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-differences tests reveal that heightened reelection pressure induced by MV legislation lead to a reduction in firms' CSR performance. The reductions are more pronounced in firms where shareholder support for sustainability is weaker and in those facing greater short-term performance pressure. Importantly, CSR cutbacks are concentrated in immaterial and aspirational activities, while value-relevant CSR remains largely unaffected. This selective pattern indicates that although reelection pressure may trigger short-termist concerns, directors respond in a way that aligns with shareholder interests. Further analyses show that directors facilitating larger CSR reductions gain greater shareholder support and that these firms deliver higher stock returns. Overall, the findings suggest that reelection pressure enhances board accountability to shareholders by prompting directors to reassess CSR strategies in ways that prioritize shareholder interests, potentially intensifying trade-offs between shareholder value and broader stakeholder welfare.

Keywords: Board of Directors, Reelection Pressure, Corporate Social Responsibility, Majority Voting.

JEL Classification: 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 are long-term in nature with highly uncertain outcomes (Iliev & Roth, 2023). Nonetheless, the shareholder value implications of CSR remain debatable, as these initiatives often allocate resources toward non-shareholder stakeholders and generate benefits that do not exclusively accrue to shareholders (Borghesi et al., 2014; Gloßner, 2019). Firms increasingly engage in CSR initiatives primarily to conform to prevailing norms, meet public expectations, or respond to political pressure, rather than to enhance long-term value (Edmans, 2023). As such, recent trends in corporate practice suggest that shareholders are increasingly concerned that the expected benefits of CSR may not always justify its costs (Buchanan et al., 2018; Deng et al., 2013).

Given the strategic complexity of CSR investments, board of directors play an active role in shaping sustainability policies. As CSR becomes increasingly embedded in core governance processes and board agendas, directors influence CSR policies through their oversight and decision-making authority (Bu et al., 2021; Chowdhury et al., 2021; Iliev & Roth, 2023). However, as directors are elected by shareholders and serve as their agents, they are expected to ensure that corporate decisions, including those related to CSR, align with shareholder interests. Directors who pursue initiatives perceived to diverge from shareholder value may face increased dissatisfaction, elevated reelection risk, and potential removal. This tension raises important questions about how directors navigate CSR decisions amid the trade-offs between shareholder accountability and broader stakeholder interests.

Reelection pressure has been shown to shape directors' approach to firm policymaking. On the one hand, it may incentivize directors to be more responsive to shareholders and

undertake actions that align closely with shareholder interests, such as implementing more shareholder proposals or enhancing disclosure practices (Ertimur et al., 2015; Ertimur et al., 2010). [1] On the other hand, it may also lead directors to prioritize short-term financial results over long-term strategic investments, such as R&D, in an effort to bolster perceived performance and improve their reelection prospects (Bebchuk, 2003; Cuñat et al., 2019; Hsu et al., 2024). Although CSR has gained strategic prominence in corporate governance, there is limited evidence on how reelection concerns influence directors' CSR-related decisions. The lack of consensus on whether CSR enhances or dilutes shareholder value further complicates this relationship, leaving the ex-ante effect of reelection pressure on CSR engagement theoretically ambiguous.

Heightened reelection pressure increases the influence of shareholders over board decisions. Directors may respond by reassessing CSR strategy more critically, reallocating firm resources, and shaping policy choices through their role in setting strategic priorities and monitoring. When CSR initiatives are perceived to enhance shareholder value and align with investor expectations, directors may increase CSR engagement to strengthen their standing with shareholders and reduce reelection risk. We refer to this as the CSR-increasing hypothesis. Conversely, when CSR initiatives are viewed as potentially costly to shareholders or yielding benefits only in the long run, directors concerned with reelection may scale back CSR activities to align more closely with shareholder preferences and demonstrate short-term financial discipline. We refer to this as the CSR-reducing hypothesis. Ultimately, the effect of reelection pressure on CSR engagement remains an empirical question. In this study, we seek to empirically test this relationship.

[1] See also *Majority Voting for Directors* (Council of Institutional Investors, 2013), available at http://perma.cc/5MNV-P9JE.

However, a key challenge in identifying the causal effect of directors' reelection pressure on firms' CSR performance is the presence of apparent endogeneity, as the relationship may be confounded by director-firm matching or unobservable firm heterogeneity that jointly influence both reelection pressure and CSR outcomes. To overcome this challenge, we exploit an exogenous increase in directors' reelection pressure resulting from the staggered adoption of majority voting (MV) legislation.

Since 2006, MV legislation has been adopted by eleven states in the U.S. to grant binding status to the majority voting standard proposed by shareholders, requiring directors to secure a majority of votes to be elected or retained. Unlike the traditional plurality voting system, under which directors can be reelected with minimal support, MV increases shareholder influence by raising directors' exposure to electoral pressure and the potential costs of removal in the face of shareholder dissatisfaction. Prior research shows that this governance reform alters directors' incentives and shapes their strategic decision-making (Bebchuk, 2003; Cuñat et al., 2019; Hsu et al., 2024). Thus, the staggered implementation of MV legislation provides an appropriate empirical setting to examine how heightened reelection pressure affects directors' CSR engagement.

To answer the empirical research question, we analyze a sample of U.S. firms from 2003 to 2019 using a staggered difference-in-differences (DiD) design. Specifically, we assess the effect of MV legislation on firm-level CSR outcomes using CSR ratings from the MSCI ESG KLD database. Our analysis reveals that, on average, firms incorporated in states that implemented MV legislation experience a significant decline in overall CSR performance following implementation, compared to firms in states where no MV legislation was enacted. This finding is consistent with the CSR-reducing hypothesis, suggesting that reelection pressure discourages directors from supporting CSR initiatives. The results are robust across

various validity tests, including dynamic analysis to verify parallel trend, falsification tests with 1,000 simulations, stacked DiD analysis, and matched sample analysis.

Our cross-sectional tests reveal 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. We also find that 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 facilitated by directors. Moreover, the decline in CSR is more pronounced in firms with formal CSR governance structures, such as those with CSR-related committees or directors with CSR expertise, suggesting that boards with greater CSR-specific knowledge and oversight are more capable of adjusting CSR engagement in response to reelection pressure. Taken together, these results confirm that the observed CSR reduction is instrumented by directors, as the effect is stronger when directors have both the incentive and the capacity to influence CSR policies.

To formally rule out the alternative explanation that the observed CSR reduction reflects managerial behavior rather than director-level incentives, we conduct three additional tests. First, we show that CSR reductions are more pronounced in firms that experience forced director turnover following the MV legislation, suggesting that remaining directors interpret such turnover as a signal of shareholder dissatisfaction and respond more actively to mitigate their own reelection risk. Second, we show that CSR reductions do not differ significantly across CEOs at different career stages, suggesting that the results are unlikely to be driven by CEOs seeking to signal alignment with shareholder interests or to enhance their prospects for external board appointments. Third, our results remain robust when we exclude firms with CEOs who hold outside directorships during the sample period, suggesting that the observed

CSR reductions are not driven by CEOs adjusting their behavior in response to reduced opportunities to retain outside board appointments following MV legislation.

We then examine the underlying mechanisms driving the observed CSR reduction. First, MV legislation may increase directors' sensitivity to shareholder preferences (Ertimur et al., 2015), prompting them to reduce CSR activities that are perceived as discretionary, symbolic, or not clearly value-enhancing. Consistent with this channel, we observe stronger CSR cutbacks among financially constrained firms, where shareholders tend to deprioritize CSR investments that primarily benefit non-shareholder stakeholders, and among firms with lower ownership by responsible investors, where shareholder pressure to maintain CSR engagement is weaker. We also find the reductions are concentrated in CSR categories classified as immaterial or aspirational, which are less directly linked to shareholder value and more likely to be viewed as symbolic or discretionary. Second, directors may exhibit short-termism under heightened reelection pressure, prioritizing immediate financial performance at the expense of long-term investments (Hsu et al., 2024; Wu et al., 2022). We find that CSR reductions are more pronounced among firms with longer asset maturity, where investments take longer to generate returns, and those facing greater short-term earnings pressure, both of which limit directors' flexibility to boost near-term performance through other means. These patterns are consistent with the myopia channel. However, the reductions are concentrated in immaterial and aspirational CSR activities, suggesting that even under short-term pressure, directors make selective adjustments that remain broadly aligned with shareholder preferences. Taken together, these findings suggest that both short-termism and shareholder alignment jointly shape how directors recalibrate CSR engagement under electoral pressure. These mechanisms, well-documented in prior literature, are not mutually exclusive and may operate concurrently.

Finally, we investigate the implications of the CSR policy change on directors' election outcomes and shareholder returns. We find that directors in firms with greater CSR reductions

following the legislation receive higher shareholder support, and that these firms also exhibit improved shareholder returns. These findings indicate that the CSR cutbacks, driven by heightened reelection pressure, were broadly supported by investors and perceived as value-enhancing, reinforcing the interpretation that such reductions align with shareholder interests.

This study first contributes to the literature by providing firsthand evidence on how an exogenous increase in directors' reelection pressure, driven by shareholder empowerment in board elections, affects directors' commitment to stakeholder interests through CSR engagement. While prior studies on reelection pressure and career concerns have focused on shareholder-oriented outcomes, such as shareholder payout, executive compensation (Zhang, 2021), and innovations (Hsu et al., 2024), the implications for stakeholder-focused policies , such as CSR, remain underexplored. Given the theoretical and empirical ambiguity surrounding the value relevance of CSR, it is unclear how directors respond to heightened electoral accountability in shaping sustainability engagement. Our findings show that majority voting legislation leads to a significant reduction in firm CSR performance, highlighting how shareholder pressure can shift board priorities away from sustainability initiatives that benefit non-shareholder stakeholders.

Second, we contribute to the literature by empirically documenting that shareholder alignment and director short-termism jointly explain the impact of majority voting legislation on CSR. These mechanisms reflect competing perspectives in the governance literature: some view MV as a disciplinary tool that improves alignment with shareholder interests (e.g., Chen et al., 2023; Vo et al., 2023), while others warn that it induces managerial myopia by heightening short-term performance pressure (e.g., Hsu et al., 2024; Li, Neupane, & Tan, 2024; Wu et al., 2022). Prior studies have largely treated these perspectives as mutually exclusive and debated the effectiveness of MV reforms. In contrast, we provide evidence that the two mechanisms are not mutually exclusive and can operate simultaneously. Directors under

reelection pressure reduce CSR activities both because such investments are long-term and uncertain, and because some initiatives may be perceived as symbolic or misaligned with shareholder value. These findings suggest that even when CSR cutbacks reflect short-termist behavior, they remain consistent with shareholder-aligned decision-making. Our results offer a more nuanced understanding of how electoral pressure reshapes CSR policy through the joint influence of two coexisting mechanisms.

Our results also inform the broader debate on the effectiveness of MV reforms. While Cai et al. (2013) find limited effects on director turnover and market reactions, our results suggest that this may reflect improved alignment between directors and shareholders, mitigating the need for disciplinary turnover. This interpretation aligns with Choi et al. (2016) and Ertimur et al. (2015), who find that MV adoption increases board responsiveness and reduces shareholder opposition. Our findings extend this perspective by showing that MV reshapes director behavior not by forcing turnover, but by strengthening incentive alignment and board accountability through changes in decision-making behavior.

Third, our findings contribute to the growing literature on stakeholder governance by revealing how structural governance reforms that empower shareholdders can intensify the conflict between shareholder and stakeholder interests. Prior research finds that broad reforms related to changes in composition or structure can shape CSR outcomes (Liao et al., 2021). We extend this literature by showing that even more targeted governance changes, such as adjustments to shareholder voting standards, can meaningfully influence CSR engagement by altering director incentives. While stakeholder-oriented models of governance advocate for broader consideration of non-shareholder groups (e.g., employees, communities), our evidence indicates that MV legislation heightens director accountability to shareholders, prompting them to deprioritize CSR activities that primarily benefit non-shareholder stakeholders. These activities, particularly immaterial CSR, may be less relevant for shareholders value but remain

important for broader stakeholder welfare. This highlights how governance reforms that empower shareholders can unintendedly constrain firms' capacity to engage meaningfully with broader stakeholder interests.

This tension is salient amid ongoing debates over board representation and stakeholder rights. For example, the 2023 proxy fight at Starbucks, where unions advocated for employee representation on the board, reflects efforts to broaden director accountability beyond shareholders. However, because director election outcomes are ultimately determined by shareholder votes, directors facing electoral pressure remain primarily incentivized to serve shareholder interests.[2] Our findings underscore the role of voting standards in shaping not only boardroom decisions, but also the broader distribution of power between shareholders and stakeholders. As such, our study contributes to ongoing discussions on stakeholder governance as a proposed alternative to shareholder primacy (e.g., Chowdhury et al., 2021; Ni, 2020).

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, Byron and Post, 2016, Iliev and Roth, 2023, Liu, 2018), our study demonstrates that incentives, not just demographics, play a critical role. This offers practical insights into governance design for aligning director behavior with multi-stakeholder objectives.

The rest of the paper proceeds as follows. Section 2 introduces the institutional background and develops our hypotheses. Section 3 describes the empirical approach and data. Section 4 analyzes the impact of MV legislation on firm CSR performance. Section 5 explores

[2] The success of the unions' campaign hinges on convincing shareholders that poor employee relations can harm stock value, and that board-level employee representation offers a viable solution. See details at https://www.ft.com/content/08c00024-3dc7-4d48-9dcd-670f93016973.

the mechanisms driving changes in CSR. Section 6 investigates the effect of CSR reduction on shareholder support and shareholder returns. The last section concludes the paper.

2. INSTITUTIONAL BACKGROUNDS, BOARD OF DIRECTORS AND CSR

2.1 Majority Voting Legislation

Until 2006, the default mode for director election in the U.S. was the plurality voting standard, where directors with the most votes were elected, regardless of achieving a majority. Since most director elections are uncontested, where the number of directors nominated equals the number of seats available on the board, directors could be elected even with a single vote. Consequently, directors face 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 concerns with the plurality voting system, shareholder activists began advocating for the adoption of majority voting standards in director elections. Under this standard, directors are elected only if receiving a majority of "for" votes from shareholders.[3] Otherwise, they might need to step down, or the board might be required to reconsider the nomination. Beginning in 2006, shareholder proposals that amend the bylaws to establish an MV standard became binding in some U.S. states. For example, the Delaware General Corporation Law (DGCL) and Model Business Corporation Act (MBCA) enabled shareholders

[3]In this system, shareholders have the option to cast a "for" or "against" vote or abstain from voting. Since any shares that abstain from voting are not counted in the calculation of the majority, a director must secure more "for" votes than "against" votes to be elected. See details at https://www.sec.gov/spotlight/proxymatters/votingmechanics.shtml.

to amend bylaws for director elections, prohibiting the board from unilaterally overturning these changes. Since then, eleven states have enacted similar legislation.

However, the transition to the MV standard has sparked intense debates. Critics argue that the implementation of majority voting could cause excessive disruption in the boardroom and, consequently, firm policies. For instance, to reduce the likelihood of dismal, directors can be myopic by focusing on short-term firm performance at the expense of long-term investments (Hsu et al., 2024; Li et al., 2024), and are more likely to engage in upward earnings management (Wu et al., 2022). The effect of majority voting on disciplining directors is also being questioned. Cai et al. (2013) find majority voting has limited effects on director turnover or market reactions.[4]

Despite these concerns, 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 dismissals, related to shareholder demands, this increased job insecurity ensures greater accountability to shareholders by motivating directors to align with their expectations.[5] 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 MV legislation adoption is associated with positive abnormal stock returns and increased

[4] 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.

[5] 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.

implementation of shareholder proposals.[6] This evidence suggests that MV legislation fosters a stronger alignment of interests between directors and shareholders (Bebchuk, 2007; Choi et al., 2016; Ertimur et al., 2015).[7]

In summary, the minimal ex-post effect of MV legislation on director turnover documented in some studies (e.g., Cai et al., 2013) 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 voting drives directors to change their behaviour, either by exhibiting myopic and self-interested actions to alleviate re-election pressure, as noted by Hsu et al. (2024) and Wu et al. (2022), or by proactively demonstrating their value and responsiveness to shareholders, as documented in Choi et al. (2016) and Ertimur et al. (2015). In light of this, MV adoption serves as an exogenous shock that heightens directors' reelection pressure, providing a basis to identify the causal effect of reelection pressure on firm policies (Hsu et al., 2024; Wu et al., 2022).

2.2 CSR as a Board-Level Concern

As CSR, and sustainability more specifically, increasingly occupy a prominent role in the contemporary corporate landscape, it has become central concern in boardroom discussions.[8] In response to these shifts, many firms have established formal mechanisms to support sustainability oversight, such as forming board-level sustainability committees**.** While these structures highlight the growing organizational importance of sustainability, the board's responsibility in this area is not confined to a specialized sub-group. CSR encompasses a wide range of areas including environmental sustainability, employee welfare, product safety, and

[6] Accordingly, Choi et al. (2016) and Ertimur et al. (2015) provide evidence that directors are more likely to secure a majority of "for" votes under the majority voting standard compared to the plurality voting system.

[7] See also *'Proxy Access' Era Begins; Welcome to the Unknown* at: https://www.wsj.com/articles/SB10001424052748703632304575451892123490472.

[8] For example, in some jurisdictions, constituency statutes require directors to balance the interests of various stakeholders, rather than focus solely on maximizing shareholder value (Chowdhury et al., 2021; Ni, 2020).

ethical sourcing. These issues intersect with core operational functions and strategic decision-making, and their effective oversight often requires input from the full board.[9] Accordingly, CSR decisions require board-level strategic judgment and are increasingly viewed as a collective responsibility of the entire board.

Empirical studies demonstrate that boards play a pivotal role in shaping CSR practices their strategic oversight and ongoing monitoring responsibilities. Directors influence CSR by integrating sustainability considerations into board and committee discussions, approving resource allocations for CSR initiatives, linking executive compensation to sustainability performance, adopting standardized reporting frameworks, and mandating third-party verification of disclosures (Iliev & Roth, 2023). In doing so, they not only oversee CSR governance but also serve as critical role in channeling resources and legitimacy, facilitating access to stakeholder networks, external knowledge, and capital necessary for implementing and legitimizing sustainability strategies (Byron & Post, 2016; Hillman et al., 2000). These mechanisms give directors substantial discretion to prioritize, reshape, or scale back CSR activities in response to evolving firm conditions or shareholder expectations. As such, board characteristics, not merely sustainability committee membership, are closely tied to CSR outcomes. For instance, Borghesi et al. (2014) and Byron and Post (2016) find that the presence of female directors is associated with improved sustainability performance, Bu et al. (2021) highlight the role of talented directors in enhancing CSR effectiveness, and Iliev and Roth

[9] For instance, product quality and safety, which is a common components of CSR frameworks, are directly linked to both operational integrity and reputational risk. Likewise, labor practices or environmental risks embedded within global supply chains require cross-functional coordination and clear board-level governance. According to firms' DEF 14A filings, CSR committees often operate in coordination with other board functions, embedding sustainability considerations into the broader governance framework. For example, Microsoft's Regulatory and Public Policy Committee is tasked to "Review our policies and programs that relate to matters of corporate social responsibility," while also collaborating with other board functions: "With the Audit Committee, review risks relevant to our information system architecture and controls and cybersecurity" and "With the Compensation Committee, review policies, programs, and initiatives for workforce management and diversity and inclusion." See details at:
https://www.sec.gov/Archives/edgar/data/789019/000119312517310951/d461626ddef14a.htm#toc461626_29

(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.

2.3 CSR and Reelection Risk

CSR performance is highly visible and politically salient, it serves as a public signal of a firm's strategic orientation and capital allocation discipline. Prior research shows that CSR engagement can enhance stakeholder relations (Lins et al., 2017), reduce the cost of capital (Dhaliwal et al., 2011; El Ghoul et al., 2011), lower firm risk (Kim et al., 2021; Koh et al., 2014), improve financial performance (Lins et al., 2017), and increase firm value (Ferrell et al., 2016). Directors may therefore view CSR as a vehicle for generating tangible financial outcomes over time (Fahlenbrach et al., 2017). In this way, CSR serves both as a mechanism for sustainable value creation and as a reputational asset that can enhance a director's standing in the board labor market and improve reelection prospects.

Under majority voting system, where directors face heightened reelection risk and stronger shareholder oversight, proactive CSR engagement may serve as a strategic signal of competence, ethical governance, and long-term orientation. Directors concerned about job security may increase CSR engagement to not only create long-term value for shareholders but also to enhance their reputational capital and reinforce their credibility in the board labor market. This perspective suggests the following CSR-increasing hypothesis:

H1a: *Majority voting legislation-induced heightened directors' reelection pressure cause significant increases in firm CSR performance.*

However, CSR investments are often long-term in nature, involving substantial initial outlays and uncertain future payoffs (see Malik, 2015, for a review). Unlike other types of investments that can yield results in the near future, the value-enhancing effects of CSR often manifest through improvements in firm credibility, customer loyalty, employee satisfaction,

and access to capital markets, all of which contribute to firm value over an extended horizon (Ferrell et al., 2016). These features make CSR a strategic investment with delayed and uncertain returns, rendering it especially vulnerable to deprioritization under short-term performance pressure.

Furthermore, from an agency theory perspective, CSR can provide managers with discretion that may enable them to pursue personal objectives at the expense of shareholder value. When board oversight is weak, executives may use CSR initiatives, such as charitable giving, political contributions, or environmental programs, not to advance stakeholder welfare, but to enhance their own reputation, social capital, or public image (Brammer et al., 2006; Cheng et al., 2023; Di Giuli & Kostovetsky, 2014; Masulis & Reza, 2015)

Even when CSR creates value, a substantial portion of these benefits is directed toward non-shareholder stakeholders, while providing limited direct gains for shareholders (Bénabou & Tirole, 2010; Gloßner, 2019; Sun et al., 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 et al., 2011). Empirical evidence supports this skepticism. For example, 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. Gillan et al. (2010) show that institutional ownership declines when firms improve sustainable investments, implying that shareholders view such actions as detrimental to their value. Similarly, Krüger (2015) finds that shareholders respond unfavorably to positive CSR announcements, especially when such initiatives are perceived as self-serving or inconsistent with a shareholder wealth-maximization focus.

Recent trends in the investment landscape reflect growing investor skepticism about CSR's ability to generate shareholder value, leading to a shift in sentiment toward 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, a downturn driven by the underperformance of renewable energy stocks, concerns over greenwashing, and rising anti-Environmental, Social, and Governance (ESG) sentiment.[10]

In summary, two theoretical mechanisms may explain the negative relationship between MV legislation and firm CSR performance. First, the shareholder alignment channel posits that MV improves board accountability by strengthening directors' responsiveness to shareholder preferences (Choi et al., 2016; Ertimur et al., 2015). Given that CSR encompasses a broad set of activities, some of which may not clearly benefit shareholders or may reflect managerial agency concerns (Gloßner, 2019), directors may reassess CSR expenditures more critically under heightened electoral pressure. Strategic reductions in CSR can thus serve as a mechanism for directors to signal responsiveness to shareholders and alignment with investor priorities, ultimately enhancing their reputation and marketability in the director labor market.

Second, the director myopia channel suggests that MV-induced reelection pressure shifts directors' strategic focus toward short-term performance (Wu et al., 2022). Under heightened electoral pressure, directors may prioritize near-term financial results to secure shareholder support, leading them to cut long-term investments such as R&D (Hsu et al., 2024). Given the similarly long-term nature and delayed payoffs of CSR, directors may reduce CSR engagement as a cost-saving response to electoral pressure.

[10] 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.

Taken together, these dynamics suggest that CSR engagement becomes particularly vulnerable under majority voting regimes. Given the long-term nature of CSR initiatives and their limited direct benefits to shareholders, directors may perceive such activities as electorally risky. Engaging in CSR could trigger concerns among shareholders, potentially jeopardizing their reelection prospects. To lower immediate costs, boost short-term performance, and signal stronger alignment with shareholder interests, directors may scale back CSR activities. This leads to the following CSR-reducing hypothesis:

H1b: *Majority voting legislation-induced heightened directors' reelection pressure cause significant reductions in firm CSR performance.*

3. EMPIRICAL FRAMEWORK AND DATA

3.1 Identification Strategy

To enhance corporate governance practices and increase board accountability, eleven states in the U.S. 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 as an exogenous shock to directors' job security to identify the causal relationship between heightened directors' reelection pressure and firm CSR performance.

To corroborate the validity of MV legislation as an exogenous shock to director job security, we replicate prior findings that link MV adoption to heightened turnover-performance sensitivity, as in Hsu et al. (2024) and Wu et al. (2022). As shown in Item IA.1 of the Internet Appendix, our evidence confirms that MV legislation increases directors' reelection pressure.

To further 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 Acharya et al. (2014) and estimate Weibull hazard models, modeling the timing of MV legislation adoption as a function of state-level characteristics. The results, reported in Item IA.2, show no significant link between MV adoption and local CSR, economic, or political conditions. Additionally, we conduct multiple tests in Section 4.2 to confirm the validity of our identification design.

Due to the staggered implementation of MV laws across U.S. states, we adopt a DiD framework with multiple sets of treated groups and time intervals, as in Bertrand and Mullainathan (2003). Specifically, the treated group includes firms incorporated in states that implemented MV legislation. The 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. *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. Industry-by-year fixed effects are also included to control for time-varying, industry-specific factors that could influence firm-level CSR outcomes ($FE_{j,t}$).[11] The industry is defined by 2-digit SIC. Following Gopalan et al. (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. *H1a* predicts positive and significant β_1, while *H1b* predicts negative and significant β_1.

3.2 Data and Sample

We obtain data on company CSR performance from the KLD database, which provides performance ratings for assessing public firms' CSR activities and disclosure quality. [12] KLD identifies strength and concern indicators for a series of CSR-related subcategories. 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*.

Data on company fundamentals are retrieved from Compustat, and data on the board of directors' composition are from BoardEx. We extract data on institutional ownership from Refinitiv Institutional (13f) Holdings. Information on the firm's incorporated state and historical headquarters' state is collected from the SEC Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database. The sample period starts in 2003 because BoardEx's

[11] In unreported tests, we find that our results are robust to various fixed effects specifications, including: (1) firm and headquarter state region-by-year fixed effects, (2) firm, year, and headquarter state region fixed effects, and (3) firm and year fixed effects.

[12] 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 CSR score construction to isolate the influence of internal governance regulations on changes in company CSR strategies (Cronqvist & Yu, 2017).

coverage is limited before that year.[13] The sample ends in 2019 because this is the last year of KLD data available through the Wharton Research Data Services (WRDS) data portal. We exclude financial institutions (SIC codes 6000 – 6999) and regulated utilities (SIC codes 4900 – 4999). Our final sample consists of 19,487 firm-year observations from 2,624 unique firms.

Table 1 presents summary statistics for the sample. All continuous variables are winsorized at the top and bottom 1% to remove outliers. Approximately 55.7% 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 0.186 (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. HOW DOES MV LEGISLATION-INDUCED DIRECTOR RE-ELECTION PRESSURE AFFECT CSR PERFORMANCE?

4.1 Main Results

We use Eq. (1) to empirically examine the impact of MV legislation on firms' CSR performance. 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 -0.224 and statistically significant at the 1% level. This finding suggests that, on average, the overall CSR performance rating decreases by 0.224 for treated firms following the enactment of MV legislation. Given the standard deviation for *CSR*

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

Performance is 2.080 for our sample firms, the reduction is approximately 10.77% variation in *CSR Performance*.[14]

[Table 2 about here]

Since the firm's overall CSR performance is the net result of its CSR strengths and concerns, we examine the influence of MV legislation on *CSR Strength* and *CSR Concern* in Columns (2) and (3), respectively.[15] We find that the observed decline in overall CSR performance is attributed to both a decrease in CSR strengths and an increase in CSR concerns, evidenced by the negative coefficient on *MV Law* in Column (2) and the positive coefficient in Column (3).[16] These results suggest that firms begin to scale back existing positive CSR initiatives. At the same time, because CSR concerns typically reflect negative incidents or deficiencies arising from firm operations that were not promptly addressed, the increase is likely to indicate reduced responsiveness to emerging CSR challenges.

In summary, Table 2 documents a clear negative association between the adoption of MV legislation and firm CSR performance, suggesting that heightened reelection pressure leads directors to scale back CSR engagement, thereby supporting the CSR-reducing hypothesis (*H1b*).

[14] 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 6.23% increase in SG&A expenses within our sample. Given that our sample mean value of SG&A is $871.129 million, the observed 0.224-point reduction in CSR rating translates into estimated savings of $12.174 million (=871.129 × 6.23% × 0.224) in SG&A costs. Considering that the mean net income of our sample firms is $298.270 million, this effect constitutes 4.08% of the net income, representing a substantial saving for shareholders.

[15] Mattingly and Berman (2006) and Walls et al. (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*.

[16] We also examine the six components of CSR separately. Results reported in Table IA.3 of the Internet Appendix confirm that the CSR reduction occurs across nearly every dimension.

4.2 Validity of Empirical Design

4.2.1 Dynamic DiD

The key identifying assumption of our DiD design is that MV legislation constitutes an exogenous shock to directors' reelection pressure, and that treated and control firms would have followed parallel CSR performance trends in its absence. To assess this assumption, we conduct a dynamic analysis following Bertrand and Mullainathan (2003), Cornaggia et al. (2015), and Deng et al. (2021). Specifically, we replace *MV Law* in Eq. (1) with 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.[17] The year of adoption is omitted to avoid multicollinearity. Figure 1 depicts the coefficients of the six indicators and the corresponding 90% confidence intervals when the dependent variable is *CSR Performance*. The coefficients on pre-treatment dummies are statistically insignificant, while the post-treatment coefficients are negative and significant, indicating that CSR performance diverges only after MV adoption. These results support the parallel trend assumption.

[Figure 1 about here]

4.2.2 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

[17] 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.

incorporated in states that enacted MV legislation after the pseudo-adoption year. We re-estimate Eq. (1) using *Pseudo MV Law* 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 the placebo coefficients is 0.015 with a standard deviation of 0.058, placing the actual *MV Law* coefficient (–0.224) nearly four standard deviations away from the simulated mean. These results reinforce the credibility of our identification strategy and the causal interpretation of our results.

[Figure 2 about here]

4.2.3 Alternative Identifications

While the staggered DiD 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 et al., 2022). To alleviate this concern, we apply the stacked DiD estimation from Cengiz et al. (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 industry-by-year-by-cohort fixed effects.[18] Column (1) of Table 3 reports the results from the stacked DiD estimation. The coefficient on *MV Law* is significantly negative (-0.204), similar to that reported in Table 2, suggesting that the staggered DiD estimates are unlikely to be biased.

[Table 3 about here]

[18] 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.

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 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.[19] Column (2) of Table 3 presents the DiD estimation results using the matched sample. We consistently observe significantly reduced CSR performance. Collectively, the results from Tables 3 provide additional evidence supporting our findings and further bolster the credibility of our DiD design.

4.3 Cross-sectional Variations

We've demonstrated that the exogenous increase in directors' reelection pressure leads to a reduction in firm CSR performance. To further validate that this effect operates through the board, we examine whether the CSR response varies with firm-level characteristics that influence the board's incentive or capacity to shape CSR policy.

4.3.1 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 CSR initiatives, we expect the effect of MV legislation on the reduction in CSR performance to be stronger in settings where the threat of director replacement is more salient. Panel A of Table 4 presents the results.

[Table 4 around here]

[19] 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 treated firms and the matched control firms.

Columns (1) and (2) of Panel A examine whether local labor market depth influences the impact of MV legislation on CSR reduction. Directors face greater replacement risk in areas with a deeper pool of available directors, as replacement becomes easier for firms (Knyazeva et al., 2013), potentially amplifying the effect of reelection pressure on CSR reduction. We proxy local director pool depth by the number of firms headquartered within 60 miles of the focal firm, excluding same-industry firms, and split the sample based on the median value.[20] The coefficient on *MV Law* is negative and highly significant for firms in deep director pool areas in Column (1), but insignificant for those in shallow markets in Column (2), with the difference being statistically significant. This finding suggests that MV legislation has a stronger impact on CSR reduction where directors face greater replacement threats.

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 help 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 reelection pressure is greater following the enactment of MV legislation. Overall, the results in Panel A indicate that the CSR reduction is more pronounced in settings where directors face stronger incentives to respond to shareholder pressure due to heightened replacement threats.

[20] 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.

4.3.2 Directors' Involvement in Firm Strategies

Panel B of Table 4 examines whether the effect of MV legislation on CSR varies with directors' strategic influence. If directors are the key agents driving CSR reductions, the effect should be stronger in firms where they are more actively involved in strategic decision-making.

First, we consider CEO experience, as less experienced CEOs tend to rely more on board counsel, giving directors greater influence over firm policies (Westphal, 1999). We divide firms into two groups based on the median CEO tenure. The coefficient on *MV Law* is -0.293 in Column (1) for firms with shorter-tenured CEOs (Inexperienced CEOs) and -0.088 in Column (2) for firms with longer-tenured CEOs (Experienced CEOs). The statistically significant difference between the two confirms a stronger CSR reduction where directors exert greater policy influence.

We next examine board co-option as a second proxy for directors' strategic capacity. Co-opted directors, those appointed after the CEO assumes office, often exhibit greater allegiance to management and lower engagement in strategic decision-making (Baghdadi et al., 2020; Coles et al., 2014). We split firms by the proportion of co-opted directors. Columns (3) and (4) show that while the *MV Law* coefficients are negative in both groups, the effect is statistically significant only among firms with fewer co-opted directors. Taken together, the results in Panel B reinforce the interpretation that directors actively facilitate CSR reductions, particularly when they hold greater strategic influence over firm policies.

4.3.3 Board's CSR Governance capacity

Panel C of Table 4 explores whether the effect of MV legislation on CSR varies with board-level CSR governance capacity. While CSR strategies require board oversight, firms differ in how they institutionalize this responsibility. Some establish formal governance structures, such as dedicated CSR committees or appoint directors with sustainability-related expertise, which equip boards with the operational knowledge and governance capacity to make more informed

and targeted adjustments to sustainability policies. [21] In the context of heightened reelection pressure, this capacity may enable boards to recalibrate sustainability engagement more strategically and swiftly, particularly by scaling back CSR activities viewed as costly or electorally sensitive. Thus, if directors are indeed driving CSR reductions, the effect should be stronger in firms with more formal CSR governance capacity.

We follow Burke et al. (2019) and Peters and Romi (2015) to use a keyword approach to define CSR-related committees based on committee names.[22] Columns (1) and (2) of Panel C report the regression results for firms with and without CSR-related committees, respectively. The coefficients of *MV Law* are negative and significant in both groups, but the effect is substantially larger for firms with CSR committees (–1.066 vs. –0.140). We then use the approach of Burke et al. (2019) and Homroy et al. (2020) and the same keywords to identify CSR-expert directors as those with prior sustainability-related roles or board experience on CSR committees. Columns (3) and (4) show that the CSR reduction is more pronounced in firms with CSR-expert directors. Thus, findings from Panel C show that boards with greater CSR governance capacity respond more strongly to reelection pressure, reinforcing the director-driven interpretation.

Taken together, the results in Table 4 support the interpretation that CSR reductions following MV legislation are actively facilitated by directors. These patterns suggest that the observed CSR decline is a targeted adjustment shaped by directors who are both incentivized and equipped to respond to heightened shareholder oversight.

[21] While CSR committees and CSR-expert directors are formally tasked with overseeing sustainability, they also participate in broader governance processes and interact with other board committees. Their specialized knowledge of CSR frameworks, stakeholder expectations, and materiality assessments gives them greater discretion in determining which initiatives are more important. This expertise enhances their ability to reassess and reprioritize CSR activities when facing electoral accountability.

[22] A CSR-related committee is identified to have one of the following keywords in its name: charitable contributions, charitable giving, community development, corporate responsibility, CSR (corporate social responsibility), diversity, employee development, environment, ethics, external relations, health, nuclear, public affairs, public interest, public issues, public policy, public responsibility, quality, safety, social responsibility, and sustainability.

4.4 Robustness Tests

4.4.1 Alternative Explanations

While our main results suggest that heightened reelection pressure under MV legislation prompts directors to reduce CSR engagement, alternative explanations, particularly those related to managerial discretion, may challenge this interpretation. In this section, we conduct several additional tests to rule out this alternative explanation and further validate the director-driven mechanism.

First, we examine whether director turnover amplifies the CSR-reducing effect of MV legislation. Involuntary board departures, especially following MV adoption, reinforce the credibility of shareholder discipline and elevate perceived dismissal risk for remaining directors. We expect CSR reductions to be stronger in firms experiencing such turnover, where directors face greater pressure to align with shareholder preferences.

However, identifying involuntary turnover is challenging. We therefore follow the approach of Fahlenbrach et al. (2017), Hsu et al. (2024) and Wu et al. (2022), using director age as a proxy. Specifically, we classify turnover as potentially involuntary if the director departs before the retirement age of 70. Column (1) of Table 5 shows that firms with such turnover in the prior year experience a significantly larger CSR decline post-MV (–0.509, $p < 0.000$), compared to that in Column (2) (-0.127, $p < 0.100$), where there is no involuntary director turnover. The difference is significant at the 5% level. These results suggest that CSR reductions are more pronounced when electoral consequences are salient, further reinforcing a director-driven interpretation and helping to rule out CEO-led explanations.

[Table 5 about here]

Second, we consider whether career-stage incentives CEOs might motivate CSR cutbacks to enhance future board prospects. Specifically, we examine the possibility that CEOs strategically reduce CSR following MV legislation to signal alignment with shareholder

interests and improve their prospects for external board appointments. Since MV increases director turnover, it may expand the pool of available board seats. Younger CEOs, in particular, face stronger career incentives to build reputational capital and enhance board marketability (Gibbons & Murphy, 1992), and may therefore be more likely to scale back CSR to appeal to shareholders in hopes of being appointed in the future. To test this hypothesis, we re-estimate our baseline regression separately for firms led by younger and older CEOs, splitting the sample at the median CEO age. However, as shown in Columns (3) and (4) of Table 5, CSR reductions are actually larger among older CEOs (–0.384, $p < 0.000$) than younger CEOs (–0.207, $p < 0.100$), although the difference is not statistically significant. These results are inconsistent with the CEO career concerns explanation and instead reinforce our interpretation that CSR cutbacks reflect heightened director reelection pressure.

Third, we address the concern that CSR reductions may be driven by CEOs responding to changes in the external director labor market. If MV legislation reduces executives' opportunities to retain their outside board appointments, CEOs may prioritize job security at their current firm by scaling back CSR activities, particularly if such activities are perceived as misaligned with shareholder interests. To mitigate this concern, we follow Hsu et al. (2023) by excluding firms in which the CEO holds any outside directorships during the sample period. As shown in Column (5) of Table 5, the results remain robust and consistent with our main findings, helping to rule out this alternative explanation. Taken together, the tests in Table 5 help to rule out alternative explanations related to managerial incentives, supporting a board-driven interpretation.

4.4.2 Additional Robustness Tests

To further assess robustness, we conduct a series of additional tests reported in the Internet Appendix. First, we show that CSR reductions are not driven by shareholder-driven director-firm match (Item IA.6) or shifting investment priorities (Item IA.7). Second, we address

concerns about unbalanced treatment exposure across early and late MV-adopting states (Item IA.8). Third, we rule out local spillover effects from Delaware and voluntary MV adoption (Items IA.9 and IA.10). Fourth, we show the results are not driven by peer firm CSR performance (Item IA.11). Finally, our findings remain consistent when using alternative CSR measures (Item IA.12).

5. WHICH MECHANISM DRIVES THE REDUCTION IN CSR?

Consistent with the CSR-reducing hypothesis, we find that the adoption of MV legislation leads to a significant decline in CSR performance. This decline may be driven by two mechanisms: shareholder alignment and director myopia. In this section, we empirically examine which of these mechanisms primarily explains the observed effect.

5.1 Shareholder Alignment

To test whether CSR reductions reflect increased alignment with shareholder interests, we examine two dimensions. First, we analyze whether CSR cutbacks are more pronounced in firms where shareholders are less supportive of sustainability engagement. Second, we explore whether directors selectively reduce CSR activities that are less value-relevant or symbolic, consistent with shareholder preferences.

5.1.1 Shareholder Expectations

Table 6 presents results based on firms' financial constraints and investor profiles, which proxy for variation in shareholder support for CSR. If directors respond to heightened reelection pressure by aligning more closely with shareholder preferences, we expect larger CSR reductions in firms where shareholders place lower value on sustainability engagement.

[Table 6 about here]

Columns (1) and (2) of Table 6 assess shareholder preferences under financial pressure. Firms with high cash flow volatility rely more on external financing and face more frequent financial constraints (Iliev and Roth, 2023). Under such conditions, shareholders are more

likely to view CSR as discretionary and deprioritize it relative to core financial objectives (Bartram et al., 2022; Xu & Kim, 2021). We find that the coefficient on *MV Law* is –0.771 ($p < 0.01$) for financially constrained firms, compared to –0.055 and statistically insignificant for unconstrained firms, with the difference statistically significant. These results are consistent with debt-equity conflicts, where shareholders may resist CSR investments that primarily benefit debtholders (Iliev & Roth, 2023). In response, directors scale back CSR under electoral pressure to signal financial discipline and mitigate shareholder dissatisfaction.

Columns (3) and (4) assess investor sustainability orientation. When firms are held by responsible investors, who actively promote sustainability practices (Dyck et al., 2019; Gibson Brandon et al., 2022), directors may maintain CSR engagement to align with these shareholders' expectations and avoid electoral backlash. Following Gibson Brandon et al. (2022), we identify responsible investors as institutional shareholders who are United Nations Principles for Responsible Investment (UN PRI) signatories. We find that MV legislation has a more negative effect on CSR performance among firms with low responsible investor ownership, while the effect is insignificant among firms with high responsible investor ownership. This pattern suggests that directors are less likely to scale back CSR when facing shareholders with stronger sustainability preferences, consistent with the shareholder alignment channel.

5.1.2 Material vs. Immaterial and Substantive vs. Aspirational CSR

In the second set of tests, we examine whether directors selectively scale back CSR in a manner consistent with shareholder interests. It is important to note that not all CSR activities generate shareholder value (Gloßner, 2019). Some may be driven by agency problems, reflecting managerial or reputational motives rather than shareholder interests (Masulis & Reza, 2015), while others may be perceived as symbolic (Fiechter et al., 2022). Under heightened reelection pressure, directors may be incentivized to exercise greater oversight on CSR, assessing not

only the overall level of engagement but also the composition of initiatives.[23] In doing so, they may scale back those seen as wasteful or misaligned with investor priorities while preserve activities perceived as value relevant.

To test this, we first follow Chen et al. (2020) and Khan et al. (2016) to use SASB materiality framework to hand map KLD CSR ratings into material and immaterial categories.[24] Material sustainability performance has the potential to enhance firm performance and shareholder value (Khan et al., 2016), whereas immaterial CSR tends to benefit non-shareholder stakeholders but lacks direct financial relevance and often entails high costs (Hoang & Phang, 2023). Columns (1) and (2) of Table 7 show that MV legislation has no significant impact on material CSR but leads to a significant reduction in immaterial CSR. Given that shareholders primarily value material CSR performance (Chen et al., 2020), directors appear to preserve initiatives linked to shareholder value while scaling back those viewed as less relevant or cost-inefficient.[25]

[Table 7 about here]

Next, we distinguish between substantive and aspirational CSR. Substantive CSR captures actual sustainable performance, including measurable outcomes and verified impacts, that are more likely to generate tangible benefits. In contrast, aspirational CSR refers to firms' forward-looking commitments, such as ESG reporting, policies, activities, and targets, that

[23] This argument draws on the findings of Gloßner (2019), who finds that blockholders, given their substantial stakes and influence, closely scrutinize CSR activities and selectively support initiatives that align with shareholder value.

[24] 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. In Item IA.13 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).

[25] It is worth nothing that Ahn et al. (2024) show that immaterial CSR scores are significantly more volatile and account for a larger share of ESG score variation than material CSR. This flexibility provides directors with a visible yet low-risk channel for responding to heightened re-election pressure under the MV law. Immaterial CSR and its flexibility offer an attractive target for cost-cutting, allowing directors to signal financial prudence without hurting shareholder interests.

signal intentions to improve sustainability.[26] Not only does aspirational CSR entail real economic costs, such as those related to ESG disclosures, target setting, and monitoring, but it may also be vulnerable to agency frictions, as directors might emphasize such initiatives for reputational purposes without delivering realized outcomes (Bams & van der Kroft, 2024; Cheng et al., 2023).[27] Under heightened electoral pressure, directors may reassess such symbolic efforts and curtail them to strengthen alignment with shareholder expectations. We follow Fiechter et al. (2022), Haque and Ntim (2020), and Marquis and Qian (2014) to classify aspirational and substantive CSR using Refinitiv data. Consistent with our expectation, Columns (3) and (4) show a significant decline in aspirational CSR following MV adoption, while substantive CSR remains unaffected. Therefore, results from Table 7 suggest that directors selectively reduce CSR activities that are financially immaterial or aspirational, while preserving those more clearly tied to shareholder value, consistent with the shareholder alignment channel.

Taken together, the results from Tables 6 and 7 provide consistent support for the shareholder alignment channel. They suggest that majority voting legislation enhances board accountability by prompting directors to adjust CSR policies in line with shareholder interests. While such adjustments may strengthen board-shareholder alignment, they also reveal a willingness to deprioritize stakeholder-oriented initiatives, potentially intensifying tensions between shareholder value and broader stakeholder welfare.

[26] This distinction underscores the gap between what firms claim they will do and what they demonstrably achieve. Thus, while both forms reflect ESG activities, only substantive CSR reflects the firm's tangible performance, whereas aspirational CSR represents intentions or promises that may or may not be fulfilled.

[27] Bams and van der Kroft (2024) show that investment managers disproportionately overweight firms with strong aspirational ESG likely as a way to demonstrate their commitment to responsible investing. However, this behavior creates a potential mismatch between investors intentions and actual sustainable impact, as these aspirational indicators may not translate into meaningful outcomes. Similar agency frictions may apply to directors, who may emphasize aspirational CSR as a symbolic gesture to enhance reputation or deflect stakeholder pressure (e.g., Cheng et al., 2023).

5.2 Director Myopia

Next, we test the myopia mechanism by examining whether CSR reductions are more pronounced among firms more vulnerable to short-term performance pressure. We proxy this pressure using two measures. First, we use asset maturity, measured as gross PP&E-to-total assets multiplied by gross PP&E-to-Depreciation (Guedes & Opler, 1996), to capture firms' investment return cycles. Firms with longer asset maturity face greater difficulty generating near-term returns from capital investments, limiting their flexibility to improve short-term performance through other means. Second, we use earnings pressure, measured by the ratio of forecasted earnings per share (EPS) to prior-year actual EPS, to capture external performance expectations. Firms facing higher earnings pressure are subject to greater pressure from capital markets to meet short-term targets. Since CSR is typically discretionary and long-term in nature, these firms may be more likely to reduce CSR engagement to meet immediate performance benchmarks. The results are reported in Table 8

[Table 8 about here]

Panel A reports results using *CSR Performance* as the dependent variable. Columns (1) and (2) examine firms with higher and lower asset maturity, respectively. We find a greater reduction in CSR for firms with high asset maturity, as indicated by the coefficient on *MV Law* of –0.306 ($p < 0.01$) in Column (1), while the effect in Column (2) is statistically insignificant. The difference between the two is significant at the 5% level. Columns (3) and (4) examine differences based on earnings pressure. The coefficient on *MV Law* is –0.275 ($p < 0.01$) for firms facing high earnings pressure, compared to an insignificant coefficient for firms with low earnings pressure. The difference is significant at the 10% level. Overall, the results in Panel A are consistent with the myopia mechanism, indicating that CSR reductions are more pronounced in firms facing greater short-term performance pressure.

While the results above suggest short-termism, we next examine whether CSR reductions by firms with higher short-term pressure are indiscriminate or reflect targeted adjustments consistent with shareholder alignment. Panel B of Table 8 examines material and immaterial CSR. Columns (1), (2), (5) and (6) show no significant change in material CSR for either asset maturity or earnings pressure subsamples. In contrast, Columns (3), (4), (7) and (8) reveal that immaterial CSR reductions are stronger among firms with higher asset maturity and higher earnings pressure. Similar findings can be found in Panel C, where we explore substantive and aspirational CSR. We find MV legislation has no effect on substantive CSR performance in any subsample in Columns (1), (2), (5), and (6). However, the effect on aspirational CSR is significantly more negative for high-maturity and high-pressure firms in Columns (3) and (7), with no significant effect in their counterparts in Columns (4) and (8). These findings reinforce those in Table 7, suggesting that directors do not reduce CSR indiscriminately. Instead, even under reelection pressure, they selectively scale back immaterial or symbolic CSR initiatives that are less clearly tied to shareholder value.

Taken together, the results across Panels A–C reveal a nuanced story. Directors reduce CSR more aggressively under greater short-term pressure, but these reductions are concentrated in immaterial and aspirational CSR, rather than in value-relevant CSR. This pattern suggests that directors are not merely reacting myopically but are making targeted adjustments that reflect investor preferences. The evidence supports the view that myopia and shareholder alignment channels can operate simultaneously, and that heightened reelection pressure leads directors to cut CSR in a strategically disciplined manner.

6. THE EFFECT OF CSR REDUCTION ON SHAREHOLDER SUPPORT AND SHAREHOLDER RETURN

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.[28] 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.[29] 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 (i.e., firms with the most significant reductions in CSR performance), and zero for other firms.[30]

Column (1) of Table 9 shows that *Large CSR Reduction* is positively associated with *For Vote* (0.009, $p < 0.05$). Given the sample standard deviation of *For Vote* is 0.073, this increase represents approximately 12.38% of the variation in *For Vote*, suggesting that directors who implement larger CSR reductions following the enactment of MV legislation enjoy higher electoral support. This is consistent with the view that shareholders reward directors who align policies more closely with their interests under MV reforms.

[28] Since ISS has limited coverage of S&P 1500 firms, the sample size of this analysis is reduced.
[29] 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.
[30] 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.

[Table 9 about here]

To assess whether CSR reduction aligns with shareholders' interests, we examine we estimate 36-month cumulative stock returns post-legislation in Column (2).[31] We find a significantly positive effect of *Large CSR Reduction* on long-term stock returns, indicating that CSR cutbacks are rewarded by the market. Although these reductions may partially reflect short-termist responses to reelection pressure, their concentration in immaterial and aspirational CSR implies that directors are making selective adjustments that align with shareholder interests. This pattern suggests that investors view such cutbacks as a favorable reallocation of resources, away from symbolic or cost-inefficient initiatives. Overall, these findings support the interpretation that majority voting legislation enhances board-shareholder alignment.

7. CONCLUSION

This paper investigates how increased reelection pressure from the implementation of MV legislation influences directors' motivations in shaping firms' CSR strategies and performance. Using a difference-in-differences 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 and aspirational CSR subcategories, rather than material or substantive categories 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.

[31] 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. However, results are qualitatively similar if we examine cumulative shareholder returns over 24 months, 48 months, and 60 months.

Since CSR activities 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 away from a stakeholder-oriented approach to prioritizing shareholder interests. The reduction in CSR initiatives, particularly in financially immaterial activities, may disadvantage non-shareholder stakeholders, thus 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 can consider increasing stakeholder representation in the board meeting to ensure that firms address the interests of a broader range of stakeholders, beyond just shareholders.

Figures

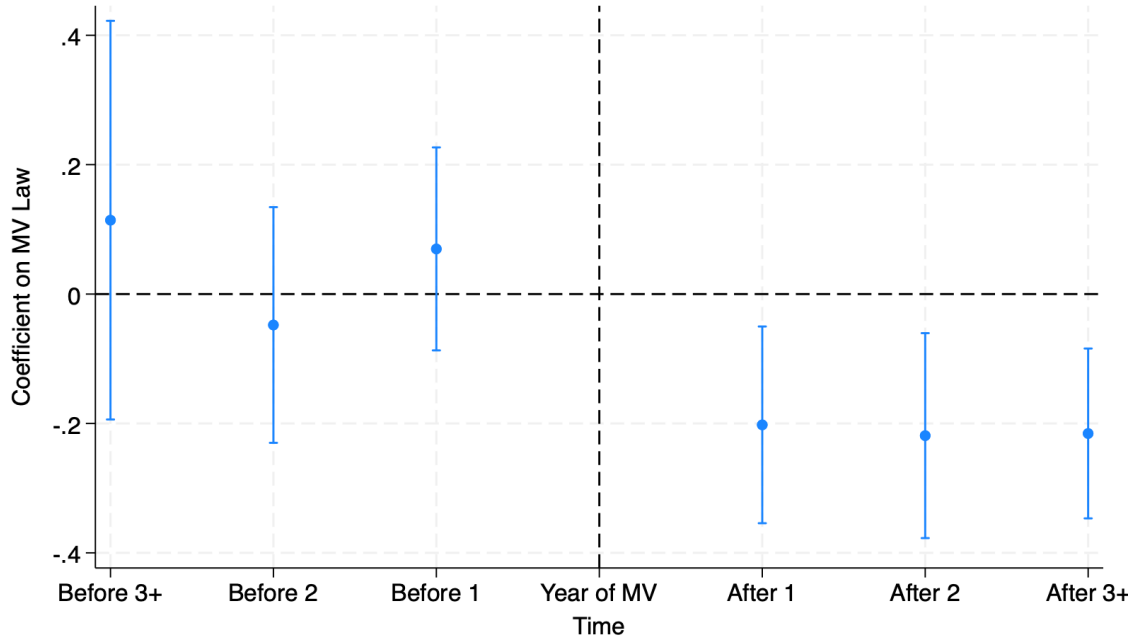

Figure 1. Dynamic effects of MV legislation on firm CSR performance. This figure plots the coefficients for six time indicators from the dynamic difference-in-differences (DiD) multivariate regression analyzing the impact of MV legislation on firm CSR performance. Results are estimated using Eq. (1), 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.

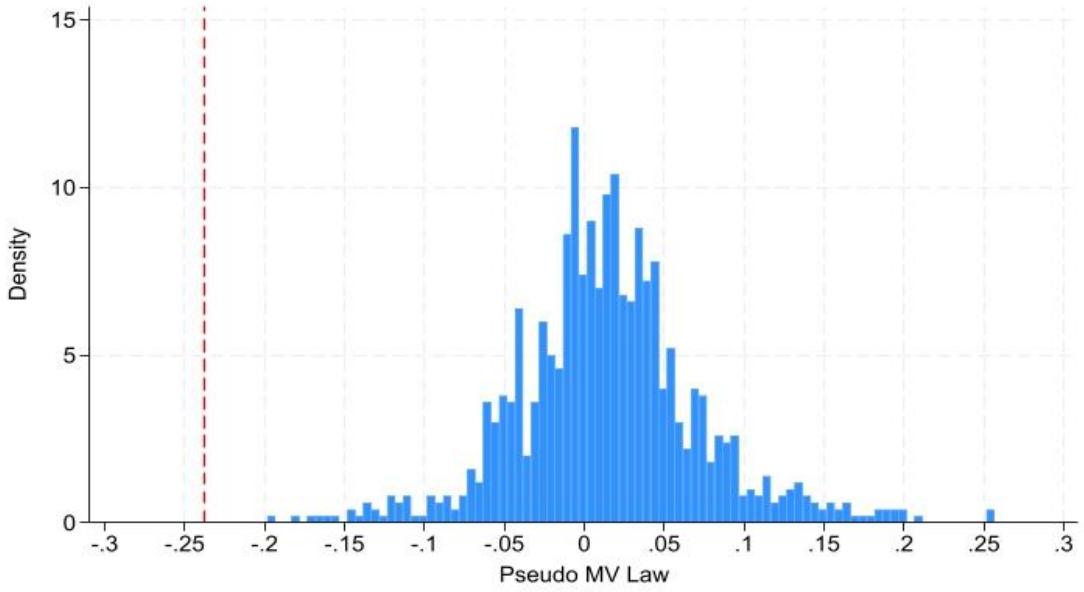

Figure 2. Coefficient distribution in falsification tests. This figure plots the coefficients of *Pseudo MV Law* obtained from 1,000 simulated falsification tests. *Pseudo MV Law* is assigned a value of one for firms incorporated in states that implemented MV legislation in years following a randomly 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 0.015, with a standard deviation of 0.058. The red vertical line represents the coefficient of *MV Law* from Column (1) in Table 2.

Reference

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,

Ahn, B. H., Patatoukas, P. N., & Skiadopoulos, G. S. (2024). Material ESG alpha: A fundamentals-based perspective. *The accounting review*, *99*(4), 1-27,

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,

Bams, D., & van der Kroft, B. (2024). Tilting the wrong firms? Sustainable investing in transitioning firms under information asymmetries. *Sustainable investing in transitioning firms under information asymmetries (September 13, 2024)*,

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,

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,

Burke, J. J., Hoitash, R., & Hoitash, U. (2019). The heterogeneity of board-level sustainability committees and corporate social performance. *Journal of Business Ethics*, *154*, 1161-1186,

Byron, K., & Post, C. (2016). Women on boards of directors and corporate social performance: A meta-analysis. *Corporate Governance: An International Review*, *24*(4), 428-442,

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,
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,
El Ghoul, S., Guedhami, O., Kwok, C. C. Y., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance*, *35*(9), 2388-2406,
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,
Fahlenbrach, R., Low, A., & Stulz, R. M. (2017). Do independent director departures predict future bad events? *The Review of Financial Studies*, *30*(7), 2313-2358,
Ferrell, A., Liang, H., & Renneboog, L. (2016). Socially responsible firms. *Journal of financial economics*, *122*(3), 585-606,

Fiechter, P., Hitz, J. M., & Lehmann, N. (2022). Real effects of a widespread CSR reporting mandate: Evidence from the European Union's CSR Directive. *Journal of Accounting Research*, *60*(4), 1499-1549,

Fos, V., & Tsoutsoura, M. (2014). Shareholder democracy in play: Career consequences of proxy contests. *Journal of financial economics*, *114*(2), 316-340,

Gibbons, R., & Murphy, K. J. (1992). Optimal incentive contracts in the presence of career concerns: Theory and evidence. *Journal of political Economy*, *100*(3), 468-505,

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.

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,

Guedes, J., & Opler, T. (1996). The determinants of the maturity of corporate debt issues. *The Journal of Finance*, *51*(5), 1809-1833,

Haque, F., & Ntim, C. G. (2020). Executive compensation, sustainable compensation policy, carbon performance and market value. *British Journal of Management*, *31*(3), 525-546,

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. (2000). The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change. *Journal of Management studies*, *37*(2), 235-256,

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,

Homroy, S., Li, W., & Selmane, N. (2020). Director Expertise and Compliance to Corporate Social Responsibility Regulations. *Available at SSRN 3743453*,

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,

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,

Koh, P. S., Qian, C., & Wang, H. (2014). Firm litigation risk and the insurance value of corporate social performance. *Strategic Management Journal*, *35*(10), 1464-1482,

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*,

Liao, C.-H., San, Z., Tsang, A., & Yu, L. (2021). Board reforms around the world: The effect on corporate social responsibility. *Corporate Governance: An International Review*, *29*(5), 496-523,

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*,

Marquis, C., & Qian, C. (2014). Corporate social responsibility reporting in China: Symbol or substance? *Organization science*, *25*(1), 127-148,

Masulis, R. W., & Reza, S. W. (2015). 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,

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

Peters, G. F., & Romi, A. M. (2015). The association between sustainability governance characteristics and the assurance of corporate sustainability reports. *Auditing: A Journal of Practice & Theory*, *34*(1), 163-198,

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,

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 the number of observations (Obs.), mean (Mean), standard deviation (SD), the 25th percentile (P25), median (Median), and the 75th percentile (P75), for the main variables used in the study. The sample consists of 19,487 firm-year observations from 2003 to 2019 for 2,624 unique firms. *CSR Performance* is the net CSR performance ratings 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. *Firm Size* is the natural logarithm of the book value of total assets. *Tobin's Q* is the ratio of the market value of assets to the book value of total assets. *Sales Growth* is the year-on-year change in sales. *Leverage* is the ratio of the sum of long-term debt and current liabilities to the book value of total assets. *ROA* is earnings before interest and taxes to the book value of total assets. *Cash Holding* is the ratio of cash and short-term investments to the book value of total assets. *Dividend* is a dummy variable that takes a value of one if the firm pays dividends and zero otherwise. *PPE* is the ratio of net property, plant, and equipment to the book value of total assets. *R&D* is the ratio of research and development expenditures to the book value of total assets. *Board Size* is the natural logarithm of the total number of board of directors. *Board Independence* is the fraction of independent directors on the board. *CEO Duality* is a dummy variable that takes a value of one if the CEO is also the Chairman of the board. *Institutional Ownership* is the fraction of shares held by institutional investors. 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.

	Obs.	Mean	SD	P25	Median	P75
CSR Performance	19,487	0.186	2.080	-1.000	0.000	1.000
MV Law	19,487	0.557	0.497	0.000	1.000	1.000
CSR Strength	19,487	1.304	2.025	0.000	1.000	2.000
CSR Concern	19,487	1.121	1.326	0.000	1.000	2.000
Firm Size	19,487	7.227	1.581	6.087	7.094	8.224
Tobin's Q	19,487	2.615	2.127	1.446	1.983	3.012
Sales Growth	19,487	0.131	0.660	-0.038	0.038	0.152
Leverage	19,487	0.467	0.341	0.268	0.416	0.581
ROA	19,487	0.068	0.277	0.039	0.090	0.147
Cash Holding	19,487	0.247	0.262	0.052	0.148	0.356
Dividend	19,487	0.413	0.492	0.000	0.000	1.000
PPE	19,487	0.272	0.273	0.083	0.179	0.370
R&D	19,487	0.069	0.151	0.000	0.007	0.077
Board Size	19,487	2.270	0.317	2.079	2.303	2.565
Board Independence	19,487	0.726	0.140	0.615	0.714	0.857
CEO Duality	19,487	0.422	0.494	0.000	0.000	1.000
Institutional Ownership	19,487	0.767	0.235	0.647	0.822	0.931

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 19,487 firm-year observations from 2003 to 2019 for 2,624 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)
Dep. Var.	*CSR Performance*	*CSR Strength*	*CSR Concern*
MV Law	-0.224***	-0.089*	0.157***
	(0.060)	(0.048)	(0.037)
Firm Size	0.107***	0.298***	0.202***
	(0.032)	(0.028)	(0.021)
Tobin's Q	0.015**	0.024***	0.009**
	(0.007)	(0.005)	(0.004)
Sales Growth	0.010	-0.003	-0.013*
	(0.013)	(0.010)	(0.008)
Leverage	-0.046	-0.054*	-0.011
	(0.039)	(0.031)	(0.025)
ROA	0.002	-0.005	-0.006
	(0.026)	(0.024)	(0.017)
Cash Holding	0.049	-0.041	-0.099*
	(0.089)	(0.072)	(0.054)
Dividend	0.051	0.129***	0.066**
	(0.045)	(0.038)	(0.028)
PPE	0.197**	-0.010	-0.223***
	(0.099)	(0.074)	(0.068)
R&D	-0.071	0.047	0.136*
	(0.111)	(0.086)	(0.072)
Board Size	0.460***	0.285***	-0.180***
	(0.083)	(0.067)	(0.050)
Board Independence	-0.888***	-0.364***	0.510***
	(0.154)	(0.124)	(0.096)
CEO Duality	0.027	0.020	-0.010
	(0.033)	(0.027)	(0.020)
Institutional Ownership	0.008	-0.093	-0.110**
	(0.077)	(0.062)	(0.049)
Firm FE	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes
Constant	-0.978***	-1.202***	-0.270
	(0.329)	(0.275)	(0.207)
Observations	19,487	19,487	19,487
Adjusted R-squared	0.643	0.745	0.673

TABLE 3 Alternative identification strategies.

This table presents regression results analyzing the effects of MV legislation on firm CSR performance using alternative identification strategies. In all columns, the dependent variable 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)
Dep. Var.	*CSR Performance*	
	Stacked sample	*Matched Sample*
MV Law	-0.204***	-0.127*
	(0.057)	(0.071)
Firm Size	0.183***	0.266***
	(0.022)	(0.049)
Tobin's Q	0.027***	0.002
	(0.006)	(0.011)
Sales Growth	0.040***	-0.020
	(0.012)	(0.029)
Leverage	-0.134***	-0.158*
	(0.031)	(0.089)
ROA	-0.011	0.181
	(0.046)	(0.177)
Cash Holding	0.227***	0.415***
	(0.066)	(0.131)
Dividend	0.092***	0.047
	(0.028)	(0.074)
PPE	0.344***	0.058
	(0.071)	(0.201)
R&D	0.067	-0.321
	(0.111)	(0.236)
Board Size	0.531***	0.296**
	(0.054)	(0.132)
Board Independence	-1.257***	-1.187***
	(0.100)	(0.230)
CEO Duality	0.063***	0.197***
	(0.020)	(0.047)
Institutional Ownership	-0.096*	-0.173
	(0.057)	(0.142)
Firm-by-Cohort FE	Yes	-
Industry-by-Year-by-Cohort FE	Yes	-
Firm FE	-	Yes
Industry-by-Year FE	-	Yes
Constant	-1.538***	-1.578***
	(0.214)	(0.496)
Observations	54,508	6,627
Adjusted R-squared	0.650	0.678

TABLE 4 Heterogeneous effects of MV legislation on CSR: board's incentive and capacity to shape corporate policy.

This table presents regression results analyzing the heterogeneous effects of MV legislation on firm CSR performance based on director Characteristics and influence. In all columns, the dependent variable is *CSR Performance*. Panel A examines heterogeneous effects based on the board's reelection pressure intensity. 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 subsample includes firms without (with) a staggered board structure. Panel B explores heterogeneous effects based on the board's influence on firm strategies. The inexperienced (experienced) CEO subsample comprises firms with CEO tenures below (above) the sample median. The high (low) fraction of director co-option subsamples includes 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 explores heterogeneous effects based on the board's CSR governance capacity. With (Without) CSR committee subsample includes firms with (without) CSR-related committees on the board, identified using the keyword-based approach from Peters and Romi (2015) and Burke et al. (2019). The With (Without) CSR Expert subsample includes firms that have (do not have) at least one director with CSR expertise on the board. A director is defined as having CSR expertise if she held a sustainability-related position in prior employment or served on a sustainability committee as a board member at another firm, following the approach of Burke et al. (2019) and Homroy et al. (2020). *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 test. 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: Board's reelection pressure intensity

	(1)	(2)	(3)	(4)
Dep. Var.	*CSR Performance*			
	Director Pool		*Board Structure*	
	Deep	*Shallow*	*Unitary*	*Staggered*
MV Law	-0.318***	-0.115	-0.470***	-0.143
	(0.094)	(0.078)	(0.136)	(0.105)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	-1.300***	-0.150	-3.599***	-1.650*
	(0.463)	(0.476)	(0.924)	(0.848)
Observations	9,237	9,203	6,003	5,393
Adjusted R-squared	0.655	0.616	0.695	0.621
Difference in MV Law	-0.203*		-0.327*	

Panel B: Board's influence on firm strategies

	(1)	(2)	(3)	(4)
Dep. Var.	*CSR Performance*			
	CEO Experience		*Director Co-option*	
	Inexperienced	*Experienced*	*Low Fraction*	*High Fraction*
MV Law	-0.293***	-0.088	-0.316***	-0.066
	(0.102)	(0.096)	(0.090)	(0.090)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	-0.569	-1.815***	-1.065**	-1.804***
	(0.561)	(0.537)	(0.527)	(0.502)
Observations	9,269	8,978	9,235	9,191
Adjusted R-squared	0.671	0.670	0.662	0.663
Difference in MV Law	-0.205*		-0.250**	

(continued on next page)

Table 4 *(continued)*

Panel C: Board's CSR governance capacity

	(1)	(2)	(3)	(4)
Dep. Var.	*CSR Performance*			
	CSR Committee		*CSR Expert*	
	With	*Without*	*With*	*Without*
MV Law	-1.066***	-0.140**	-0.605***	-0.040
	(0.328)	(0.059)	(0.152)	(0.063)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	2.125	-1.317***	-1.131	-1.610***
	(2.560)	(0.322)	(0.895)	(0.357)
Observations	1,647	17,669	5,952	12,762
Adjusted R-squared	0.708	0.636	0.667	0.652
Difference in MV Law	-0.926***		-0.565***	

TABLE 5 Alternative explanations - CEO incentives.

This table reports the regression analysis addressing alternative explanations related to changes in CEO incentives. In all columns, the dependent variable is *CSR Performance*. Columns (1) and (2) present results from subsamples split based on whether the firm experienced the departure of at least one non-executive director under the age of 70 in the prior year. Columns (3) and (4) split the sample based on whether the CEO's age is above or below the sample median. The sample in Column (3) excludes firms for which the CEO held outside directorships. *MV Law* is a dummy variable that takes 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 test. 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.

Dep. Var.	(1)	(2)	(3)	(4)	(5)
	CSR Performance				
	Director Turnover Under 70		*CEO Age*		
	With	*Without*	*Older*	*Younger*	*Exclude CEOs with Outside Directorship*
MV Law	-0.509***	-0.114	-0.384***	-0.207*	-0.191***
	(0.165)	(0.086)	(0.129)	(0.114)	(0.071)
Firm Size	0.106	0.110***	0.158*	0.118*	0.115***
	(0.074)	(0.040)	(0.082)	(0.069)	(0.040)
Tobin's Q	-0.006	0.020**	-0.001	0.007	0.014*
	(0.019)	(0.009)	(0.020)	(0.018)	(0.008)
Sales Growth	-0.008	0.011	0.085**	0.035	0.021
	(0.040)	(0.015)	(0.040)	(0.044)	(0.019)
Leverage	-0.132	0.005	-0.196*	0.009	-0.049
	(0.087)	(0.051)	(0.112)	(0.103)	(0.055)
ROA	0.145	0.041	0.084	0.020	-0.095
	(0.101)	(0.107)	(0.293)	(0.232)	(0.105)
Cash Holding	-0.000	0.041	-0.237	0.080	-0.095
	(0.204)	(0.119)	(0.241)	(0.173)	(0.107)
Dividend	-0.007	-0.004	0.002	-0.041	0.029
	(0.122)	(0.055)	(0.095)	(0.090)	(0.055)
PPE	-0.060	0.109	0.692**	-0.060	0.076
	(0.233)	(0.124)	(0.278)	(0.241)	(0.119)
R&D	0.065	-0.226	-0.226	-0.340	-0.212
	(0.274)	(0.175)	(0.509)	(0.324)	(0.174)
Board Size	0.799***	0.494***	0.812***	0.426***	0.263***
	(0.201)	(0.107)	(0.197)	(0.161)	(0.097)
Board Independence	-0.902**	-0.696***	-0.538	-0.619**	-0.061
	(0.367)	(0.200)	(0.341)	(0.293)	(0.182)
CEO Duality	0.105	-0.029	-0.048	0.104	-0.012
	(0.078)	(0.041)	(0.068)	(0.064)	(0.040)
Institutional Ownership	-0.432**	-0.060	-0.272	0.240	-0.039
	(0.171)	(0.103)	(0.225)	(0.152)	(0.099)
Firm FE	Yes	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes
Constant	-1.185	-1.138***	-1.859**	-1.193*	-1.659***
	(0.794)	(0.413)	(0.826)	(0.686)	(0.377)
Observations	4,986	13,588	6,239	7,120	9,287
Adjusted R-squared	0.795	0.701	0.678	0.668	0.642
Difference in MV Law	-0.395**		-0.177		-

TABLE 6 Shareholder expectations: Financial constraints and investor preferences.

This table presents regression results analyzing the heterogeneous effects of MV legislation on firm CSR performance based on financial constraints and shareholder expectations. In all columns, the dependent variable is *CSR Performance*. Columns (1) and (2) split the sample based on cash flow volatility, measured as the standard deviation of operating cash flows over the past 10 years. Firms in Column (1) exhibit above-median (High) volatility, while those in Column (2) fall below the median (Low). Columns (3) and (4) split the sample based on the proportion of shares held by responsible investors. 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. Firms in Column (3) have below-median (Low) responsible investor ownership, while those in Column (4) have above-median (High) ownership. *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 test. 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.

Dep. Var.	(1)	(2)	(3)	(4)
	CSR Performance			
	Cash Flow Volatility		*Sustainable Investor Ownership*	
	High	*Low*	*Low*	*High*
MV Law	-0.771***	-0.055	-0.419***	-0.035
	(0.131)	(0.064)	(0.096)	(0.086)
Firm Size	0.192***	0.107***	0.042	0.104**
	(0.062)	(0.041)	(0.058)	(0.046)
Tobin's Q	0.031	0.007	0.013	0.013*
	(0.021)	(0.006)	(0.018)	(0.007)
Sales Growth	0.007	-0.008	-0.001	0.003
	(0.029)	(0.014)	(0.037)	(0.016)
Leverage	-0.171**	0.019	-0.145	0.029
	(0.078)	(0.041)	(0.099)	(0.045)
ROA	0.336	-0.005	0.097	0.012
	(0.216)	(0.026)	(0.219)	(0.022)
Cash Holding	-0.188	0.063	0.004	-0.111
	(0.210)	(0.098)	(0.167)	(0.117)
Dividend	0.132*	-0.094	0.116	-0.060
	(0.077)	(0.058)	(0.089)	(0.058)
PPE	0.421***	-0.196	0.316	0.075
	(0.159)	(0.135)	(0.195)	(0.121)
R&D	-0.117	-0.098	-0.166	-0.124
	(0.362)	(0.107)	(0.306)	(0.122)
Board Size	0.463***	0.080	0.701***	0.315***
	(0.152)	(0.100)	(0.154)	(0.108)
Board Independence	-1.308***	0.030	-1.392***	-0.033
	(0.282)	(0.192)	(0.287)	(0.199)
CEO Duality	0.023	-0.029	0.057	-0.032
	(0.056)	(0.038)	(0.055)	(0.046)
Institutional Ownership	0.104	0.267***	-0.178	0.135
	(0.137)	(0.094)	(0.160)	(0.102)
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	-0.841	-1.311***	-0.188	-1.622***
	(0.681)	(0.374)	(0.636)	(0.428)
Observations	9,183	8,893	9,194	9,267
Adjusted R-squared	0.674	0.615	0.660	0.615
Difference in MV Law	-0.716***		-0.384***	

TABLE 7 The effects of MV legislation on different types of CSR.

This table presents regression results analyzing the effects of MV legislation on different types of CSR performance. The dependent variables in Columns (1) and (2) are material CSR and immaterial CSR performance scores, respectively. Material and immaterial CSR are derived from CSR subcategories classified according to the SASB materiality map for each sector, following the methodology outlined in Khan et al. (2016) and Chen et al. (2020). Overall material (immaterial) CSR is computed as the net of material (immaterial) strength and concern scores. The dependent variables in Columns (3) and (4) are substantive CSR and aspirational CSR performance scores, computed based Fiechter et al. (2022), Marquis and Qian (2014), and Haque and Ntim (2020). Substantive CSR captures actual CSR outcomes, while aspirational CSR reflects a firm's stated sustainability commitments, targets, and policies. *MV Law* is a dummy variable that takes 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 test. 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)
Dep. Var.	*Material CSR*	*Immaterial CSR*	*Substantive CSR*	*Aspirational CSR*
MV Law	-0.031	-0.191***	-0.028	-0.551**
	(0.028)	(0.051)	(0.018)	(0.264)
Firm Size	-0.033**	0.132***	0.032***	0.803***
	(0.017)	(0.027)	(0.008)	(0.103)
Tobin's Q	0.004	0.012**	0.002	0.017
	(0.003)	(0.006)	(0.002)	(0.024)
Sales Growth	0.016**	-0.006	-0.001	-0.003
	(0.007)	(0.011)	(0.002)	(0.028)
Leverage	0.002	-0.041	0.001	-0.155
	(0.022)	(0.034)	(0.007)	(0.119)
ROA	-0.018	0.023	0.015	-0.175
	(0.024)	(0.030)	(0.014)	(0.204)
Cash Holding	0.050	0.005	0.031	0.390
	(0.041)	(0.076)	(0.023)	(0.318)
Dividend	0.027	0.032	0.017	0.179
	(0.023)	(0.038)	(0.011)	(0.126)
PPE	0.075	0.123	-0.022	-0.152
	(0.056)	(0.076)	(0.018)	(0.283)
R&D	-0.065	-0.018	0.010	-0.356
	(0.062)	(0.093)	(0.022)	(0.450)
Board Size	0.156***	0.311***	0.015	0.022
	(0.040)	(0.070)	(0.014)	(0.218)
Board Independence	-0.262***	-0.581***	-0.013	-0.384
	(0.075)	(0.130)	(0.028)	(0.409)
CEO Duality	0.011	0.016	-0.004	-0.148*
	(0.017)	(0.027)	(0.006)	(0.083)
Institutional Ownership	-0.049	0.070	-0.029*	-0.610**
	(0.040)	(0.064)	(0.017)	(0.260)
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	0.047	-1.039***	0.062	1.100
	(0.167)	(0.275)	(0.079)	(1.047)
Observations	19,487	19,487	8,072	8,072
Adjusted R-squared	0.507	0.607	0.856	0.839
Difference in MV Law	*0.160***		*0.523***	

TABLE 8 CSR reductions and exposure to short-term performance pressure.

This table presents regression results analyzing the heterogeneous effects of MV legislation on firm CSR performance based on firms' exposure to short-term performance pressures. Asset maturity is defined as the product of gross property, plant, and equipment (PP&E) to total assets and gross PP&E to depreciation. Earnings pressure is measured as the ratio of analysts' forecasted earnings per share (EPS) for the current fiscal year to the firm's actual EPS from the prior year. Firms are classified as having high or low asset maturity and high or low earnings pressure based on whether the respective measures are above or below the sample median. Panel A reports results for overall CSR performance. Panel B disaggregates CSR into material and immaterial components based on the Sustainability Accounting Standards Board (SASB) materiality map by sector, following the approach of Khan et al. (2016) and Chen et al. (2020). Panel C examines aspirational versus substantive CSR performance using Refinitiv data, based on the methodologies of Fiechter et al. (2022), Marquis and Qian (2014), and Haque and Ntim (2020). *MV Law* is a dummy equal to one in the years after a state's adoption of MV legislation and zero otherwise. The difference in coefficients is tested using the Wald test. 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: The effects on overall CSR Performance

Dep. Var.	(1)	(2)	(3)	(4)
	CSR Performance			
	Asset Maturity		*Earnings Pressure*	
	High	*Low*	*High*	*Low*
MV Law	-0.306***	-0.060	-0.275***	-0.063
	(0.086)	(0.090)	(0.093)	(0.094)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	0.589	-2.172***	-0.582	-2.084***
	(0.535)	(0.464)	(0.588)	(0.487)
Observations	9,497	9,537	9,262	9,287
Adjusted R-squared	0.721	0.742	0.746	0.766
Difference in MV Law	-0.246**		-0.212*	

(continued on next page)

Table 8 *(continued)*

Panel B: The effects on material and immaterial CSR

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	*Material CSR*		*Immaterial CSR*		*Material CSR*		*Immaterial CSR*	
	Asset Maturity				*Earnings Pressure*			
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
MV Law	0.025	-0.054	-0.323***	-0.010	-0.043	0.065	-0.225***	-0.153*
	(0.042)	(0.039)	(0.072)	(0.079)	(0.042)	(0.045)	(0.078)	(0.089)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.589**	-0.487**	-0.249	-1.546***	0.025	-0.304	-0.724	-1.680***
	(0.285)	(0.222)	(0.443)	(0.395)	(0.277)	(0.260)	(0.492)	(0.410)
Observations	9,497	9,537	9,497	9,537	9,262	9,287	9,262	9,287
Adjusted R-squared	0.519	0.519	0.597	0.639	0.518	0.536	0.609	0.626
Difference in MV Law	0.079		-0.313***		-0.108		-0.072	

Panel C: The effects on substantive and aspirational CSR

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	*Substantive CSR*		*Aspirational CSR*		*Substantive CSR*		*Aspirational CSR*	
	Asset Maturity				*Earnings Pressure*			
	High	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*
MV Law	-0.027	-0.028	-0.770***	-0.486	-0.023	-0.021	-0.638***	-0.081
	(0.018)	(0.023)	(0.248)	(0.502)	(0.016)	(0.030)	(0.225)	(0.608)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.023	0.162**	0.635	1.935	-0.038	0.125	-1.715	2.894
	(0.079)	(0.076)	(1.562)	(1.448)	(0.087)	(0.085)	(1.455)	(1.813)
Observations	4,077	3,642	4,077	3,642	4,072	3,205	4,072	3,205
Adjusted R-squared	0.859	0.869	0.830	0.858	0.844	0.887	0.827	0.870
Difference in MV Law	0.001		-0.284		-0.002		-0.557**	

TABLE 9 The effect of CSR reduction 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)*
Dep. Var.	*For Vote*	*Cumulative Return*
Large CSR Reduction	0.009**	0.238**
	(0.004)	(0.114)
Firm Size	-0.001	-0.549***
	(0.002)	(0.054)
Tobin's Q	0.001	0.187***
	(0.000)	(0.013)
Sales Growth	-0.001	0.056**
	(0.001)	(0.028)
Leverage	0.001	0.617***
	(0.003)	(0.080)
ROA	0.003	2.799***
	(0.002)	(0.166)
Cash Holding	0.027***	0.347**
	(0.006)	(0.157)
Dividend	0.001	0.027
	(0.003)	(0.081)
PPE	0.006	0.025
	(0.007)	(0.222)
R&D	0.013	1.103***
	(0.009)	(0.270)
Board Size	0.005	-0.241*
	(0.005)	(0.142)
Board Independence	0.014	-0.302
	(0.010)	(0.255)
CEO Duality	-0.001	0.129**
	(0.002)	(0.053)
Institutional Ownership	-0.003	0.751***
	(0.005)	(0.161)
Firm FE	Yes	Yes
Industry-by-Year FE	Yes	Yes
Constant	0.932***	3.982***
	(0.021)	(0.561)
Observations	11,879	9,947
Adjusted R-squared	0.236	0.452

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.

This table presents the definitions for all variables used in this study. Parentheses indicate the corresponding Compustat item codes.

Variable	Definition
CSR Performance (Strength/Concern)	CSR Performance is the difference between CSR Strength and CSR Concern. CSR Strength is calculated as the sum of the strength (positive) indicators. Strengths indicators identify firms that have notable stakeholder-oriented engagement programs concerning the following dimensions of CSR in which 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. Concerns indicators measure the severity of controversies related to a firm's CSR activities.
MV Law	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
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).
Sales Growth	The year-on-year 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	Dummy variable that takes a value of one if the firm pays dividends (dvc) 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 total number of board of directors.
Board Independence	The number of independent directors to the total number of 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.
Director Pool	Director Pool is measured as the number of firms headquartered within a 60-mile radius of the focal firm, excluding firms in the same industry. Firms are classified as having a Deep or Shallow director pool based on whether the size of their director pool is above or below the sample median, respectively.
Board Structure	Unitary (Staggered) board structure subsample includes firms without (with) a staggered board structure.
CEO Experience	CEO Experience is measured by the CEO's tenure. CEOs with tenure below the sample median are classified as inexperienced, while those with tenure above the median are classified as experienced.
Director Co-option	Co-opted Directors are defined as those appointed after the incumbent CEO assumes office. A high (or low) fraction of director co-option refers to firms with an above- (or below-) median proportion of co-opted directors on the board.
CSR Committee	CSR Committees are identified using BoardEx data based on the presence of at least one of the following keywords in the committee name: charitable contributions, charitable giving, community development, corporate responsibility, CSR (corporate social responsibility), diversity, employee development, environment, ethics, external relations, health, nuclear, public affairs, public interest, public issues, public policy, public responsibility, quality, safety, social responsibility, and sustainability.
CSR Expert	A director is classified as having CSR expertise if they previously held a sustainability-related position in their past employment or served on a sustainability committee as a board member at other firms. Sustainability-related positions and committees are identified based on the same set of keywords used to define CSR committees.

(continued on next page)

Table A.2 *(continued)*

Variable	Definition
Cash Flow Volatility	Standard deviation of operating cash flow over the previous 10 years. Operating cash flow is computed as operating income before depreciation (oibdp) minus interest expenses (xint) and taxes (txt).
Sustainable Investor Ownership	The proportion of shares held by responsible institutional investors. Responsible investors are defined as those institutional investors that are signatories to the United Nations Principles for Responsible Investment (UN PRI).
Material (Immaterial) CSR	Material and immaterial CSR are derived from CSR subcategories classified according to the SASB materiality map for each sector, following the methodology outlined in Khan et al. (2016) and Chen et al. (2020). Overall material (immaterial) CSR is computed as the net of material (immaterial) strength and concern scores. The material (immaterial) CSR strength score as the sum of all material (immaterial) strength indicators and the material (immaterial) CSR concern score as the sum of all material concern indicators.
Substantive (Aspirational) CSR	Substantive CSR is the average score of the performance in the environmental and social dimensions provided by the Refinitiv ESG platform. Substantive CSR measures the realized performance outcomes and efficiency of CSR activities, capturing meaningful engagement in sustainability practices using Refinitiv ESG variables labeled as "outcomes/performance". Aspirational CSR is an index score, calculated by summing Refinitiv CSR dummy variables labeled as 'targets/initiatives/plans' under the environmental and social dimensions. Aspirational CSR are symbolic CSR actions, such as targets, plans, or initiatives, that have yet to translate into realized performance outcomes (Haque & Ntim, 2020).
Asset Maturity	Gross PP&E-to-total assets multiplied by gross PP&E-to-depreciation. Firms are classified as having high or low asset maturity based on whether the measure is above or below the sample median, respectively.
Earnings Pressure	The ratio of analysts' forecasted earnings per share (EPS) for the current fiscal year to the firm's actual EPS from the previous year. Firms are classified as experiencing high or low earnings pressure based on whether the ratio is above or below the sample median, respectively.
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

This Internet Appendix provides supplementary analyses and additional robustness checks referenced in the main text. The contents are organized as follows:

Contents

Item IA.1 Director turnover-performance sensitivity

Our identification strategy builds on the assumption that majority voting (MV) legislation serves an exogenous shock that heightens directors' reelection pressure. This assumption is supported by prior evidence showing that directors in states adopting MV legislation face greater electoral scrutiny and a higher likelihood of removal (Hsu et al., 2024; Wu et al., 2022). In this Item IA.1 of the Internet Appendix, we corroborate prior empirical evidence by examining the impact of majority voting legislation on the sensitivity of director turnover to firm performance.

Identifying forced director turnover is challenging. We, therefore, follow the approach of Hsu et al. (2024) and Wu et al. (2022), using director age as a proxy. The rationale is that directors at or above retirement age are more likely to depart voluntarily for retirement-related reasons, whereas younger directors are more likely to experience involuntary turnover driven by increased shareholder discipline and heightened job insecurity. 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 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 sensitivity 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 et al., 2016; Ertimur et al., 2015). Although this heightened sense of insecurity may not always lead to turnover, it nonetheless imposes significant reelection pressure on directors, further validating the use of MV legislation as an exogenous shock to directors' reelection pressure.

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. *Ind-Adj ROA* (*Ind-Adj Stock Return*) is calculated as the difference between the firm's ROA (annual stock return) and the industry median in the same year. 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)
Dep. Var.	*Turnover Under70*	*Turnover Over 70*	*Turnover Under 70*	*Turnover Over 70*
MV Law	0.012***	0.003	-0.004	0.003
	(0.004)	(0.003)	(0.004)	(0.003)
Ind-Adj ROA	-0.023	0.004		
	(0.021)	(0.016)		
MV Law × Ind-Adj ROA	-0.026**	-0.010		
	(0.013)	(0.007)		
Ind-Adj Stock Return			-0.007***	0.000
			(0.003)	(0.002)
MV Law × Ind-Adj Stock Return			-0.007*	-0.002
			(0.003)	(0.002)
Firm Size	-0.015***	0.001	-0.004	0.001
	(0.003)	(0.002)	(0.003)	(0.002)
Tobin's Q	-0.003***	-0.000	-0.000	-0.000
	(0.001)	(0.000)	(0.001)	(0.000)
Sales Growth	-0.004**	-0.000	-0.000	-0.001
	(0.002)	(0.001)	(0.001)	(0.001)
Leverage	-0.001	-0.001	0.003	0.000
	(0.005)	(0.002)	(0.005)	(0.003)
ROA	0.040*	0.005	-0.002	-0.001
	(0.021)	(0.015)	(0.003)	(0.003)
Cash Holding	-0.036***	0.004	-0.015*	0.003
	(0.009)	(0.005)	(0.008)	(0.005)
Dividend	-0.006*	-0.001	-0.004	-0.001
	(0.004)	(0.002)	(0.003)	(0.002)
PPE	-0.005	-0.000	-0.003	0.003
	(0.009)	(0.005)	(0.008)	(0.006)
R&D	-0.011	0.003	0.003	0.001
	(0.016)	(0.007)	(0.013)	(0.008)
Board Size	0.065***	0.036***	0.064***	0.034***
	(0.007)	(0.005)	(0.007)	(0.004)
Board Independence	0.077***	0.046***	0.078***	0.045***
	(0.013)	(0.008)	(0.012)	(0.008)
CEO Duality	-0.008***	-0.000	-0.008***	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)
Institutional Ownership	-0.026***	-0.006	-0.025***	-0.005
	(0.008)	(0.004)	(0.008)	(0.005)
Firm FE	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes
Constant	0.000	-0.093***	-0.096***	-0.087***
	(0.029)	(0.018)	(0.028)	(0.017)
Observations	18,621	18,621	17,459	17,457
Adjusted R-squared	0.316	0.202	0.268	0.203

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 et al. (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 Democratic 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 The effects of MV legislation on CSR dimensions

CSR is a multidimensional construct, and our performance measure encompasses six distinct dimensions. To assess which areas are most affected by heightened director reelection pressure, we examine the impact of MV legislation on each CSR dimension individually. Results are reported in Table IA.3 of this Internet Appendix.

Panel A shows that MV legislation is associated with significant declines in overall CSR performance across most dimensions, with the exception of the Human Rights dimension. Panels B and C further decompose CSR into strength and concern scores. While changes in CSR strengths are relatively modest, we observe significant declines in three of the six dimensions. In contrast, concern scores increase significantly in four dimensions following the adoption of MV legislation.

We noticed that the increase in CSR concerns appears to be more pronounced than the reduction in strengths. One possible explanation is that discontinuing established CSR strengths may trigger greater public or investor backlash than failing to act on new concerns. Since addressing CSR concerns typically entails significant upfront costs, directors facing heightened electoral pressure from shareholders may choose to maintain certain visible CSR strengths while refraining from investing in new corrective actions, especially those perceived as financially burdensome or outside the scope of shareholder interests.

TABLE IA.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 Relations, Product, Diversity, Human Rights, and Community). The sample consists of 19,487 firm-year observations from 2003 to 2019 for the 2,677 unique firms. The dependent variables in Panel A are the overall CSR scores for each dimension from KLD, while the dependent variables in Panel B and Panel C are the strength and concern scores within each CSR dimension from KLD, respectively. For each dimension, overall performance is calculated as the difference between total strengths and total concerns. Strengths are defined as the sum of all positive performance indicators within the dimension, while concerns represent the sum of all negative performance indicators related to environmental issues. *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 of 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 CSR dimensions

	(1)	(2)	(3)	(4)	(5)	(6)
	Environment	*Employee Relations*	*Product*	*Diversity*	*Human Rights*	*Community*
MV Law	-0.091***	-0.079**	-0.031*	-0.055*	-0.010	-0.033**
	(0.028)	(0.031)	(0.017)	(0.033)	(0.009)	(0.015)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.890***	0.499***	0.310***	-2.560***	0.142***	-0.070
	(0.142)	(0.177)	(0.094)	(0.192)	(0.055)	(0.063)
Observations	19,487	19,487	19,487	19,487	19,487	19,487
Adjusted R-squared	0.537	0.503	0.475	0.608	0.455	0.342

Panel B: Strength scores of CSR dimensions

	(1)	(2)	(3)	(4)	(5)	(6)
	Environment	*Employee Relations*	Product	*Diversity*	*Human Rights*	*Community*
MV Law	-0.046**	-0.018	0.013	-0.041*	-0.004	-0.019*
	(0.023)	(0.025)	(0.010)	(0.023)	(0.005)	(0.011)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.350***	0.029	-0.126*	-1.250***	-0.027	-0.246***
	(0.122)	(0.148)	(0.065)	(0.133)	(0.037)	(0.057)
Observations	19,487	19,487	19,487	19,487	19,487	19,487
Adjusted R-squared	0.624	0.525	0.412	0.586	0.587	0.443

(continued on next page)

Table IA. 3 (*continued*)

Panel C: Concern scores of CSR dimensions

	(1)	(2)	(3)	(4)	(5)	(6)
	Environment	*Employee Relations*	Product	*Diversity*	*Human Rights*	*Community*
MV Law	0.045***	0.061***	0.044***	0.014	0.005	0.020**
	(0.015)	(0.022)	(0.014)	(0.018)	(0.008)	(0.008)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry-by-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.540***	-0.470***	-0.436***	1.311***	-0.170***	-0.223***
	(0.080)	(0.108)	(0.070)	(0.109)	(0.037)	(0.045)
Observations	19,487	19,487	19,487	19,487	19,487	19,487
Adjusted R-squared	0.670	0.555	0.616	0.582	0.511	0.425

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

The stacked DiD estimation adopted in Table 3 of the main text controls for the firm-by-cohort fixed effects and industry-by-year-by-cohort fixed effects. The various fixed effects control for firm, cohort year, and industry heterogeneity alleviates concerns that our results are driven by omitted variables (Baker et al., 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 3, 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 et al. (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. Balancing test for 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. Excluding changes in directors

Given that the adoption of MV legislation may affect director turnover, 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 reestimate Eq. (1) are report the results in Table IA.6 in this Item IA.6 of the Internet Appendix. We continue to find a negative and significant coefficient of *MV Law*, suggesting that our main findings are unlikely to be driven by endogenous board composition changes, thereby mitigating concerns of reverse causality.

TABLE IA.6 Excluding Changes in Directors

This table reports the regression analysis addressing alternative explanations related to the director-firm match. The sample in Column (2) excludes the year and all subsequent years for treated firms that undergo changes in directors. 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 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)
	CSR Performance
MV Law	-0.535***
	(0.160)
Firm Size	0.166**
	(0.069)
Tobin's Q	0.013
	(0.018)
Sales Growth	0.052*
	(0.031)
Leverage	-0.169**
	(0.081)
ROA	0.082
	(0.186)
Cash Holding	0.271
	(0.193)
Dividend	0.093
	(0.085)
PPE	0.483***
	(0.174)
R&D	0.263
	(0.279)
Board Size	0.665***
	(0.165)
Board Independence	-1.514***
	(0.309)
CEO Duality	0.083
	(0.064)
Institutional Ownership	-0.132
	(0.166)
Firm FE	Yes
Industry-by-Year FE	Yes
Constant	-1.565**
	(0.660)
Observations	6,414
Adjusted R-squared	0.658

Item IA.7. The effects of MV legislation on firm CSR performance - controlling for firm-level investments

To rule out the alternative explanation that observed CSR reductions are driven by broader strategic reallocations, such as firms shifting resources toward innovation, capital investment, or acquisitions. We augment our baseline specification, which already controls for R&D intensity (*R&D*), by including additional firm-level controls for capital expenditures (*CAPX*) and M&A activity (*Acquisition*). These variables capture the possibility that firms may reduce CSR not in response to governance or accountability pressure, but as part of a general reallocation toward other long-term strategic initiatives.

As shown in Table IA.7, the coefficient on the *MV Law* remains negative and statistically significant after including these controls. This suggests that the reduction in CSR is not simply a byproduct of changing investment priorities, and instead supports our interpretation that CSR cutbacks reflect directors' responses to heightened accountability pressures under MV legislation.

TABLE IA.7. The effects of MV legislation on firm CSR performance - controlling for firm-level investments

This table presents regression results analyzing the effects of MV legislation on firm CSR performance, controlling for firm-level investment strategies. 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. *R&D* is the ratio of research and development expenditures to the book value of total assets. *CAPX* is the ratio of the firm's capital expenditure to the book value of total assets. *Acquisition* is the ratio of the acquisition investment the firm made in a year to the book value of total assets. Table A.2 of 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	-0.225***
	(0.061)
Firm Size	0.106***
	(0.033)
Tobin's Q	0.016**
	(0.006)
Sales Growth	0.010
	(0.013)
Leverage	-0.040
	(0.042)
ROA	0.007
	(0.026)
Cash Holding	0.056
	(0.091)
Dividend	0.044
	(0.047)
PPE	0.216**
	(0.105)
R&D	-0.077
	(0.109)
Board Size	-0.213
	(0.303)
Board Independence	-0.027
	(0.106)
CEO Duality	0.455***
	(0.084)
Institutional Ownership	-0.772***
	(0.155)
Firm FE	0.031
Industry-by-Year FE	(0.033)
Constant	-1.098***
	(0.332)
Observations	18,650
Adjusted R-squared	0.642

Item IA.8. 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 ensure that our results are not biased by differential post-treatment exposure across states, we follow Cuñat et al. (2019) and restrict the treatment period to the five years following MV legislation adoption. This approach balances the effect window between early- and late-adopting states and reduces the risk that long-horizon dynamics drive our findings. As reported in Table IA.8, the results remain robust, supporting a timely and consistent director-level response to MV legislation.

TABLE IA.8. 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 5-Year* 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 5-Year	-0.088**
	(0.042)
Firm Size	0.104***
	(0.032)
Tobin's Q	0.015*
	(0.008)
Sales Growth	0.009
	(0.017)
Leverage	-0.045
	(0.045)
ROA	0.003
	(0.051)
Cash Holding	0.051
	(0.095)
Dividend	0.046
	(0.044)
PPE	0.197*
	(0.106)
R&D	-0.063
	(0.150)
Board Size	0.455***
	(0.082)
Board Independence	-0.891***
	(0.151)
CEO Duality	0.026
	(0.031)
Institutional Ownership	0.012
	(0.082)
Firm FE	Yes
Industry-by-Year FE	Yes
Constant	-1.047***
	(0.320)
Observations	19,487
Adjusted R-squared	0.643

Item IA.9. 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.9. 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.9. 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	-0.413***
	(0.096)
Firm Size	0.143**
	(0.064)
Tobin's Q	0.022*
	(0.012)
Sales Growth	0.074**
	(0.032)
Leverage	-0.140*
	(0.079)
ROA	0.018
	(0.139)
Cash Holding	0.250
	(0.184)
Dividend	0.087
	(0.082)
PPE	0.296*
	(0.158)
R&D	0.138
	(0.289)
Board Size	0.451***
	(0.148)
Board Independence	-1.232***
	(0.280)
CEO Duality	0.027
	(0.058)
Institutional Ownership	0.065
	(0.152)
Firm FE	Yes
Industry-by-Year FE	Yes
Constant	-1.410**
	(0.607)
Observations	7,714
Adjusted R-squared	0.697

Item IA.10. Excluding voluntary adopters of majority voting

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 majority voting standard. 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.10 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.10 remain qualitatively consistent with our main findings, as the coefficient on *MV Law* continues to be negative and statistically significant.

TABLE IA.10 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	-0.252***
	(0.079)
Firm Size	0.184***
	(0.046)
Tobin's Q	0.014*
	(0.008)
Sales Growth	0.028*
	(0.015)
Leverage	-0.031
	(0.051)
ROA	0.005
	(0.025)
Cash Holding	0.098
	(0.126)
Dividend	0.158**
	(0.063)
PPE	-0.048
	(0.126)
R&D	0.015
	(0.126)
Board Size	0.555***
	(0.111)
Board Independence	-0.760***
	(0.217)
CEO Duality	0.024
	(0.046)
Institutional Ownership	-0.091
	(0.101)
Firm FE	Yes
Industry-by-Year FE	Yes
Constant	-1.921***
	(0.451)
Observations	10,335
Adjusted R-squared	0.657

Item IA.11. 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 et al., 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 Column (1) of Table IA.11, we additionally control for *Ind CSR Performance*, measured as the median value of *CSR Performance* for firms operated in the same industry, excluding the focal firm. We find a positive and statistically significant coefficient on the *Ind CSR Performance*, suggesting that a firm's CSR performance is positively correlated with 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 variable. Despite this adjustment, we continue to observe positive and significant coefficients on *MV Law*. Thus, the results in Table IA.11 show that our findings remain robust against potential industry spillover effects of MV legislation.

TABLE IA.11. 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	-0.283***	-0.182***
	(0.073)	(0.057)
Ind CSR Performance	0.243***	
	(0.066)	
Firm Size	0.157***	0.096***
	(0.039)	(0.031)
Tobin's Q	0.022***	0.014**
	(0.008)	(0.006)
Sales Growth	0.006	0.007
	(0.019)	(0.013)
Leverage	-0.046	-0.038
	(0.051)	(0.038)
ROA	0.011	0.004
	(0.107)	(0.025)
Cash Holding	-0.052	0.044
	(0.108)	(0.086)
Dividend	0.063	0.055
	(0.054)	(0.044)
PPE	0.096	0.187*
	(0.122)	(0.096)
R&D	-0.041	-0.082
	(0.176)	(0.108)
Board Size	0.389***	0.420***
	(0.097)	(0.081)
Board Independence	-0.878***	-0.880***
	(0.176)	(0.149)
CEO Duality	0.028	0.034
	(0.036)	(0.031)
Institutional Ownership	0.104	0.006
	(0.101)	(0.075)
Firm FE	Yes	Yes
Industry-by-Year FE	Yes	Yes
Constant	-1.076***	-0.652**
	(0.405)	(0.319)
Observations	15,682	19,487
Adjusted R-squared	0.644	0.577

Item IA.12. Alternative CSR measures

Our analyses employ CSR ratings, excluding the corporate governance component, from the KLD database to measure firm CSR performance. Although this measure has been widely adopted in previous studies, such as Adhikari (2016) and Iliev and Roth (2023), in this Item IA.12 of the Internet Appendix, we adopt alternative measures of firm CSR performance to validate our main results, and present the results in Table IA.12.

We first 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 (1) and continue to find negative and significant coefficients for *MV Law*.

Next, 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 Column (2). We find consistent results. Taken together, findings from Table IA.12 suggest that our results are not due to the selection of a particular construction of CSR performance.

TABLE IA.12. 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 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 (2), 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)
	CSR Performance 4 Dimensions	*CSR Complete Performance*
MV Law	-0.156***	-0.195***
	(0.049)	(0.068)
Firm Size	0.144***	0.042
	(0.025)	(0.036)
Tobin's Q	0.011**	0.022***
	(0.005)	(0.007)
Sales Growth	0.002	0.019
	(0.010)	(0.015)
Leverage	-0.063**	-0.029
	(0.030)	(0.043)
ROA	-0.008	0.000
	(0.023)	(0.029)
Cash Holding	-0.025	0.174*
	(0.067)	(0.100)
Dividend	0.064*	0.065
	(0.035)	(0.051)
PPE	0.251***	0.269**
	(0.081)	(0.112)
R&D	-0.000	-0.061
	(0.088)	(0.126)
Board Size	0.329***	0.360***
	(0.063)	(0.092)
Board Independence	-0.089	-0.896***
	(0.124)	(0.172)
CEO Duality	0.013	0.026
	(0.026)	(0.036)
Institutional Ownership	0.130**	-0.223**
	(0.060)	(0.088)
Firm FE	Yes	Yes
Industry-by-Year FE	Yes	Yes
Constant	-1.689***	-0.377
	(0.262)	(0.372)
Observations	19,487	19,487
Adjusted R-squared	0.632	0.613

Item IA.13 Sector-level materiality mapping for KLD subcategories

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. 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. In this Item IA.13 of the Internet Appendix, we present the combined mapping of material SASB topics to KLD data items across various sectors outlined by Chen et al. (2020) and Khan et al. (2016).

TABLE IA.13 Sector-level materiality mapping for 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

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*,