Analysis, 59*(2), 652-689.
Iliev, P., & Roth, L. (2023). Director expertise and corporate sustainability. *Review of Finance, 27*(6), 2085-2123.
Imbens, G. W., & Wooldridge, J. M. (2009). Recent developments in the econometrics of program evaluation. *Journal of Economic Literature, 47*(1), 5-86.
Jo, H., & Harjoto, M. A. (2011). Corporate governance and firm value: The impact of corporate social responsibility. *Journal of Business Ethics, 103*, 351-383.
Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The Accounting Review, 91*(6), 1697-1724.
Kim, S., Lee, G., & Kang, H. G. (2021). Risk management and corporate social responsibility. *Strategic Management Journal, 42*(1), 202-230.
Knyazeva, A., Knyazeva, D., & Masulis, R. W. (2013). The supply of corporate directors and board independence. *The Review of Financial Studies, 26*(6), 1561-1605.
Krüger, P. (2015). Corporate goodness and shareholder wealth. *Journal of Financial Economics, 115*(2), 304-329.
Li, W., Neupane, S., & Tan, K. J. K. (2024). Director Job Security and Corporate Environmental Policies. *Working paper, The University of Queensland*.
Lins, K. V., Servaes, H., & Tamayo, A. (2017). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *The Journal of Finance, 72*(4), 1785-1824.
Liu, C. (2018). Are women greener? Corporate gender diversity and environmental violations. *Journal of Corporate Finance, 52*, 118-142.
Malik, M. (2015). Value-Enhancing Capabilities of CSR: A Brief Review of Contemporary Literature. *Journal of Business Ethics, 127*(2), 419-438.
Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. (2011). Does it pay to be good... and does it matter? A meta-analysis of the relationship between corporate social and financial performance. *Working Paper, Harvard University*.
Masulis, R. W., & Reza, S. W. (2014). Agency Problems of Corporate Philanthropy. *The Review of Financial Studies, 28*(2), 592-636.
Mattingly, J. E., & Berman, S. L. (2006). Measurement of corporate social action: Discovering taxonomy in the Kinder Lydenburg Domini ratings data. *Business & Society, 45*(1), 20-46.
Ni, X. (2020). Does stakeholder orientation matter for earnings management: Evidence from non-shareholder constituency statutes. *Journal of Corporate Finance, 62*, 101606.
Nofsinger, J. R., Sulaeman, J., & Varma, A. (2019). Institutional investors and corporate social responsibility. *Journal of Corporate Finance, 58*, 700-725.

Norris, F. (2004). Corporate democracy and the power to embarrass. *New York Times, March, 4*.

Pucker, P. K. (2023). Vanguard Confronts an Inconvenient Truth. *Harvard business review*.

Sun, W., Yao, S., & Govind, R. (2019). Reexamining Corporate Social Responsibility and Shareholder Value: The Inverted-U-Shaped Relationship and the Moderation of Marketing Capability. *Journal of Business Ethics, 160*(4), 1001-1017.

Van Marrewijk, M. (2003). Concepts and definitions of CSR and corporate sustainability: Between agency and communion. *Journal of Business Ethics, 44*(2), 95-105.

Vo, L. V., Le, H. T. T., & Kim, Y. (2023). Board interlocks, career prospects and corporate social responsibility. *Accounting & Finance, 63*(4), 4565-4595.

Walls, J. L., Berrone, P., & Phan, P. H. (2012). Corporate governance and environmental performance: is there really a link? *Strategic Management Journal, 33*(8), 885-913.

Westphal, J. D. (1999). Collaboration in the Boardroom: Behavioral and Performance Consequences of CEO-Board Social Ties. *Academy of Management Journal, 42*(1), 7-24.

Wu, H., Lü, Y., Meng, Q., & Ng, J. (2022). Director Reelection Pressure and Earnings Management: Evidence from Majority Voting Legislation. *Available at SSRN 4236713*.

Xu, Q., & Kim, T. (2021). Financial Constraints and Corporate Environmental Policies. *The Review of Financial Studies, 35*(2), 576-635.

Zhang, S. (2021). Directors' career concerns: Evidence from proxy contests and board interlocks. *Journal of Financial Economics, 140*(3), 894-915.

Tables

TABLE 1 Summary statistics.

This table reports summary statistics, including mean, standard deviation (SD), the 25th percentile (P25), median, and the 75th percentile (P75), for the main variables used in the study. The sample consists of 19,730 firm-year observations from 2003 to 2019 for the 2,677 unique firms. Table A.2 in the Appendix provides detailed variable definitions. All continuous variables are winsorized at the 1% level at both tails to mitigate the influence of outliers.

	N	Mean	SD	P25	Median	P75
MV Law	19,730	0.554	0.497	0.000	1.000	1.000
CSR Performance	19,730	0.192	2.083	-1.000	0.000	1.000
CSR Strength	19,730	1.308	2.026	0.000	1.000	2.000
CSR Concern	19,730	1.118	1.324	0.000	1.000	2.000
Firm Size	19,730	7.233	1.580	6.096	7.102	8.235
Tobin's Q	19,730	2.608	2.119	1.444	1.975	3.001
Sales Growth	19,730	0.131	0.661	-0.038	0.039	0.151
Leverage	19,730	0.466	0.339	0.268	0.416	0.581
ROA	19,730	0.068	0.275	0.039	0.090	0.147
Cash Holding	19,730	0.246	0.261	0.051	0.146	0.354
Dividend	19,730	0.414	0.493	0.000	0.000	1.000
PPE	19,730	0.274	0.274	0.084	0.181	0.373
R&D	19,730	0.068	0.151	0.000	0.007	0.076
Board Size	19,730	2.270	0.317	2.079	2.303	2.565
Board Independence	19,730	0.727	0.140	0.615	0.714	0.857
CEO Duality	19,730	0.421	0.494	0.000	0.000	1.000
Institutional Ownership	19,730	0.763	0.241	0.642	0.821	0.930

TABLE 2 The effects of MV legislation on firm CSR performance.

This table presents regression results analyzing the effects of MV legislation on firm CSR performance. The sample consists of 19,730 firm-year observations from 2003 to 2019 for 2,677 unique firms. The dependent variables in Columns (1) to (3) are *CSR Performance*, *CSR Strength*, and *CSR Concern*, respectively. *CSR Performance* is the net CSR performance rating from the KLD database, defined as the difference between *CSR Strength* and *CSR Concern*. *CSR Strength* is the strength score from the KLD database, and *CSR Concern* is the concern score from the same database. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)
	CSR Performance	*CSR Strength*	*CSR Concern*
MV Law	-0.238***	-0.073	0.191***
	(0.068)	(0.054)	(0.042)
Firm Size	0.102***	0.318***	0.219***
	(0.031)	(0.027)	(0.021)
Tobin's Q	0.018***	0.030***	0.010**
	(0.007)	(0.006)	(0.004)
Sales Growth	0.004	-0.005	-0.009
	(0.013)	(0.010)	(0.008)
Leverage	-0.014	-0.047	-0.039
	(0.038)	(0.031)	(0.025)
ROA	0.005	0.010	0.002
	(0.028)	(0.023)	(0.018)
Cash Holding	0.066	-0.081	-0.132**
	(0.089)	(0.073)	(0.055)
Dividend	-0.016	0.103***	0.113***
	(0.047)	(0.039)	(0.029)
PPE	0.043	-0.014	-0.069
	(0.097)	(0.070)	(0.069)
R&D	-0.192*	0.023	0.224***
	(0.111)	(0.084)	(0.076)
Board Size	0.475***	0.296***	-0.170***
	(0.082)	(0.066)	(0.051)
Board Independence	-0.957***	-0.345***	0.595***
	(0.157)	(0.124)	(0.098)
CEO Duality	-0.001	0.015	0.015
	(0.033)	(0.027)	(0.020)
Institutional Ownership	-0.092	-0.123**	-0.042
	(0.076)	(0.061)	(0.051)
Firm FE	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes
Constant	-0.773**	-1.360***	-0.609***
	(0.326)	(0.266)	(0.209)
Observations	19,730	19,730	19,730
Adjusted R-squared	0.626	0.736	0.652

TABLE 3 The effects of MV legislation on CSR dimensions.

This table presents regression results analyzing the effects of MV legislation on each CSR dimension (Environment, Employee, Product, Diversity, Human Rights, and Community). The sample consists of 19,730 firm-year observations from 2003 to 2019 for 2,677 unique firms. The dependent variables in Panel A are the overall CSR scores for each dimension from the KLD database, while the dependent variables in Panels B and C are the strength and concern scores within each CSR dimension from the KLD database, respectively. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. All regressions include the same set of controls as in Table 2. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

Panel A: Overall performance of each CSR dimension

	(1)	(2)	(3)	(4)	(5)	(6)
	Environment	*Employee Relations*	*Product*	*Diversity*	*Human Rights*	*Community*
MV Law	-0.068**	-0.083**	-0.046**	-0.057*	-0.026**	-0.008
	(0.032)	(0.035)	(0.020)	(0.034)	(0.012)	(0.013)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	1.054***	0.480***	0.274***	-2.531***	0.236***	-0.117*
	(0.145)	(0.173)	(0.095)	(0.187)	(0.064)	(0.062)
Observations	19,730	19,730	19,730	19,730	19,730	19,730
Adjusted R-squared	0.496	0.513	0.443	0.599	0.355	0.358

Panel B: Strength scores of each CSR dimension

	(1)	(2)	(3)	(4)	(5)	(6)
	Environment	*Employee Relations*	*Product*	*Diversity*	*Human Rights*	*Community*
MV Law	-0.041	-0.011	-0.001	-0.012	-0.008	-0.015
	(0.026)	(0.026)	(0.012)	(0.027)	(0.006)	(0.011)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.357***	-0.041	-0.185***	-1.303***	-0.005	-0.239***
	(0.119)	(0.144)	(0.065)	(0.142)	(0.041)	(0.055)
Observations	19,730	19,730	19,730	19,730	19,730	19,730
Adjusted R-squared	0.607	0.513	0.378	0.576	0.552	0.438

(continued on next page)

Table 3 *(continued)*

Panel C: Concern scores of each CSR dimension

	(1)	(2)	(3)	(4)	(5)	(6)
	Environment	*Employee Relations*	*Product*	*Diversity*	*Human Rights*	*Community*
MV Law	0.028*	0.072***	0.045***	0.045**	0.019*	-0.005
	(0.015)	(0.024)	(0.016)	(0.019)	(0.010)	(0.007)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.700***	-0.521***	-0.459***	1.228***	-0.241***	-0.136***
	(0.077)	(0.108)	(0.070)	(0.107)	(0.042)	(0.035)
Observations	19,730	19,730	19,730	19,730	19,730	19,730
Adjusted R-squared	0.610	0.534	0.597	0.577	0.407	0.503

TABLE 4 The effects of MV legislation on material and immaterial CSR.

This table presents regression results analyzing the effects of MV legislation on material and immaterial CSR performance ratings. The sample consists of 19,730 firm-year observations from 2003 to 2019 for 2,677 unique firms. Material and immaterial CSR are derived from CSR subcategories classified as material or immaterial according to the SASB materiality map for firms within each sector, following the methodology outlined in Khan et al. (2016) and Chen et al. (2020). The overall material (immaterial) CSR is computed as the net of material (immaterial) strength and concern scores. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Material CSR			*Immaterial CSR*		
	Overall	*Strength*	*Concern*	*Overall*	*Strength*	*Concern*
MV Law	-0.008	0.018	0.026	-0.226***	-0.091**	0.165***
	(0.032)	(0.023)	(0.022)	(0.056)	(0.044)	(0.037)
Firm Size	-0.024	0.084***	0.108***	0.125***	0.234***	0.111***
	(0.017)	(0.013)	(0.011)	(0.026)	(0.022)	(0.017)
Tobin's Q	0.005	0.010***	0.005**	0.015***	0.020***	0.005
	(0.003)	(0.003)	(0.002)	(0.006)	(0.005)	(0.004)
Sales Growth	0.010	0.006	-0.004	-0.007	-0.011	-0.005
	(0.007)	(0.007)	(0.004)	(0.011)	(0.008)	(0.007)
Leverage	0.022	-0.002	-0.024	-0.025	-0.045*	-0.015
	(0.022)	(0.014)	(0.017)	(0.033)	(0.026)	(0.022)
ROA	-0.019	-0.015	0.005	0.031	0.024	-0.002
	(0.028)	(0.024)	(0.011)	(0.033)	(0.026)	(0.015)
Cash Holding	0.050	-0.049	-0.098***	-0.001	-0.032	-0.034
	(0.043)	(0.032)	(0.029)	(0.076)	(0.061)	(0.047)
Dividend	-0.030	0.029*	0.059***	0.018	0.074**	0.054**
	(0.024)	(0.017)	(0.017)	(0.038)	(0.032)	(0.023)
PPE	-0.012	-0.022	-0.011	0.048	0.008	-0.059
	(0.055)	(0.038)	(0.040)	(0.073)	(0.058)	(0.051)
R&D	-0.201***	-0.093*	0.107***	0.002	0.117*	0.116
	(0.065)	(0.056)	(0.034)	(0.097)	(0.071)	(0.071)
Board Size	0.193***	0.119***	-0.074**	0.283***	0.178***	-0.096**
	(0.041)	(0.029)	(0.029)	(0.069)	(0.055)	(0.042)
Board Independence	-0.388***	-0.236***	0.152***	-0.518***	-0.109	0.443***
	(0.078)	(0.057)	(0.056)	(0.131)	(0.105)	(0.078)
CEO Duality	-0.003	0.007	0.010	0.004	0.009	0.005
	(0.017)	(0.013)	(0.012)	(0.027)	(0.023)	(0.016)
Institutional Ownership	-0.064	-0.026	0.037	-0.012	-0.097*	-0.079*
	(0.039)	(0.029)	(0.030)	(0.064)	(0.050)	(0.040)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.043	-0.376***	-0.419***	-0.871***	-0.984***	-0.189
	(0.168)	(0.123)	(0.115)	(0.269)	(0.217)	(0.171)
Observations	19,730	19,730	19,730	19,730	19,730	19,730
Adjusted R-squared	0.475	0.606	0.550	0.592	0.685	0.589

TABLE 5 The effects of MV legislation on CSR subcategories.

This table presents regression coefficients of *MV Law* on the CSR subcategories that are most affected by the adoption of MV legislation. Panel A reports the regression coefficients of *MV Law* on CSR concern subcategories. *Union Relations Concern* is assigned a value of one if the firm is involved in disputes concerning unions, including activities such as anti-union measures, attempts to prevent non-unionized employees from unionizing, and strikes, and zero otherwise. *Employee Relation Other Concern* is assigned a value of one if the company is involved in employee relations controversies not covered by other MSCI ESG Research negative social indicators, and zero otherwise. *Product Other Concern* is assigned a value of one if the company is involved in product-related controversies not covered by any other MSCI ESG Research negative social indicator, and zero otherwise. *Diversity Other Concern* is assigned a value of one if the company is involved in diversity controversies not covered by other MSCI ESG Research negative social indicator. Panel B reports the regression coefficients of *MV Law* on CSR strength subcategories. *Packaging Materials & Waste Strength* is assigned a value of one if the company proactively reduces the environmental impact of their packaging, including the use of recycled content material and the establishment of take-back and recycling programs, and zero otherwise. *Human Capital Other Strength* is assigned a value of one if the firm demonstrates best-in-class management performance in the area of human capital not covered by other MSCI ESG Research human capital indicators. *Charitable Giving* is assigned a value of one if the company consistently gives over 1.5% of trailing three-year net earnings before taxes to charity or has otherwise been notably generous in its giving, and zero otherwise. All regressions include the same set of controls as in Table 2. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

Panel A: Concerns subcategories	
Union Relations Concern	0.027***
	(0.006)
Employee Relation Other Concern	0.019**
	(0.008)
Product Other Concern	0.021***
	(0.005)
Diversity Other Concern	0.007**
	(0.003)
Panel B: Strength subcategories	
Packaging Materials & Waste Strength	-0.012**
	(0.005)
Human Capital Other Strength	-0.016*
	(0.009)
Charitable Giving	-0.011**
	(0.005)

TABLE 6 Heterogeneous effects of MV legislation on firm CSR performance.

This table presents regression results analyzing the heterogeneous effects of MV legislation on firm CSR performance. The dependent variable across all columns is *CSR Performance*. Panel A examines heterogeneous effects based on the level of replacement threat to directors. The Deep (Shallow) director pool subsamples include firms located in areas with above- (below-) median number of firms headquartered within a 60-mile radius of the focal firm. The Unitary (Staggered) board structure subsamples include firms without (with) a staggered board structure. Panel B explores heterogeneous effects based on directors' involvement in firm strategies. The inexperienced (experienced) CEO subsamples comprise firms with CEO tenures below (above) the sample median. The high (low) fraction of director co-option subsamples include firms with above- (below-) median fraction of co-opted directors on the board. Co-opted directors are those appointed after the incumbent CEO assumes office. Panel C investigates heterogeneous effects based on the firm's financial position. The high (low) cash flow volatility subsamples include firms with above- (below-) cash flow volatility. Cash flow volatility is measured as the standard deviation of a firm's operating cash flow over the last 10 years. The high (low) probability of default subsamples include firms with above- (below-) median probability of default, calculated using Merton's distance to default model as outlined in Bharath and Shumway (2008). Panel D examines heterogeneous effects based on investor preferences in relation to responsible investing and investment horizons. Following Gibson Brandon et al. (2022), institutional investors who are signatories to the United Nations Principles for Responsible Investment (UN PRI) are defined as responsible investors. The High (Low) sustainable investor ownership subsamples include firms with an above- (below-) median proportion of shares held by responsible investors. The long (short) investment horizon subsamples include firms with below- (above-) median values for the firm-level investor turnover rate, as calculated using the methodology of Derrien et al. (2013) and Gaspar et al. (2005). Specifically, the firm-level investor turnover rate is computed as the weighted average of turnover rates for all institutional investors holding shares in the firm. The investor turnover rate is defined as the average ratio of dollar share purchases and sales during a quarter to the total dollar value of the portfolio over the preceding four quarters. *MV Law* is a dummy variable taking a value of one during the years following the adoption of MV legislation and zero otherwise. The difference in coefficients is tested using the Wald tests. All regressions include the same set of controls as in Table 2. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

Panel A: Directors' reelection pressure intensity

	(1)	(2)	(3)	(4)
	CSR Performance			
	Director Pool		*Board Structure*	
	Deep	*Shallow*	*Unitary*	*Staggered*
MV Law	-0.402***	-0.042	-0.391**	0.007
	(0.104)	(0.098)	(0.156)	(0.123)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes
Constant	-1.529***	0.118	-2.694***	-0.559
	(0.480)	(0.458)	(0.882)	(0.817)
Observations	9,307	9,320	6,067	5,464
Adjusted R-squared	0.645	0.585	0.678	0.610
Difference in MV Law	-0.360**		-0.384*	

(continued on next page)

Table 6 *(continued)*

Panel B: Directors' influence on firm strategies

	(1)	(2)	(3)	(4)
	CSR Performance			
	CEO Experience		*Director Co-option*	
	Inexperienced	*Experienced*	*Low Fraction*	*High Fraction*
MV Law	-0.444***	-0.176	-0.312***	-0.059
	(0.119)	(0.108)	(0.111)	(0.103)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes
Constant	-1.070**	-0.805	-0.914*	-0.736
	(0.530)	(0.560)	(0.545)	(0.527)
Observations	9,336	9,168	9,313	9,306
Adjusted R-squared	0.656	0.650	0.651	0.647
Difference in MV Law	-0.268*		-0.253*	

Panel C: Firm's financial position

	(1)	(2)	(3)	(4)
	CSR Performance			
	Cash Flow Volatility		*Probability of Default*	
	High	*Low*	*High*	*Low*
MV Law	-0.907***	-0.101	-0.416***	-0.043
	(0.141)	(0.069)	(0.113)	(0.103)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes
Constant	0.110	-1.535***	0.064	-2.222***
	(0.665)	(0.365)	(0.590)	(0.476)
Observations	9,352	9,043	9,216	9,058
Adjusted R-squared	0.656	0.595	0.624	0.632
Difference in MV Law	-0.806***		-0.373**	

Panel D: Investors' preference

	(1)	(2)	(3)	(4)
	CSR Performance			
	Sustainable Investor Ownership		*Investment Horizon*	
	Low	*High*	*Long*	*Short*
MV Law	-0.349***	-0.063	-0.366***	-0.193***
	(0.106)	(0.094)	(0.123)	(0.074)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes
Constant	0.312	-1.405***	2.952*	0.451
	(0.619)	(0.435)	(1.752)	(1.679)
Observations	9,345	9,439	10,213	10,213
Adjusted R-squared	0.641	0.599	0.277	0.180
Difference in MV Law	-0.286**		-0.173	

TABLE 7 Alternative identification strategies.

This table presents regression results analyzing the effects of MV legislation on firm CSR performance using alternative identification strategies. The dependent variable in both columns is *CSR Performance*. Column (1) presents results from the stacked DiD using a stacked dataset. A separate dataset (cohort) is created for each state group that enacted MV legislation. In this dataset, observations from each enactment state are assigned to the treated group, while observations from states that never enacted MV legislation are included in the control group. These separate datasets (cohorts) are then stacked together to form the stacked dataset. Column (2) presents results from the matched sample, where treated and matched control firms are paired based on firm size (*Firm Size*), profitability (*ROA*), industry (three-digit SIC), and year. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)
	CSR Performance	
	Stacked sample	*Matched Sample*
MV Law	-0.226***	-0.276***
	(0.067)	(0.084)
Firm Size	0.118***	0.155***
	(0.022)	(0.053)
Tobin's Q	0.027***	-0.002
	(0.006)	(0.012)
Sales Growth	0.033**	-0.029
	(0.013)	(0.031)
Leverage	-0.011	-0.081
	(0.032)	(0.096)
ROA	0.077	0.061
	(0.048)	(0.181)
Cash Holding	0.098	0.568***
	(0.068)	(0.139)
Dividend	0.077***	-0.221***
	(0.028)	(0.080)
PPE	0.155**	0.259
	(0.069)	(0.206)
R&D	-0.106	-0.369
	(0.117)	(0.249)
Board Size	0.637***	0.335**
	(0.055)	(0.143)
Board Independence	-1.248***	-1.358***
	(0.101)	(0.242)
CEO Duality	-0.006	0.129***
	(0.020)	(0.050)
Institutional Ownership	-0.189***	-0.238
	(0.056)	(0.153)
Firm-by-Cohort FE	Yes	-
HQ Region-by-Year-by-Cohort FE	Yes	-
Firm FE	-	Yes
HQ Region-by-Year FE	-	Yes
Constant	-1.171***	-0.723
	(0.214)	(0.528)
Observations	55,652	6,329
Adjusted R-squared	0.629	0.664

TABLE 8 Alternative explanations - director-firm match and changes in CEO incentives.

This table reports the regression analysis addressing alternative explanations related to director-firm match and changes in CEO incentives. The sample in Column (1) excludes the year and all subsequent years for treated firms that undergo changes in directors. The sample in Column (2) excludes firms for which the CEO held outside directorships. The dependent variable in both columns is *CSR Performance*. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)
	CSR Performance	
	Excluding Changes in Directors	*Excluding CEO with Outside Directorship*
MV Law	-0.835***	-0.163**
	(0.169)	(0.080)
Firm Size	0.077	0.161***
	(0.072)	(0.042)
Tobin's Q	0.010	0.020***
	(0.019)	(0.007)
Sales Growth	0.049	0.008
	(0.031)	(0.019)
Leverage	0.003	-0.014
	(0.083)	(0.049)
ROA	0.339*	-0.037
	(0.206)	(0.092)
Cash Holding	0.121	-0.038
	(0.199)	(0.111)
Dividend	0.094	-0.073
	(0.089)	(0.061)
PPE	0.239	-0.198*
	(0.174)	(0.104)
R&D	0.108	-0.252*
	(0.310)	(0.152)
Board Size	0.791***	0.370***
	(0.162)	(0.102)
Board Independence	-1.381***	0.209
	(0.318)	(0.199)
CEO Duality	-0.023	-0.037
	(0.064)	(0.042)
Institutional Ownership	-0.255	-0.004
	(0.160)	(0.099)
Firm FE	Yes	Yes
HQ Region-by-Year FE	Yes	Yes
Constant	-1.128*	-2.199***
	(0.657)	(0.384)
Observations	6,637	9,145
Adjusted R-squared	0.636	0.618

TABLE 9 The effects of CSR reduction around MV legislation on shareholder support and shareholder return.

This table reports regression results analyzing the effect of CSR reduction following MV legislation on shareholder support and shareholder returns. The dependent variable in Column (1), *For Vote*, is the median percentage of 'for' votes received by independent directors in elections within a firm in a given year. The dependent variable in Column (2), *Cumulative Return*, is the shareholders' 36-month cumulative stock return. The main variable of interest is *Large CSR Reduction*, a dummy variable that takes the value of one if the treated firm's change in CSR performance is in the first quartile, and zero otherwise. Table A.2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	*(2)*
	For Vote	*Cumulative Return*
Large CSR Reduction	0.008**	0.185**
	(0.004)	(0.094)
Firm Size	-0.002	-0.660***
	(0.002)	(0.073)
Tobin's Q	0.001	0.186***
	(0.000)	(0.039)
Sales Growth	-0.001	0.054
	(0.001)	(0.058)
Leverage	0.001	0.750***
	(0.003)	(0.163)
ROA	0.003	3.046***
	(0.002)	(0.460)
Cash Holding	0.026***	0.093
	(0.006)	(0.195)
Dividend	0.003	0.002
	(0.003)	(0.080)
PPE	0.010	-0.080
	(0.007)	(0.262)
R&D	0.011	0.881**
	(0.009)	(0.409)
Board Size	0.004	-0.157
	(0.005)	(0.144)
Board Independence	0.016*	-0.096
	(0.009)	(0.255)
CEO Duality	-0.000	0.184***
	(0.002)	(0.057)
Institutional Ownership	-0.002	0.837***
	(0.005)	(0.197)
Firm FE	Yes	Yes
HQ Region-by-Year FE	Yes	Yes
Constant	0.938***	4.379***
	(0.020)	(0.700)
Observations	12,003	10,563
Adjusted R-squared	0.233	0.407

Appendix

TABLE A.1 The adoption of MV legislation across states.

This table reports the years in which MV legislation was enacted across states.

State	Year
Delaware	2006
California	2006
Florida	2006
Washington	2007
Utah	2008
Hawaii	2009
Indiana	2010
Wyoming	2010
Connecticut	2011
District of Columbia	2012
New Hampshire	2013

TABLE A.2 Variable definition.

Variable	Definition
MV Law	A dummy variable that takes a value of one if during the years following the adoption of MV legislation by the state of incorporation, and zero otherwise.
CSR Performance (Strength/Concern)	CSR Performance is the difference between CSR Strength and CSR Concern scores. CSR Strength is calculated as the sum of the strength (positive) indicators, which identify firms with notable stakeholder-oriented engagement programs across key dimensions of CSR where the firm has major business operations: environment, community, product quality, diversity, human rights, and employee relations. CSR Concern is calculated as the sum of the concern (negative) indicators, which measure the severity of controversies related to a firm's CSR activities.
Environment Performance (Strength/Concern)	Environment Performance is measured as the total environment strengths minus the total environment concerns. Environment Strength is the sum of all positive environment performance indicators. Environment Concern is the sum of all negative environment performance indicators.
Employee Relations Performance (Strength/Concern)	Employee Relations Performance is measured as the total employee relations strengths minus the total employee relations concerns. Employee Relations Strength is the sum of all positive employee relations performance indicators. Employee Relations Concern is the sum of all negative employee relations performance indicators.
Human Rights Performance (Strength/Concern)	Human Rights Performance is measured as the total human rights strengths minus the total human rights concerns. Human Rights Strength is the sum of all positive performance indicators related to human rights protection. Human Rights Concern is the sum of all negative performance indicators reflecting the severity of controversies related to the impact of a firm's operations on human rights.
Diversity Performance (Strength/Concern)	Diversity Performance is measured as the total diversity strengths minus the total diversity concerns. Diversity Strength is measured as the sum of all positive diversity performance indicators. Diversity Concern is measured as the sum of all negative diversity performance indicators.
Product Performance (Strength/Concern)	Product Performance is measured as the total product strengths minus the total product concerns. Product Strength is measured as the sum of all positive performance indicators related to the quality and/or safety of a firm's products and services, marketing and advertising practices, anti-competitive business practices, privacy and data security practices, and other product-related issues. Product Concern is measured as the sum of all negative performance indicators regarding product irresponsibility.
Community Performance (Strength/Concern)	Community Performance is measured as the total community strengths minus the total community concerns. Community Strength is measured as the sum of all positive performance indicators related to a firm's interactions with communities in which it does business and community engagement program concerning local. communities in which the firm has major operations. Community Concern is measured as the sum of all negative performance indicators related to the severity of controversies related to a firm's interactions with communities in which it does business.
Firm Size	The natural logarithm of the book value of total assets (at).
Tobin's Q	Market value of assets (at + csho*prcc_f - ceq) to book value of total assets (at) as in Cusodio & Metzger (2014).
Sales Growth	The year-on-year percentage change in sales (sale).
Leverage	The sum of long-term debt (dltt) and current liabilities (lct) to book value of total assets (at).
ROA	Earnings before interest and taxes (ebit) to book value of total assets (at).
Cash Holding	Cash and short-term investments (che) to book value of total assets (at).
Dividend	A dummy variable that takes a value of one if the firm pays dividends (dvc) in a given year and zero otherwise.
PPE	Net property, plant, and equipment (ppnt) to book value of total assets (at).

R&D	Research and development expenditures (xrd) to book value of total assets (at). Missing values of research and development expenditures are replaced with zero.
Board Size	Natural logarithm of the number of total board of directors.
Board Independence	The number of independent directors to the number of total board of directors.
CEO Duality	Dummy variable that takes a value of one of the CEO is also the Chairman of the board.
Institutional Ownership	Number of share outstanding held by institutional investors to the total number of share outstanding.
Large CSR Reduction	Dummy variable that takes the value of one if the firm's change in CSR performance (difference between the pre- and post-period median CSR Net) is in the top quartile, and zero otherwise.
For Vote	The average "For" vote directors received among independent directors in election by a firm.
Cumulative Return	Cumulative 36-month shareholder stock return.

Internet Appendix

Directors' Reelection Pressure and Corporate Social Responsibility: Evidence from Majority Voting Legislation

In this Internet Appendix, we present supplementary results for the paper. The contents of this Internet Appendix are itemized as follows:

Contents

Item IA.1 Director turnover-performance sensitivity

The key assumption in our DiD design is that MV legislation serves as an exogenous shock that increases directors' reelection pressure. We structure our empirical approach based on prior studies that find MV legislation leads to greater adoption of the MV standard in firms incorporated in treated states (Cuñat, Lü, & Wu, 2019) and that directors in states adopting MV legislation face increased election pressure and a higher risk of removal (Hsu, Lü, Wu, & Xuan, 2024; Wu, Lü, Meng, & Ng, 2022). In this Item IA.1 of the Internet Appendix, we corroborate the validity of MV legislation as an exogenous shock to directors' reelection pressure by examining its impact on director turnover-performance sensitivity.

Voluntary (or retirement-related) director turnovers are less likely to result from the increased disciplinary influence of shareholders, whereas involuntary director turnovers likely reflect heightened job insecurity. To identify involuntary director turnover, we adopt the approach outlined in Hsu et al. (2024) and Wu et al. (2022) by relying on director age. The rationale is that directors who have reached or surpassed retirement age are more likely to leave voluntarily, while younger directors are more likely to face involuntary turnover. Accordingly, we construct *Turnover Over 70*, which measures the fraction of non-executive directors aged 70 or older who departed from the board, as a proxy for voluntary turnover. Similarly, *Turnover Under 70* captures the fraction of non-executive directors under the age of 70 who departed from the board, serving as a proxy for involuntary turnover.

Table IA.1 examines the effect of MV legislation on director turnover-performance sensitivity. Columns (1) and (2) use the industry-adjusted ROA (*Ind-Adj ROA*) as the proxy for firm performance. The coefficient on the interaction term between *MV Law* and *Ind-Adj ROA* is negative (-0.023) and statistically significant, indicating that turnover for directors under 70 (involuntary turnover) becomes more sensitive to operating performance. In contrast, the coefficient on the interaction term is negative but statistically insignificant in Column (2),

suggesting that MV legislation does not affect turnover for directors over the retirement age (voluntary turnover). Columns (3) and (4) use the industry- adjusted stock return (*Ind-Adj Stock Return*) to measure firm performance. In Column (3), the coefficient on *MV Law* × *Ind Adj Stock Return* is negative and significant, suggesting that director turnover becomes more sensitive to poor stock performance after the enactment of MV legislation for involuntary director turnovers. However, in Column (4), this coefficient is statistically insignificant for voluntary director turnovers.

Overall, findings from Table IA.1 corroborate with those of Hsu et al. (2024) and Wu et al. (2022). The increased director turnover-performance sensitivity following the implementation of MV legislation confirms the validity of MV legislation as an exogenous shock to directors' reelection pressure. It is worth noting that empirical evidence from previous studies suggests that the enactment of MV legislation induces a heightened sense of job insecurity among directors, prompting increased responsiveness to shareholder proposals and improved attendance at board meetings (Choi, Fisch, Kahan, & Rock, 2016; Ertimur, Ferri, & Oesch, 2015). Although this heightened sense of insecurity may not always lead to turnover, it nonetheless imposes significant reelection pressure on directors.

TABLE IA.1. Director turnover-performance sensitivity

This table reports regression results analyzing the effects of MV legislation on director turnover-performance sensitivity. The dependent variable is *Turnover Under 70* in Columns (1) and (3), and *Turnover Over 70* in Columns (2) and (4). *Turnover Under 70* is the fraction of non-executive directors under the age of 70 who departed from the board, while *Turnover Over 70* is the fraction of non-executive directors over the age of 70 who departed. *MV Law* is a dummy variable that takes a value of one for the years following the adoption of MV legislation and zero otherwise. Table A2 in the Appendix provides detailed variable definitions. Standard errors, clustered by firm and year, are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(1)	(2)
	Turnover Under70	*Turnover Over 70*	*Turnover Under 70*	*Turnover Over 70*
MV Law	0.016***	0.004	0.002	0.002
	(0.005)	(0.003)	(0.005)	(0.003)
Industry Adjusted ROA	-0.005	0.003		
	(0.016)	(0.011)		
MV Law × Industry Adjusted ROA	-0.023*	-0.009		
	(0.013)	(0.006)		
Industry Adjusted Stock Return			-0.007***	-0.000
			(0.002)	(0.002)
MV Law × Industry Adjusted Stock Return			-0.006*	-0.002
			(0.003)	(0.002)
Firm Size	-0.016***	0.001	-0.004	0.001
	(0.003)	(0.002)	(0.003)	(0.002)
Tobin's Q	-0.003***	-0.000	-0.001	0.000
	(0.001)	(0.000)	(0.001)	(0.000)
Sales Growth	-0.004**	-0.000	-0.000	-0.000
	(0.002)	(0.001)	(0.001)	(0.001)
Leverage	-0.002	-0.001	0.004	0.000
	(0.005)	(0.002)	(0.004)	(0.002)
ROA	0.019	0.005	-0.002	-0.001
	(0.016)	(0.011)	(0.003)	(0.002)
Cash Holding	-0.030***	0.002	-0.009	0.003
	(0.008)	(0.005)	(0.008)	(0.005)
Dividend	-0.008**	-0.004	-0.007*	-0.003
	(0.003)	(0.002)	(0.003)	(0.003)
PPE	-0.004	0.000	-0.001	0.000
	(0.008)	(0.005)	(0.008)	(0.005)
R&D	-0.011	0.005	0.004	0.003
	(0.016)	(0.007)	(0.013)	(0.007)
Board Size	0.063***	0.038***	0.065***	0.036***
	(0.007)	(0.005)	(0.007)	(0.005)
Board Independence	0.073***	0.051***	0.077***	0.050***
	(0.012)	(0.008)	(0.012)	(0.008)
CEO Duality	-0.008***	0.000	-0.007***	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)
Institutional Ownership	-0.026***	-0.005	-0.026***	-0.004
	(0.008)	(0.004)	(0.007)	(0.004)
Firm FE	Yes	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes	Yes
Constant	0.010	-0.102***	-0.096***	-0.093***
	(0.028)	(0.018)	(0.027)	(0.018)
Observations	18,856	18,856	17,583	17,583
Adjusted R-squared	0.308	0.194	0.258	0.194

Item IA.2 Timing of the enactment of MV legislation

A related concern about the validity of adopting MV legislation as an exogenous shock is whether its enactment is driven by underlying political or economic conditions at the state level. For instance, the passage of MV legislation might follow a period of high economic growth, and the observed decline in CSR initiatives after its adoption could simply reflect a mean reversion in economic activity. To address this, we follow Acharya, Baghai, and Subramanian (2014) and use different Weibull hazard models, treating the adoption of MV legislation as the "failure event" to examine the impact of state-level factors on the timing of the enactment of MV legislation.

The initial sample includes all U.S. states, with states being removed from the sample once they adopt MV legislation. We control for state-level CSR performance (*State Average CSR Performance*, *State Average CSR Strength*, and *State Average CSR Concern*), measured as the average levels of CSR performance, strengths, and concerns for firms incorporated within each state. Additionally, we control for the state's income per capita (*Per Capita Income*), GDP growth rate (*GDP Growth*), unemployment rate (*Unemployment Rate*), and political factors (*Political Balance*), defined as the ratio of Democrat to Republican state representatives in the House of Representatives. All control variables are lagged by one year. The results, reported in Table IA.2, show that the coefficients on all key independent variables are statistically insignificant. This suggests that a state's adoption of MV legislation is not related to state-level economic, political, or CSR outcomes. These findings further validate our assumption that the MV legislation implementation is exogenous to firms' CSR outcomes and alleviate concerns about reverse causality.

TABLE IA. 2 The timing of the enactment of MV legislation.

This table presents the regression analysis using Weibull hazard models, where the "failure event" is defined as the adoption of MV legislation in a given state. States that adopted MV legislation are excluded from the sample following its implementation. All control variables are lagged by one year. *State Average CSR Performance* (*Strength or Concern*) is the average *CSR Performance* (*Strength or Concern*) for firms incorporated in the state. *Per Capita Income* is the natural logarithm of the state's per capita income. *GDP Growth* is the year-on-year growth rate of real GDP for the state. *Unemployment Rate* is the state's unemployment rate. *Political Balance* is the ratio of Democrat to Republican state representatives in the House of Representatives. Standard errors are clustered at the state of incorporation level. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)
	Adoption		
State Average CSR Performance	-0.007		
	(0.005)		
State Average CSR Strength		0.000	
		(0.003)	
State Average CSR Concern			0.015
			(0.009)
Per Capita Income	0.007	-0.004	-0.000
	(0.028)	(0.029)	(0.026)
GDP Growth	-0.404	-0.364	-0.406
	(0.375)	(0.347)	(0.382)
Unemployment Rate	-0.003	-0.002	-0.004
	(0.004)	(0.004)	(0.004)
Political Balance	0.000	-0.002	-0.003
	(0.002)	(0.002)	(0.002)
Constant	-0.029	0.087	0.042
	(0.312)	(0.324)	(0.294)
Observations	558	558	558
Adjusted R-squared	0.006	0.001	0.013

Item IA.3 Sector-Level Materiality Issues in KLD Subcategories

In this Item IA.3 of the Internet Appendix, we present the combined mapping of material SASB topics to KLD data items across various sectors outlined by Chen, Dong, and Lin (2020) and Khan, Serafeim, and Yoon (2016). Khan et al. (2016) provides mappings for the Financials, Healthcare, Nonrenewable Resources, Services, Technology and Communications, and Transportation sectors. Chen et al. (2020) provides mappings for the Resource Transformation, Consumption, Renewable Resources and Alternative Energy, and Infrastructure sectors.

TABLE IA. 3 Sector-level materiality issues in KLD subcategories.

This table combines the mapping between material SASB topics and KLD data items from Chen et al. (2020) and Khan et al. (2016) for ten sectors: Consumption, Financials, Healthcare, Infrastructure, Non-renewable Resources, Renewable Resources & Alternative Energy, Resource Transformation, Services, Technology and Communications, and Transportation.

Financials		Healthcare	
KLD Code	SASB Topic	KLD Code	SASB Topic
COM-str-D	Financial Inclusion & Capacity Building	DIV-str-B	Employee Recruitment, Development, and Retention
DIV-str-C	Employee Inclusion	EMP-str-G	Employee Health & Safety
DIV-str-E	Employee Inclusion	EMP-str-K	Employee Recruitment, Development, and Retention
DIV-str-H	Employee Inclusion	EMP-str-L	Employee Recruitment, Development, and Retention
EMP-str-I	Employee Incentives & Risk Taking	ENV-str-C	Product Lifecycle Management
EMP-str-L	Employee Incentives & Risk Taking	ENV-str-D	Climate Change Impacts on Human Health and Infrastructure
ENV-str-D	Environmental Risk Exposure	ENV-str-H	Energy, Water, and Waste Efficiency
PRO-str-A	Customer Privacy & Data Security	PRO-str-A	Drug Safety and Side Effects
PRO-str-C	Financial Inclusion & Capacity Building	PRO-str-C	Access to Medicines
PRO-str-D	Financial Inclusion & Capacity Building		
COM-con-B	Management of the Legal & Regulatory Environment	ENV-con-K	Energy, Water, and Waste Efficiency
DIV-con-A	Management of the Legal & Regulatory Environment	PRO-con-A	Drug Safety and Side Effects
DIV-con-C	Employee Inclusion	PRO-con-D	Ethical Marketing
DIV-con-D	Employee Inclusion		
PRO-con-A	Management of the Legal & Regulatory Environment		
PRO-con-E	Management of the Legal & Regulatory Environment		
PRO-con-F	Management of the Legal & Regulatory Environment		

(continued on next page)

Table IA. 3 (*continued*)

Nonrenewable Resources		Services	
KLD Code	SASB Topic	KLD Code	SASB Topic
COM-str-C	Community Relations	DIV-str-G	Workforce Diversity & Inclusion
COM-str-D	Financial Inclusion & Capacity Building	DIV-str-E	Workforce Diversity & Inclusion
COM-str-H	Community Relations	DIV-str-H	Workforce Diversity & Inclusion
EMP-str-G	Health, Safety, and Emergency Management	EMP-str-G	Customer & Worker Safety
ENV-str-B	Hazardous Materials Management	EMP-str-H	Fair Labor Practices
ENV-str-D	Greenhouse Gas Emissions	EMP-str-I	Fair Labor Practices
HUM-str-D	Community Relations	EMP-str-J	Workforce Diversity & Engagement
PRO-str-A	Health, Safety, and Emergency Management	EMP-str-L	Workforce Diversity & Engagement
		ENV-str-B	Food & Packaging Waste Management
		ENV-str-C	Food & Packaging Waste Management
		ENV-str-D	Fuel Use & Air Emissions
		ENV-str-H	Energy & Water Management
		ENV-str-I	Ecosystem Protection & Climate Adaptation
		PRO-str-A	Food Safety
EMP-con-A	Labor Relations	DIV-con-A	Workforce Diversity & inclusion
EMP-con-B	Health, Safety, and Emergency Management	DIV-con-C	Workforce Diversity & inclusion
EMP-con-F	Supply Chain Management	DIV-con-D	Workforce Diversity & inclusion
ENV-con-B	Competitive Behavior	EMP-con-B	Fair Labor Practices
ENV-con-D	Air Quality	EMP-con-F	Fair Labor Practices
ENV-con-F	Greenhouse Gas Emissions	EMP-con-G	Fair Labor Practices
ENV-con-H	Biodiversity Impacts	ENV-con-D	Fuel Use & Air Emissions
ENV-con-J	Supply Chain Management	ENV-con-F	Fuel Use & Air Emissions
ENV-con-K	Water Management	ENV-con-G	Discharge Management & Ecological Impacts
HUM-con-C	Security, Human Rights, and Rights of Indigenous Peoples	ENV-con-H	Ecosystem Protection & Climate Adaptation
HUM-con-J	Security, Human Rights, and Rights of Indigenous Peoples	ENV-con-I	Food & Packaging Waste Management
HUM-con-K	Security, Human Rights, and Rights of Indigenous Peoples	ENV-con-K	Energy & Water Management
		PRO-con-A	Food Safety
		PRO-con-D	Marketing & Recruiting Practices
		PRO-con-E	Discharge Management & Ecological Impacts
		PRO-con-F	Shipboard Health & Safety Management

(continued on next page)

Table IA. 3 (*continued*)

Technology and Communications		Transportation	
KLD Code	SASB Topic	KLD Code	SASB Topic
DIV-str-C	Recruiting & Managing a Global, Diverse Skilled Workforce	EMP-str-G	Accidents & Safety Management
DIV-str-E	Recruiting & Managing a Global, Diverse Skilled Workforce	EMP-str-H	Fair Labor Practices
DIV-str-H	Recruiting & Managing a Global, Diverse Skilled Workforce	EMP-str-J	Labor Relations
EMP-str-G	Fair Labor Practices	EMP-str-L	Driver Working Conditions
EMP-str-J	Recruiting & Managing a Global, Diverse Skilled Workforce	ENV-str-A	Product Lifecycle Management
EMP-str-L	Fair Labor Practices	ENV-str-B	Materials Efficiency & Recycling
ENV-str-B	Product Lifecycle Management	ENV-str-D	Environmental Footprint of Fuel Use
ENV-str-H	Water & Waste Management in Manufacturing	ENV-str-I	Ecological Impacts
ENV-str-J	Supply Chain Management & Materials Sourcing	ENV-str-J	Materials Sourcing
PRO-str-A	Data Privacy & Freedom of Expression	PRO-str-A	Product Safety
DIV-con-A	Recruiting & Managing a Global, Diverse Skilled Workforce	EMP-con-A	Labor Relations
DIV-con-C	Recruiting & Managing a Global, Diverse Skilled Workforce	EMP-con-B	Accidents & Safety Management
DIV-con-D	Recruiting & Managing a Global, Diverse Skilled Workforce	EMP-con-F	Fair Labor Practices
ENV-con-J	Supply Chain Management & Materials Sourcing	EMP-con-G	Fair Labor Practices
ENV-con-K	Water & Waste Management in Manufacturing	ENV-con-D	Environmental Footprint of Fuel Use
HUM-con-C	Supply Chain Management & Materials Sourcing	ENV-con-F	Environmental Footprint of Fuel Use
HUM-con-J	Data Privacy & Freedom of Expression	ENV-con-G	Fuel Economy & Use-phase Emissions
PRO-con-E	Intellectual Property Protection & Competitive Behavior	ENV-con-I	Materials Efficiency & Recycling
		ENV-con-K	Ecological Impacts
		PRO-con-A	Product Safety
		PRO-con-E	Competitive Behavior

(continued on next page)

Table IA. 3 (*continued*)

Resource Transformation		Consumption	
KLD Code	SASB Topic	KLD Code	SASB Topic
EMP-str-G	Employee Health & Safety	DIV-str-C	Workforce Diversity & Inclusion
ENV-str-B	Greenhouse Gas Emissions	DIV-str-E	Workforce Diversity& Inclusion
ENV-str-C	Packaging Lifecycle Management	EMP-str-A	Labor Relations
PRO-str-A	Product Safety and Quality	EMP-str-G	Workforce Health Safety
		ENV-str-B	Waste Management
		ENV-str-C	Packaging Lifecycle Management
		ENV-str-D	Greenhouse Gas Emissions
		PRO-str-A	Food Safety Health Concerns
		PRO-str-C	Health & Nutrition
EMP-con-B	Workforce Health & Safety	DIV-con-A	Workforce Diversity & Inclusion
ENV-con-D	Air Quality	DIV-con-C	Workforce Diversity& Inclusion
ENV-con-F	Energy and Climate Change	EMP-con-B	Workforce Health & Safety
PRO-con-A	Product Safety & Health Concerns	ENV-con-D	Toxic Emissions and Waste Management
PRO-con-E	Business Ethics & Competitive Behavior	ENV-con-F	Energy and Climate Change
		PRO-con-A	Product Safety & Health Concerns
		PRO-con-D	Product Labeling & Marketing

Renewable Resources and Alternative Energy		Infrastructure	
KLD Code	SASB Topic	KLD Code	SASB Topic
COM-str-H	Community Engagement	COM-Str-C	Community Relation
ENV-str-B	Toxic Emissions and Waste Management	COM-Str-D	Community Impacts of Project Siting
ENV-str-C	Packaging Lifecycle Management	EMP-str-A	Labor Relations
EMP-str-G	Workforce Health & Safety	EMP-str-G	Workforce Health & Safety
		ENV-str-B	Hazardous Waste Management
		ENV-str-D	Greenhouse Gas Emissions
COM-con-B	Management of the Legal & Regulatory Environment	COM-con-B	Management of the Legal & Regulatory Environment
EMP-con-B	Workforce Health & Safety	EMP-con-A	Labor Relations
ENV-con-D	Toxic Emissions and Waste Management	EMP-con-B	Workforce Health & Safety
ENV-con-F	Energy Efficiency	ENV-con-B	Non-Compliance
		ENV-con-D	Air Quality
		PRO-con-E	Business Ethics

Item IA.4 Stacked DiD estimation with firm-by-cohort and year-by-cohort fixed effects

The stacked DiD estimation adopted in Table 7 controls for the firm-by-cohort fixed effects and state region-by-year-by-cohort fixed effects. The various fixed effects control for firm, cohort year, and state region heterogeneity alleviates concerns that our results are driven by omitted variables (Baker, Larcker, & Wang, 2022). Nevertheless, in this Item IA.4 of the Internet Appendix, we follow Gormley and Matsa (2011) to control for firm-by-cohort fixed effects and year-by-cohort fixed effects in the stacked DiD estimation to ensure robustness of our results. Results presented in Table IA.4 closely resemble the results in Table 7, confirming the robustness and consistency of our findings across different specifications and model estimations.

TABLE IA.4. Stacked difference-in-differences estimation - firm-by-cohort and year-by-cohort fixed effects.

This table reports the stacked DiD regression on the effects of MV legislation on firm CSR performance. The dependent variable is *CSR Performance*. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. A separate dataset (cohort) for each state group that enacted MV legislation is constructed. In this dataset, observations from a particular enactment state are assigned to the treated group, and observations from states that never enacted MV legislation are placed in the control group. These separate datasets (cohorts) are then stacked together to form the stacked dataset. Table A2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)
	CSR Performance
MV Law	-0.264***
	(0.063)
Firm Size	0.107**
	(0.049)
Tobin's Q	0.032***
	(0.011)
Sales Growth	0.027
	(0.020)
Leverage	-0.047
	(0.057)
ROA	0.024
	(0.062)
Cash Holding	0.194
	(0.138)
Dividend	-0.014
	(0.066)
PPE	0.234*
	(0.123)
R&D	-0.054
	(0.170)
Board Size	0.582***
	(0.117)
Board Independence	-1.491***
	(0.223)
CEO Duality	-0.017
	(0.049)
Institutional Ownership	-0.169
	(0.112)
Firm-by-cohort FE	Yes
Year-by-cohort FE	Yes
Constant	-0.772
	(0.473)
Observations	56,539
Adjusted R-squared	0.624

Item IA.5. Balancing test for the matched sample

To construct the matching sample, we follow Gopalan, Gormley, and Kalda (2021) to select up to three matched firms that belong to the same three-digit SIC industry and size decile, and choose the closed match based on Mahalanobis distance. Table IA.5 presents the covariate balance between the treated and matched control firms in the year immediately preceding the enactment of MV legislation. In line with our expectation, the average treated firms and the average matched control firms display statistically indistinguishable values for the matching criteria: *Firm Size* and *ROA*. Furthermore, the CSR performance ratings (*CSR Performance*, *CSR Strength*, and *CSR Concern*) are also similar between the two groups. These results suggest that the treated and matched control firms are well-matched.

TABLE IA.5. Comparison between treated and matched control firms

This table presents the mean values of matching criteria and outcome variables between treated and matched firms in the year before the enactment of MV legislation. Treated firms are those incorporated in states that enacted MV legislation, while matched firms are selected from a pool of firms incorporated in states that never enacted MV legislation throughout the sample period. Matching is based on firm size (*Firm Size*), profitability (*ROA*), industry (three-digit SIC), and year. The last two columns report the difference between treated and control firms, along with the p-value for the difference between `Treated - Control'.

	Treated Firm	*Control Firm*	*Treated-Control*	*p-value*
Firm Size	6.011	6.019	-0.007	0.571
ROA	0.042	0.053	-0.012	0.118
CSR Performance	-0.355	-0.331	-0.024	0.712
CSR Strength	0.710	0.728	-0.018	0.691
CSR Concern	1.064	1.069	-0.005	0.910

Item IA.6. Restricted treated period

Our sample period spans from 2003 to 2019. The first batch of states that adopted MV legislation was in 2006, and the last batch of states that adopted the MV legislation was in 2013. To balance the effect of MV legislation between early-enacting states and late- enacting states, we follow Cuñat et al. (2019) in defining *MV Law 5Year* as a dummy variable that equals one within the 5-year period after the state enacts MV legislation, and zero otherwise. Results presented in Table IA.6 align with our baseline estimation, as the coefficient on *MV Law 5Year* is negative and significant. However, we observe smaller (in magnitude) coefficients on *MV Law*, suggesting the effect of the legislative changes on firm CSR performance is not limited to a certain time period, but rather persists in the long run.

TABLE IA.6. The effects of MV legislation on firm CSR performance with a restricted treated period.

This table reports regression results analyzing the effects of MV legislation on firm CSR performance when restarting the treatment to the 5-year period following the enactment of MV legislation. The dependent variable is *CSR Performance*. *MV Law 5Year* is a dummy variable that takes a value of one during the 5-year period following the adoption of MV legislation and zero otherwise. Table A2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)
	CSR Performance
MV Law 5Year	-0.131***
	(0.051)
Firm Size	0.099***
	(0.031)
Tobin's Q	0.018***
	(0.007)
Sales Growth	0.004
	(0.013)
Leverage	-0.012
	(0.038)
ROA	0.006
	(0.028)
Cash Holding	0.066
	(0.089)
Dividend	-0.018
	(0.047)
PPE	0.045
	(0.097)
R&D	-0.187*
	(0.111)
Board Size	0.473***
	(0.082)
Board Independence	-0.963***
	(0.157)
CEO Duality	-0.002
	(0.033)
Institutional Ownership	-0.089
	(0.076)
Firm FE	Yes
HQ Region-by-Year FE	Yes
Constant	-0.842***
	(0.324)
Observations	19,730
Adjusted R-squared	0.626

Item IA.7. Excluding firms incorporated in Delaware

The majority of firms in our sample are incorporated in Delaware. Given this prevalence, we address concerns related to the potential local spillover effects of CSR policies specific to Delaware by excluding firms incorporated in Delaware from our sample. We re-estimate Eq. (1) and report the results in Table IA.7. Consistent with the baseline results, the coefficient on *MV Law* is negative and highly significant, confirming a reduction in CSR performance for the treated firms incorporated outside Delaware following the adoption of MV legislation. Thus, our findings are not driven by firms incorporated in Delaware.

TABLE IA.7. The effects of MV legislation on firm CSR performance excluding Delaware.

This table reports regression results analyzing the effects of MV legislation on firm CSR performance excluding firms incorporated in Delaware. The dependent variable is *CSR Performance*. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)
	CSR Performance
MV Law	-0.578***
	(0.126)
Firm Size	0.076
	(0.065)
Tobin's Q	0.020*
	(0.011)
Sales Growth	0.063**
	(0.032)
Leverage	0.003
	(0.080)
ROA	0.135
	(0.150)
Cash Holding	-0.036
	(0.185)
Dividend	0.060
	(0.084)
PPE	0.129
	(0.158)
R&D	0.031
	(0.315)
Board Size	0.661***
	(0.142)
Board Independence	-1.011***
	(0.279)
CEO Duality	-0.027
	(0.057)
Institutional Ownership	-0.011
	(0.145)
Firm FE	Yes
HQ Region-by-Year FE	Yes
Constant	-1.377**
	(0.591)
Observations	7,889
Adjusted R-squared	0.683

Item IA.8. Excluding voluntary adopters before MV legislation

The adoption of MV legislation significantly altered directors' reelection pressure and incentives by shifting the firm's voting standard from plurality voting to majority voting (Cuñat et al., 2019). However, a small fraction of firms voluntarily adopted majority voting before their incorporation states enacted MV legislation. For example, Hsu et al. (2021) observed that less than 10% of S&P 1500 firms between 2013 and 2018 had adopted a majority voting standard before the legislation was enacted. Given the small number of voluntary adopters, it is unlikely that our results are affected by these firms. To isolate the impact of MV legislation on firm CSR performance, we exclude voluntary adopters from our sample and re-estimate the analysis in Item IA.8 of the Internet Appendix. Due to data constraints, we rely on ISS data to identify voting standards, thus restricting the analysis in this section to S&P 1500 firms. As a result, the findings from this item are illustrative, and we interpret them with caution. Nevertheless, the results presented in Table IA.8 remain qualitatively consistent with our main findings, as the coefficient on *MV Law* continues to be negative and statistically significant.

TABLE IA. 8 The effects of MV legislation on firm CSR performance - excluding voluntary adopters.

This table reports regression results analyzing the effects of MV legislation on firm CSR performance, excluding S&P 1500 firms that voluntarily adopted majority voting standards before the state implementation of the MV law. The dependent variable is *CSR Performance*. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)
	CSR Performance
MV Law	-0.355***
	(0.085)
Firm Size	0.140***
	(0.045)
Tobin's Q	0.020*
	(0.011)
Sales Growth	0.025
	(0.022)
Leverage	0.016
	(0.064)
ROA	0.045
	(0.056)
Cash Holding	0.066
	(0.131)
Dividend	0.100*
	(0.060)
PPE	-0.041
	(0.149)
R&D	-0.147
	(0.200)
Board Size	0.677***
	(0.115)
Board Independence	-0.708***
	(0.214)
CEO Duality	0.008
	(0.043)
Institutional Ownership	-0.142
	(0.112)
Firm FE	Yes
HQ Region-by-Year FE	Yes
Constant	0.218
	(1.505)
Observations	11,010
Adjusted R-squared	0.281

Item IA.9. The effects of MV legislation on firm CSR performance adjusted for industry CSR performance

Prior research indicates that a firm's CSR performance can be influenced by its industry peers (Cao, Liang, & Zhan, 2019). To mitigate concerns regarding the possibility of industry spillover effects driving our findings, we consider the industry-level CSR performance in this Item 9 of the Internet Appendix. In Columns (1) of Table IA.9, we additionally control for *Ind CSR Performance*. This variable is constructed as the median value of *CSR Performance* for firms operated in the same industry, excluding the focal firm. We find positive and statistically significant coefficient on the *Ind CSR Performance*, suggesting a positive correlation between a firm's CSR performance and the industry average. Importantly, the sign and significance of the coefficient on *MV Law* remain unchanged. Furthermore, in Column (2), we use industry-adjusted CSR performance (*Ind-Adj CSR Performance*) as the dependent variables. Despite this adjustment, we continue to observe positive and significant coefficients on *MV Law*. Thus, results in Table IA.9 show that our findings remain robust against potential industry spillover effects of MV legislation.

TABLE IA.9. The effects of MV legislation on firm CSR performance adjusted for industry CSR performance.

This table reports regression results analyzing the effects of MV legislation on firm CSR performance adjusted for industry CSR performance. The dependent variable in Column (1) is *CSR Performance*. The dependent variable in Column (2) is the industry-adjusted CSR Performance (*Ind-adj CSR Performance*). *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. *Ind CSR Performance* is the industry-median values of CSR Performance for firms operated in the same industry, excluding the focal firm. *Ind-adj CSR Performance* is the difference between the firm's CSR performance minus the industry median CSR performance. Table A2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)
	CSR Performance	*Ind-adj CSR Performance*
MV Law	-0.210***	-0.124**
	(0.062)	(0.060)
Ind CSR Performance	0.226***	
	(0.019)	
Firm Size	0.113***	0.086***
	(0.032)	(0.030)
Tobin's Q	0.020**	0.015*
	(0.008)	(0.008)
Sales Growth	0.002	0.003
	(0.017)	(0.016)
Leverage	-0.020	-0.034
	(0.046)	(0.044)
ROA	0.008	-0.006
	(0.052)	(0.050)
Cash Holding	0.045	0.030
	(0.096)	(0.093)
Dividend	-0.001	0.049
	(0.044)	(0.043)
PPE	0.081	0.135
	(0.104)	(0.100)
R&D	-0.207	-0.198
	(0.154)	(0.148)
Board Size	0.461***	0.392***
	(0.083)	(0.080)
Board Independence	-0.880***	-0.797***
	(0.151)	(0.146)
CEO Duality	-0.001	0.022
	(0.031)	(0.030)
Institutional Ownership	-0.081	-0.043
	(0.083)	(0.080)
Firm FE	Yes	Yes
HQ Region-by-Year FE	Yes	Yes
Constant	2.190*	-0.541*
	(1.131)	(0.308)
Observations	19,730	19,730
Adjusted R-squared	0.251	0.558

Item IA.10. Alternative CSR database and measures

Our analyses employ CSR ratings from the KLD database to measure firm CSR performance. Although the KLD database has been widely adopted in previous studies, such as Adhikari (2016) and Iliev and Roth (2023), in this Item IA.10 of the Internet Appendix, we adopt alternative measures of firm CSR performance to validate our main results, and present the results in Table IA.10.

We first employ ESG scores from Refinitiv as an alternative measure of firm CSR performance to assess the robustness of our results. Similar to the KLD database, Refinitiv ESG score consists of Environmental (resource use, emissions, innovation), Social (Work-force, Human rights, Community, Product responsibility), and Governance (Management, Shareholders, CSR strategy) dimensions. The dependent variable in Column (1) is Refinitiv ESG Score, which is the overall ESG score for the firm. We find the coefficient on *MV Law* is negative (-0.022) and highly significant, confirming a reduction in ESG performance after the adoption of MV legislation.

Second, we only use the Environment, Community, Human Rights, and Diversity dimensions from the KLD database to construct the second alternative measure for firm CSR performance (*CSR Performance 4 Dimensions*). We test the effect of MV legislation on the net score of the four dimensions in Column (2) and continue to find negative and significant coefficients for *MV Law*.

Finally, we integrate the governance component and incorporate all seven CSR dimensions (environment, community, human rights, employee relations, diversity, product quality, and corporate governance) from the KLD database to form the *CSR Complete Performance Score* in Columns (3), yielding consistent results. Taken together, findings from Table IA.10 suggest that our results are not due to the selection of a particular CSR performance rating.

TABLE IA.10. Alternative measures of firm CSR performance.

This table reports regression results analyzing the effects of MV legislation on firm CSR performance using alternative measures of CSR performance. In Column (1), the dependent variable is *Refinitiv ESG Score*, which represents the ESG score from Refinitiv. In Column (2), the dependent variable is *CSR Performance 4 Dimensions*, constructed using the net CSR performance for the environment, community, human rights, and diversity components from the KLD database. In Column (3), the dependent variable is *CSR Complete Performance*, which is the CSR performance from the KLD database when the corporate governance component is included. *MV Law* is a dummy variable that takes a value of one during the years following the adoption of MV legislation and zero otherwise. Table A2 in the Appendix provides detailed variable definitions. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(1)
	Refinitiv ESG Score	*CSR Performance 4 Dimensions*	*CSR Complete Performance*
MV Law	-0.022***	-0.156***	-0.213***
	(0.008)	(0.050)	(0.077)
Firm Size	0.019***	0.130***	0.054
	(0.004)	(0.025)	(0.035)
Tobin's Q	0.003**	0.011*	0.024***
	(0.001)	(0.006)	(0.008)
Sales Growth	0.001	-0.005	0.015
	(0.002)	(0.014)	(0.015)
Leverage	0.008	-0.048	0.001
	(0.006)	(0.037)	(0.043)
ROA	0.013	-0.032	-0.003
	(0.011)	(0.042)	(0.032)
Cash Holding	0.045***	0.000	0.251**
	(0.013)	(0.077)	(0.101)
Dividend	0.016***	-0.001	-0.011
	(0.005)	(0.036)	(0.053)
PPE	-0.021*	0.165**	0.074
	(0.012)	(0.084)	(0.111)
R&D	-0.028	-0.081	-0.197
	(0.021)	(0.123)	(0.126)
Board Size	0.040***	0.327***	0.371***
	(0.009)	(0.066)	(0.092)
Board Independence	0.005	-0.204*	-0.987***
	(0.016)	(0.122)	(0.177)
CEO Duality	-0.001	-0.009	-0.008
	(0.003)	(0.025)	(0.037)
Institutional Ownership	-0.006	0.026	-0.331***
	(0.010)	(0.067)	(0.087)
Firm FE	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes
Constant	0.135***	-1.358***	-0.258
	(0.038)	(0.257)	(0.370)
Observations	8,489	19,730	19,730
Adjusted R-squared	0.836	0.606	0.593

Item IA.11 The effects of MV legislation on environmental and social spending

The reduced CSR performance rating from the *KLD* databased reflects the tangible outcome of the firm's dedication to stakeholders beyond shareholders' interests. However, a limitation of the *KLD* database is its lack of detailed data concerning the firm's CSR input beyond ratings in each CSR category. To address this limitation, we turn to *Refinitiv* to extract data on the firm's input in environmental and social commitment. In this Item IA.11 of the Internet Appendix, we examine whether the adoption of MV legislation affects the firm's environmental investment and protection expenditures (*Environmental Protection*), environmental R&D expenditures (*Environmental R&D)*, and the amount of all donations (*Donation*). Table IA.11 presents the results. Columns (1) and (2) reveal that firms significantly decrease their spending on environmental protection and environmental R&D expenditures after the adoption of MV legislation, as indicated by the negative and significant coefficients on *MV Law*. Similar findings are observed in Column (3) when analyzing firms' total donations, as affected firms significantly reduce their charitable contributions following the implementation of MV legislation. These results lend further support to the hypothesis that firms curtail their endeavors to address the concerns of other stakeholders, thereby providing insights into the diminished overall performance in CSR ratings uncovered in our primary analysis.

TABLE IA.11. The effects of MV legislation on environmental and social spending

This table presents regression results analyzing the effects of MV legislation on the firm's environmental and social spending. The sample comprises 8,513 firm-year observations from 2003 to 2019, where the sample firms are covered in the Refinitiv database. In Column (1), the dependent variable is *Environmental Protection*, measured as the firm's total environmental investment and expenditures for environmental protection as a percentage of the firm's sales. In Column (2), the dependent variable is *Environmental R&D*, measured as the firm's total amount of environmental research and development costs (excluding cleanup and remediation costs) as a percentage of the firm's sales. In Column (3), the dependent variable is *Donation*, measured as the total amount of all donations made by the company as a percentage of the firm's sales. *MV Law* is a dummy variable taking a value of one during the years following the adoption of MV legislation and zero otherwise. Detailed variable definitions are provided in Table A2 in the Appendix. Standard errors are clustered by firm and year and are presented in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
	Environmental Protection	*Environmental R&D*	*Donation*
MV Law	-0.139***	-0.079***	-0.029***
	(0.044)	(0.018)	(0.007)
Firm Size	-0.060***	0.007	0.000
	(0.021)	(0.009)	(0.004)
Tobin's Q	-0.013**	-0.002	-0.002*
	(0.006)	(0.002)	(0.001)
Sales Growth	0.002	-0.002	-0.001
	(0.013)	(0.005)	(0.002)
Leverage	-0.019	-0.012	-0.002
	(0.032)	(0.013)	(0.005)
ROA	-0.035	-0.009	-0.016
	(0.066)	(0.027)	(0.011)
Cash Holding	-0.016	0.050	0.005
	(0.075)	(0.031)	(0.013)
Dividend	0.011	0.011	0.001
	(0.027)	(0.011)	(0.005)
PPE	0.257***	0.021	0.019*
	(0.068)	(0.028)	(0.011)
R&D	-0.037	0.024	-0.072***
	(0.126)	(0.052)	(0.021)
Board Size	-0.080	-0.030	-0.018**
	(0.053)	(0.022)	(0.009)
Board Independence	-0.194**	0.008	-0.034**
	(0.094)	(0.039)	(0.016)
CEO Duality	-0.027	0.007	-0.001
	(0.017)	(0.007)	(0.003)
Institutional Ownership	-0.052	-0.014	-0.019*
	(0.059)	(0.024)	(0.010)
Firm FE	Yes	Yes	Yes
HQ Region-by-Year FE	Yes	Yes	Yes
Constant	1.033***	0.061	0.139***
	(0.224)	(0.092)	(0.037)
Observations	8,513	8,513	8,513
Adjusted R-squared	0.599	0.341	0.664

REFERENCES

Acharya, V. V., Baghai, R. P., & Subramanian, K. V. (2014). Wrongful discharge laws and innovation. *The Review of Financial Studies, 27*(1), 301-346.

Adhikari, B. K. (2016). Causal effect of analyst following on corporate social responsibility. *Journal of Corporate Finance, 41*, 201-216.

Baker, A. C., Larcker, D. F., & Wang, C. C. (2022). How much should we trust staggered difference-in-differences estimates? *Journal of Financial Economics, 144*(2), 370-395.

Cao, J., Liang, H., & Zhan, X. (2019). Peer effects of corporate social responsibility. *Management Science, 65*(12), 5487-5503.

Chen, T., Dong, H., & Lin, C. (2020). Institutional shareholders and corporate social responsibility. *Journal of Financial Economics, 135*(2), 483-504.

Choi, S. J., Fisch, J. E., Kahan, M., & Rock, E. B. (2016). Does majority voting improve board accountability? *The University of Chicago Law Review*, 1119-1180.

Cuñat, V., Lü, Y., & Wu, H. (2019). Managerial Response to Shareholder Empowerment: Evidence from Majority Voting Legislation Changes. *European Corporate Governance Institute-Finance Working Paper*(622).

Ertimur, Y., Ferri, F., & Oesch, D. (2015). Does the director election system matter? Evidence from majority voting. *Review of Accounting Studies, 20*, 1-41.

Gopalan, R., Gormley, T. A., & Kalda, A. (2021). It's not so bad: Director bankruptcy experience and corporate risk-taking. *Journal of Financial Economics, 142*(1), 261-292.

Gormley, T. A., & Matsa, D. A. (2011). Growing out of trouble? Corporate responses to liability risk. *The Review of Financial Studies, 24*(8), 2781-2821.

Hsu, P.-H., Lü, Y., Wu, H., & Xuan, Y. (2024). Director job security and corporate innovation. *Journal of Financial and Quantitative Analysis, 59*(2), 652-689.

Iliev, P., & Roth, L. (2023). Director expertise and corporate sustainability. *Review of Finance, 27*(6), 2085-2123.

Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The Accounting Review, 91*(6), 1697-1724.

Wu, H., Lü, Y., Meng, Q., & Ng, J. (2022). Director Reelection Pressure and Earnings Management: Evidence from Majority Voting Legislation. *Available at SSRN 4236713*.