Active Ownership[*]

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Abstract: We analyze an extensive proprietary database of corporate social responsibility engagements with US public companies over 1999–2009. Engagements address environmental, social, and governance concerns. They are followed by a one-year abnormal return that averages +1.8%, comprising +4.4% for successful and zero for unsuccessful engagements. We document outperformance following environmental/social, as well as governance, engagements. Companies are more likely to be engaged, and success of engagements is more probable, if the target firm is concerned about its reputation and if it has higher capacity to implement changes. After successful engagements, companies experience improvements in operating performance, profitability, efficiency, and governance.

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Large institutional investors are often universal owners because of their diversified and ultra-long-term portfolios with substantial ownerships (Mattison et al, 2011). Their portfolios are exposed to risks from corporate social responsibility (CSR) externalities, and it is in their interest to minimize the potential costs and maximize the potential benefits of those externalities by influencing investee firms' businesses. At the same time, socially responsible investing (SRI), which seeks to deliver social as well as financial benefits, has attracted increasing attention. Over 10,000 business organisations in 145 countries now commit to responsible and sustainable corporate practices under the UN Global Compact (2013). The Principles for Responsible Investment (2013) lists 1,198 signatories with $34 trillion in assets under management, and the Global Sustainable Investment Alliance (2013) estimates that worldwide some $14 trillion of professionally managed assets incorporate environmental, social, and governance (ESG) concerns into their decisions. A growing proportion of pension funds, insurance companies, endowments, sovereign funds, and other investors is engaging with public firms on CSR issues (Goldstein, 2011), more social issue resolutions are being filed (Glac, 2010; Carroll et al, 2012), and success rates of these resolutions are rising (Mathiasen et al, 2012). In brief, reflecting their ESG concerns, business owners are increasingly exercising their rights to influence the way businesses are managed.

Active engagement by universal owners on CSR issues (hereafter "CSR activism" or "active ownership") differs in motivation from traditional shareholder activism (e.g., by pension funds or mutual funds) and from hedge fund activism.[1] Traditional shareholder activism and hedge fund activism typically focus on issues related to the interests of shareholders only, whereas CSR activism focuses on issues related to the interests of a broader range of stakeholders, including employees, customers, and creditors. Universal owners have multiple roles (e.g., as shareholders or creditors) and responsibilities (e.g., to their customers or

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[1] See, e.g., Black (1998), Karpoff (2001), Romano (2001), Barber (2007), Carleton et al (1998), and Gillan and Starks (2007) for traditional shareholder activism; and Brav et al (2008), Klein and Zur (2009), and Brav et al (2012) for hedge fund activism.

beneficiaries), and this can explain their focus on broader stakeholders' interests. Consistent with this view, there is an emerging literature that emphasizes the potential positive role of non-shareholder stakeholders in companies' values and corporate governance systems, including, Zingales (2000), Jensen (2001), Acharya et al (2011), and Allen et al (2011).

Despite the growing prevalence of active ownership, data limitations have left unanswered even the most basic questions about CSR activism: Which firms do active owners engage and how do those engaged firms respond? What determines the success of these engagements? How does the market react to CSR engagements? Do active owners succeed in implementing their objectives? And more fundamentally, how do CSR activities affect firm performance? In this paper, drawing on a proprietary dataset of environmental, social, and governance engagements and outcomes, we are able to address the above questions.

Our dataset is unusual in being a point-in-time record of active engagements. It has been provided by a large institutional investor with a major commitment to responsible investment. In the annual P&I/Towers Watson World 500 league table, the firm ranks in the top 100 firms worldwide by assets under management (P&I, 2012). The organization's heritage of CSR investing extends back to its first ethical fund, launched in 1984, and it uses its influence as one of the world's largest shareholders to promote the adoption of good ESG practices. It actively engages in dialogues with over 3,000 target companies around the world via letters, emails, telephone conversations, and direct conversation with senior management. Like other ultra-long-term owners, the asset manager aims to improve target companies' value by managing the risks due to ESG externalities. It enforces its CSR strategies by (the threat of) exercising voting rights at the shareholders' meetings on behalf of both its internal and external clients, or by screening out irresponsible companies from its investment portfolios. The manager's stewardship report indicates that it was mandated to vote and/or engage in dialogue on behalf of $222 billion in assets. Engagements are compiled as a detailed electronic file. Although the complete worldwide dataset was made available to us, this paper focuses on engagements with US public companies.

We examine highly intensive engagements on environmental, social, and governance areas, which are classified into different themes and issues within each engagement area (details are in Table 1, Panel A). Our primary sample consists of 2,152 engagement sequences for 613 public firms between 1999 and 2009. We find that firms that are large, mature, and poorly performing, and that have reputational concerns, high institutional ownership, inferior governance, and superior capacity to improve are more likely to be engaged compared to a matched sample of companies. Conditional on being engaged, firms with higher reputational concerns, economies of scale, and scope for improvement are more likely to implement proposed changes on CSR issues. We refer to these as successful engagements. The success rate for engagements in our sample is 18% and on average it takes a sequence of 2–3 engagements before success. The elapsed time from initial engagement to success averages one-and-a-half years; the median time is one year.

Benabou and Tirole (2010) summarize the theoretical literature, which offers three views with different predictions for CSR's impact on firm value. One view is that CSR practices allow management to take a long-term perspective and maximize intertemporal profits, which is also consistent with the interests of universal owners. This view is also consistent with recent evidence, e.g., Kim et al (2012), that more truthful firms, as judged by their aversion to earnings management, tend to be more active on CSR issues. Benabou and Tirole articulate a second view that socially responsible businesses act as an efficient channel to express personal values on behalf of their stakeholders, which may be regarded as a form of delegated philanthropy. While the first two views would imply a positive impact of CSR on firm value, a third view is that CSR reveals insider-initiated corporate philanthropy or a managerial agency problem. Benabou and Tirole note that, in this scenario, CSR activities would most likely be value destroying.[2]

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[2] Beside suggesting differential impacts on firm value, these views also provide different predictions for the linkage between CSR activities and corporate governance. The first view predicts improvements in corporate governance following CSR activities. The second view does not imply any linkage between CSR and corporate governance since management still maximizes profits. The third view predicts that poor governance leads to CSR activities. Our results do not support the third view: we find no evidence that poor governance contributes to the success of engagements.

Consistent with the first two views discussed above, we find that CSR engagements generate a cumulative abnormal return of +1.8% over the year following the initial engagement. Cumulative abnormal returns are much higher for successful engagements (+4.4%) and gradually flatten out after a year, when the objective is accomplished for the median firm in our sample. We do not find any market reaction to unsuccessful engagements. These results are further supported by analysis of buy-and-hold returns. We document an annualized market-adjusted holding-period return of +6.8% for successful engagements and zero for unsuccessful ones. We then examine the cross-section of abnormal returns and find that the positive market reaction to successful CSR engagements is most pronounced for the themes of corporate governance and climate change. For these themes, the cumulative abnormal return of an additional successful engagement over a year after the initial engagement averages +7.1% and +10.6%, respectively. Examining the cross-section of the buy-and-hold returns for the successful engagements, we find an annualized market-adjusted holding-period return of +7.5% for engagements on the corporate governance theme and +5.9% for the engagements on non-corporate-governance themes.

Finally, we investigate the sources of the positive market reaction to successful engagements. The literature highlights four channels through which CSR activities can enhance firm value. First, more socially conscious consumers have greater customer loyalty (Besley and Ghatak, 2007), and increased product differentiation supports premium pricing. Second, firms with high employee satisfaction outperform the market (Edmans, 2011). Third, more virtuous companies attract a broader clientele than "sinful" companies (Grossman and Sharpe, 1986; Hong and Kacperczyk, 2009), and political leanings, which attract particular stockholder clienteles, also influence CSR behavior (Di Giuli and Kostovetsky, 2012). Fourth, successful investor interventions signal future governance improvements (Gompers et al, 2003; Brav et al, 2008; Klein and Zur, 2009). In addition, engaged firms may be induced to look for improvements in other areas.

To investigate these channels, we take a difference-in-difference approach and compare

the subsequent changes in target firms' operating performance, profitability, efficiency, institutional ownership, stock volatility, and governance after successful engagements. Consistent with the above-mentioned mechanisms, we find, first, that the return on assets, profit margin, asset turnover, and sales over employees ratios improve significantly one year after successful engagements, as compared to the unsuccessful ones. Improvements in sales, profitability, and employee efficiency are consistent with the argument that CSR improves customer and employee loyalty. Second, we observe an increase in shareholdings from the CSR activist and from pension activists in general, and a decrease in stock return volatility one year after successful engagements, which is consistent with the argument that CSR generates a clientele effect among shareholders. Third, we find improvements in corporate governance of the targeted firms two years after successful engagements as measured by the Gompers et al (2003) governance index and by the Bebchuk et al (2009) entrenchment index. We conclude that CSR activism improves social welfare to the extent that it increases stakeholder value when engagements are successful, and does not destroy value even when engagements are unsuccessful. We note that, after successful engagements, firms with inferior governance subsequently improve their governance and performance. Our interpretation is that CSR activism attenuates managerial myopia and hence helps minimize intertemporal losses of profits and negative externalities on stakeholders (the first view in Benabou and Tirole, 2010).

Our paper makes new contributions on three dimensions. First, to our knowledge, this paper is the first to examine shareholder activism on environmental and social issues. Over the last decade, the number of shareholder proposals on environmental and social issues filed with the SEC has increased, and approval rates for these proposals have risen (Glac, 2010; Welsh and Smith, 2011; Allen et al, 2011; Mathiasen et al, 2012). The +5.9% buy-and-hold return we document for successful engagements on non-corporate-governance themes demonstrates value added through activism on social and environmental matters. Given the increasing importance and prevalence of shareholder resolutions on environmental and social issues, our study provides

timely feedback on this recent phenomenon and fills in an important gap in the literature.

Second, we provide evidence on a form of owner behavior that differs in objectives, tactics, and outcomes from both traditional shareholder activism and hedge fund activism. Traditional shareholder activism, whether through engaging with investee companies or through responding to shareholder proposals, emphasizes corporate governance. This activity is judged by Smith (1996), Karpoff et al (1996), and Gillan and Starks (2000) to provide, at best, negligible benefits to shareholders. Hedge fund activism generates considerable abnormal stock returns (+7% to +10%), but typically through engagements on issues such as business strategy or takeover decisions rather than governance; see Brav et al (2008) and Klein and Zur (2009). We complement this evidence by documenting significant positive abnormal returns from successful engagements on corporate governance issues (+7.1% in our case). Beside the standard issues of executive remuneration, board structure, information disclosure, and takeover defenses, the active owner in our sample also engages on other corporate governance issues with a stakeholder-oriented focus, including increasing board diversity, producing CSR or sustainability reports, improving CSR disclosure, voluntarily expensing stock options, and adopting "say on pay". This palette of activities extends beyond hedge fund and traditional activism tactics, with superior performance that could also be explained by the more effective engagements initiated by the CSR activist, and the increased activities of shareholders after the Enron scandal and the 2002 Sarbanes-Oxley Act, as documented by Ferri and Sandino (2009) and Ertimur et al (2011).

Our third contribution is to the CSR/SRI literature, which includes many studies of the link between responsible investing and firm performance. Margolis et al (2007) survey all the studies published in the management field on this topic over 1972–2007, and find that most studies report a non-significant relation, 2% document a negative relation, and only 27% document a positive relation: they conclude that the overall impact of CSR on firm performance is positive but small. Renneboog, ter Horst, and Zhang (2008) reach similar conclusions, at least for the US and UK. Moreover many studies are subject to methodological criticisms such as

endogeneity. Most previous research has relied on static and delimited measures for CSR performance, such as the widely used KLD (now part of MSCI) scores of firms' social responsibility. In contrast, our study benefits from the dynamic and incremental nature of our dataset, which enables us to conduct event-study analyses and to link subsequent changes in firm performance to prior CSR activities. This offers an improved prospect of discerning causality, rather than simply noting measures of association. In addition, instead of "the convenient yet difficult to validate measures such as the *Fortune* ratings of admired companies and company insiders' self-reported impressions" (Margolis et al, 2007), our data is objective and quantified.

The paper proceeds as follows. Section 1 describes the data. Section 2 summarizes the characteristics of engaged firms. Section 3 examines the determinants of successful engagements. Section 4 looks at stock market reactions. Section 5 examines post-engagement changes in performance. Section 6 evaluates alternative explanations for our findings and concludes.

1. Data

Our data provider uses its influence as a major shareholder to promote the adoption of sound environmental, social, and governance practices. We believe the detailed electronic file of the firm's engagements is the most complete point-in-time dataset that is currently available for research of this type.

1.1. Engagement Data Description

The data used in this paper includes detailed information about the different engagement actions taken by the asset manager. Target companies are often identified by using ESG screening metrics and are chosen from the asset manager's (target) investment portfolio. In addition, the asset manager also engages with companies beyond its investment portfolio and on behalf of at least 20 consulting clients. Engagements with target companies involve two types of actions:

Raising Awareness and *Request for Change*. When the data provider records an engagement as *Raising Awareness*, it is aiming to inform and warn the target companies about certain CSR issues. In contrast, a *Request for Change* is usually a more stringent step compared with *Raising Awareness*, in which the asset manager asks for specific changes in the target company due to the latter's unsatisfactory CSR practice. Accompanying the engagement data is a record of the improvements that the target company achieves in its CSR practices, which are recorded as *Milestones*. On average, milestones are achieved one-and-a-half years after the initial engagement. The original engagement dataset includes 2,465 *Raising Awareness*, 2,149 *Request for Change*, and 405 *Milestones*.

In Appendix A, we present three examples of the engagements in this dataset. The first is a sequence of interactions with a well-known technology firm on environmental issues. The target was engaged three times before a milestone was recorded. A search on Factiva reveals that the initial engagement was triggered by a series of public events, such as a prior demand by Greenpeace that the target be more environmental friendly. After a take-back and recycling plan was announced and approved by shareholders, this was recorded as a milestone. In general, when engagements are triggered by public episodes, the engagement dates roughly correspond to these event dates, with a lag of no more than five days. The second and third examples deal with social and governance issues. Unlike the first example, Factiva did not carry any news articles discussing these issues around the engagement dates, and we conclude that these engagements were unlikely to have been initiated by public events. Communication is probably through private channels. We do not expect engagements through private channels to be less effective than those triggered by public events, especially since Becht et al (2009) show that shareholder activism can successfully and effectively be undertaken through private communications.

As mentioned above, many CSR engagements are triggered by public events. To get a better idea of the frequency of these cases, we obtain the information on public news coverage of our target firms up to seven calendar days prior to the engagement dates from the Capital IQ Key

Development database. We find that 46.6% of CSR engagements in our sample are preceded by public news, some of which relates to the engagement in question. Milestones are public events when they coincide with shareholder meetings at which requested changes are approved. We obtain information on shareholder meeting dates from the ISS and Capital IQ Key Development databases. Out of 382 milestones in our final sample, 359 have shareholder meeting information available. We find that 33.4% of milestones in our sample happened around the date of target companies' shareholder meetings. Finally, the data confirms that the process for recording engagements and milestones is based on objective criteria: there are no indications that entries are backdated after observing the target firms' stock price movements.

1.2. Firm-level Data Description

We obtain our data for firm characteristics from several sources. We download corporate accounting data from Compustat North America Fundamentals Annual, stock return data from Compustat North America Security Monthly, abnormal return data from the CRSP monthly stock file, analyst coverage data from I/B/E/S, institutional ownership data from Thompson Reuters 13F, corporate governance measures from RiskMetrics, legal lawsuits data from AuditAnalytics, and data to calculate the liquidity measure from the CRSP daily stock file. Data from different sources are merged together with company identifiers, such as CUSIP, Gvkey, Permno, CIK, and firm name. Definitions and descriptions of each variable and of the data sources are provided in Appendix B.

1.3. Summary of CSR Engagements

Based on the stated objectives, CSR engagements are divided into nine themes belonging to three major areas: governance, environmental, and social. Table 1, Panel A lists the detailed description of different issues within each theme. Table 1, Panel B reports the summary of engagement sequences by different engagement areas and themes (e.g., number of sequences,

percentages of successful engagements).[3]

In our main analysis, we examine engagements on corporate governance and other themes as a whole. This is for several reasons. First, issues on environmental, social, and governance are often dealt together by responsible investors and CSR activists. Therefore, the approach of including the corporate governance theme in our main sample is consistent with CSR/SRI practice. Second, corporate governance issues are often integrated in social and environmental issues, with the latter being a manifestation of the former (e.g., an environmental setback could be a reflection of poor corporate governance). Third, CSR disclosure related issues are also classified in our sample under the corporate governance theme (see, example A.3 at Appendix A). Nevertheless, we conduct additional analyses by splitting the engagement sample into corporate governance theme and non-corporate-governance themes and discuss these results wherever appropriate.[4]

An engagement sequence is defined as a series of interactions, including *Raising Awareness* or *Request for Change* or both, dealing with the same issue. After requiring the target firm to have minimum company-level data available from Compustat, our sample covers 2,152 unique engagement sequences involving 613 public companies in the US between 1999 and 2009. The total market capitalization of our sample firms is about 26% of the aggregate CRSP market capitalization during our sample period. Columns (1) and (2) of Table 1, Panel B report the number of engagement sequences and its sample proportion on different themes. The most commonly engaged theme is corporate governance, followed by environmental management and labour standards. Column (3) reports the percentage of engagement sequences that are triggered

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[3] Within each theme, there is an issue type called "Other". We read through the detailed records and find out that these are engagements under each theme that are difficult to be labeled as any of the listed issues. Therefore, our analyses are based on classifications at the engagement theme level. Additional descriptions of the data are included in a new paper by Bauer, Clark, and Viehs (2013).

[4] Note that, in order to constitute the sample with non-corporate-governance themes, business ethics and the sustainability reporting themes under the governance area are categorized together with themes under the environmental and social areas. This follows the proxy voting guidelines developed by ISS's Social Advisory Service for socially responsible intuitional investors. ISS categorizes board of directors, ratification of auditors, takeover defense/shareholder rights, capital structure, executive and director compensation, shareholder rights, and mergers and corporate restructuring as governance proposals and others as social and environmental proposals (see ISS, 2012).

by public events, defined as the availability of news articles within seven calendar days prior to the engagement date. An engagement sequence is defined as "successful" if a milestone is achieved at the end of the sequence and recorded in the database. Columns (4) and (5) report the number of successful engagements and the percentage success rate under each theme. Column (9) reports the number of unsuccessful engagements. As can be seen at Column (5), engagements on corporate governance, environmental management, and labour standards themes are also most likely to be successful, with the success rate of 24.2%, 17.6%, and 16.9%, respectively. Engagements on public health, sustainability management & reporting, and human rights themes are least likely to be resolved, with success rates below 10%.

Our sample has an average success rate of 17.8%, much below that of hedge funds (40.6% in Brav et al, 2008; and 60% in Klein and Zur, 2009). We posit two explanations for this relatively lower success rate. First is the difficulty of convincing management or other shareholders to accept projects that are costly but potentially beneficial to other stakeholders, such as employees, suppliers, local community, and consumers. Second is the lesser influence on the target firm of engagement strategies that are less aggressive than hedge funds' activities. However, the success rate in our sample is comparable to traditional shareholder activism via shareholder proposals. For example, Karpoff et al (1996) document that only 16 out of 522 proposal events garnered a majority of shareholder votes, while Gillan and Starks (2000) document an average success rate of 23% for shareholder proposals on corporate governance issues, which is below the corresponding rate in our sample. This rate is also consistent with the approval rate of below 20% for shareholder proposals on environmental and social issues during proxy seasons before 2011, as documented in Allen et al (2011).

Columns (6) and (10) report the average number of *Raising Awareness* and *Request for Change* for successful and unsuccessful engagement sequences, respectively. Column (7) reports the mean and median number of days between the initial engagement date and the milestone date for successful engagement sequences under each theme. Compared to straightforward voting

issues, human rights and business ethics dilemmas are difficult to resolve swiftly, and we find that these themes have the largest number of engagements per sequence, despite their low success rates. For the whole sample, the mean [median] horizon is 503 [349] days, an elapsed time that is consistent with the shareholder activism literature: Becht et al (2009) find that the median duration of investment is 469 days for collaborative engagements and 1,284 days for confrontational ones, while Brav et al (2008) find that the median holding period of their hedge fund sample is 369 days.

Table 1, Panel C reports the number of engagement sequences by calendar year, classified by the date of the initial engagement (the first one in a sequence). There are relatively few observations in the early years due to narrow coverage within the database. There is an almost monotonic increase of the number of engagements in the environmental area during our sample period, consistent with the trend that environmental concerns became more prevalent in recent years and the increasing number of shareholder proposals on environmental issues filed to SEC in the last decade (Glac, 2010). The large drop of the success rate from 2007 onwards is probably due to the fact that when our data stops at mid-2009, some engagements are still work-in-progress and milestones have not yet been achieved. However, identifying the not-yet-successful engagements as unsuccessful ones biases us against finding any difference between the successful and unsuccessful engagements.

We observe a temporary surge in governance engagements in 2004 (increasing from 94 observations in 2003 to 347 in 2004 and dropping back to 114 in 2005). This is mainly driven by engagements on issues of voluntary employee stock option (ESO) expensing, which was a heavily debated accounting topic in early 2000s. The Financial Accounting Standards Board (FASB) released the final version of FAS No. 123R, which requires all US companies to expense ESOs, effective from June 15, 2005 onwards. In 2004, whilst the final FASB rule was still under debate, the asset manager sent a letter to CEOs of a large group of target firms asking them to voluntarily expense ESOs. See Ferri and Sandino (2009) for a detailed discussion about

shareholder proposals on voluntary expensing ESO issues during that period. Our results are not sensitive to the exclusion of these engagements from the sample.

Table 1, Panel D reports the number of engagement sequences by industry, based on single-digit SIC classifications for the target companies. Engaged companies are from all the major industries, with observations concentrated in manufacturing and finance.

(~Insert Table 1 about here~)

2. Characteristics of Target Companies Prior to CSR Engagements

What types of companies are engaged for CSR activism? To address this question, we examine the characteristics of the target firms and compare them with a matched sample of firms. To construct the matched sample, we first create a matching pool using all companies from Compustat North America, and follow the Brav et al (2008) matching rule. We remove all the target companies from the pool and require both the target and the matching firms to have data on industry, firm size, and the market-to-book ratio. The matched firms for each target company are assigned from the same year, same industry (3-digit SIC), and same 10×10 size and market-to-book sorted portfolios. If the above rule does not yield any match, we relax the industry to 2-digit SIC and the size/market-to-book to 5×5 sorted portfolios.[5] In tests of robustness (unreported), we adopt another matching rule, where we relax the industry to Fama-French 12 industries and directly use 5×5 size/MTB sorted portfolios. Then, among all the matched firms, we keep only the one with size closest to the target company. Using this alternative rule with fewer restrictions, we are able to find matches for more engagement sequences and the size difference between the target company and the matched firm is smaller, but our test results remain similar. For additional robustness, we also repeat our main matching rule by using Fama-French 12 industries instead of 3-digit SIC, and we find similar results (unreported).

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[5] Note that we do not restrict the matched firms in terms of CSR activities. Having firms with CSR activities in the matched sample would bias against us finding any difference between the engaged firms and the matched sample.

The first four columns of Table 2 report summary statistics of the target firms' characteristics in the year before the initial engagement. The detailed variable definitions and data sources are included in Appendix B. Column (5) reports the difference between target companies and matched firms averaged across the target sample. As in Brav et al (2008), the difference between a sample firm i and its matched firms is calculated as follows:

$$Diff_i = X_i - \frac{1}{m}\sum_{j=1}^{m} X_j ,$$

where X is defined as a characteristic variable and firms $j=1,...,m$ are from the matching group. To test whether the differences are statistically different from zero, we report the t-statistics in Column (6) and the Wilcoxon signed rank statistics which test the median difference between two samples in Column (7). The number of observations as reported in Column (4) varies due to the availability of data to calculate X for both target and matching firms.

Size and maturity. Unlike activist hedge funds targeting medium-sized companies, our data provider engages with large and mature firms; they have higher *firm size* and *firm age* and lower *market-to-book*, *Tobin's Q*, and *sales growth* compared to the matched group. The focus on large firms is consistent with that documented in traditional shareholder activism (e.g., Smith, 1996; Karpoff et al, 1996). Due to their large size, our target firms also have lower *shareholding of block holders*, higher liquidity (lower *Amihud illiquidity*), and higher *number of analysts* covering the firm. Higher liquidity might make the (threat of) exit more feasible (credible). The *shareholding of the asset manager* in the target firms is only 0.1%, although it is significantly higher than that of the control sample. Thus our paper also complements the existing literature on the impact of large shareholders, with at least 5% block ownership, on large firms (e.g., Becker et al, 2011; Clifford and Lindsey, 2013).

Performance. In contrast to hedge funds targeting more profitable firms (Brav et al, 2008; Klein and Zur, 2009), our active owner targets less profitable ones. *Stock return* is the buy-and-hold return, including reinvested dividends, from the previous year and it is significantly

lower for target firms compared with that of control firms. The strategy of targeting poorly performing firms is consistent with that of traditional shareholder activism (Smith, 1996; Karpoff et al, 1996). In addition, targets are less efficient firms, with lower *asset turnover* ratios and lower *sales over employees* ratios.

Discretionary spending. Whereas hedge funds target firms paying less dividends, our sample emphasizes those paying more. They have a higher *dividend yield* and a higher *dividend payout* ratio. In addition, engaged companies have lower *research and development (R&D) expenditure* and have a lower *capital expenditure*.

Capital structure. Target firms have higher *leverage* and lower *cash holding*, similar to those targeted by active hedge funds in Brav et al (2008).

Corporate governance. On average, the firms in our sample have weaker corporate governance mechanisms as measured by the Gompers et al (2003) *governance index* and by the Bebchuk et al (2009) *entrenchment index*. These two indexes measure the extent to which management is entrenched; see Bebchuk et al (2013). This is consistent with the evidence in Table 1 that entrenched management and weak corporate governance is the theme that is most frequently associated with action.

(~Insert Table 2 about here~)

The above comparisons are based on univariate analyses. Table 3 reports the marginal effects of each dimension from probit multivariate regression models, with results that are largely consistent with the previous table. In these models, we control for year fixed effects, and standard errors are clustered at the firm level. Target firms have larger size, older age, lower sales growth, and higher liquidity. Additionally, target firms appear to have higher advertising expenditure, as these are more likely to be those in consumer-oriented industries and are more likely to be concerned about reputational impacts among customers. This is in line with Fisman et al (2005) and Servaes and Tamayo (2013) who find that CSR is more prevalent and beneficial in advertising intensive (consumer-oriented) industries and firms, respectively. It is also consistent

with Eccles et al (2012) who observe superior performance from ESG-focussed firms in consumer facing, brand driven, and natural resource sectors. Whereas active hedge funds need substantial voting power in order to intervene in target firms' operations, and therefore focus on smaller-sized firms in which they can acquire a sizeable ownership block, our data provider aims to achieve its goals by relying more on the economies of scale and reputational influence faced by large-sized target companies. This relatively less aggressive strategy is consistent with the lower success rates reported in Table 1, Panel B. Note that voting power is exploited as a mechanism to publicize a position in support of, or in opposition to, the firm's decisions.

Engaged firms have weak corporate governance. In other words, firms with headroom for improvement are more likely to be engaged. This finding from the multivariate analysis is supported by both the governance index and the entrenchment index. Because we are controlling for other firm characteristics, this result is more meaningful than the univariate analysis, in which the entrenchment index has the opposite sign, and in which the shareholding of other institutions also has the opposite sign.

Finally, as the benefits of improvement accrue in proportion to the size of the shareholding, and as ownership is related to voting power, we find that the manager is more likely to engage companies in which they have a larger shareholding.

(~Insert Table 3 about here~)

In additional analyses (untabulated), we split the sample into engagements on corporate governance and non-corporate-governance themes and conduct the probit regressions separately for these two subsamples. We get qualitatively similar results for both subsamples with a few exceptions. For the subsample with a corporate governance theme, the coefficients on stock return and capital expenditure become negative and significant in all model specifications. In other words, the asset manager engages poorly performing and under-investing firms. The former finding is again consistent with the targeting strategy used by traditional shareholder activists on corporate governance issues documented in earlier research such as Smith (1996) and Karpoff et

al (1996).

For the subsample with non-corporate-governance themes, we find that the coefficients on the shareholdings of asset manager and other institutions become insignificant. That is, the asset manager does not necessarily rely on its shareholding as a determinant for engaging on other CSR issues. Especially for social and environmental issues, it is not uncommon for the asset manager to move together with other related parties and investors to influence target firms. For example, the asset manager sometimes engages with investee companies by sending representatives alongside other sustainable investment analysts from KLD for a meeting with managers from the company in question, by participating in a multi-stakeholder working group, or by supporting shareholder proposals sent by other stockholders. In the engagement example described in Section 1.1, the asset manager was acting in response to the demand by Greenpeace, a non-governmental environmental organization.

To examine whether lawsuits could be a potential factor in the CSR activist's targeting strategy, in unreported analysis we include the number of lawsuits as an independent variable in the probit regression of targeting. We conduct this analysis on the whole sample, as well as on the corporate governance and non-corporate-governance subsamples. We do not find significant coefficients on the number of lawsuits in any of these regressions. However, when we only focus on climate change engagements, we document a positive and significant coefficient on the number of lawsuits. This finding suggests that lawsuits may have attracted CSR activists' attention for environmental issues.

3. Determinants of Successful CSR Engagements

With what types of target firms are CSR engagements more likely to be successful? To answer this question, we examine the firm characteristics of the successful CSR engagements in the year before the initial engagement and compare them with those of the unsuccessful ones. Table 4 reports the marginal effects of probit multivariate regression models. In these models, we

control for year fixed effects, and standard errors are clustered at the firm level. Compared with the results reported in Table 3, coefficients on size, advertising intensity, illiquidity, and analyst coverage continue to be significant with the same signs, indicating that target firms with higher reputational concerns benefit most from CSR activities. Moreover, the positive coefficient on size also indicates that the potential benefits are scalable and the fixed costs of the changes are more affordable for large firms. On the other hand, coefficients on the asset manager's shareholding lose their significance, suggesting that success does not rely on the owner's voting rights. This finding is similar to that documented by Smith (1996) in connection with activism by pension fund CalPERS, but contrasts with the positive association between voting outcome and institutional ownership in Gillan and Starks (2000) and Gordon and Pound (1993). This is again consistent with the relatively active but generally less confrontational engagement strategy that the asset manager uses. Corporate governance indexes lose their significance, too, indicating that managerial entrenchment is not a determining factor for success.

Hong et al (2012) show that corporate social responsibility is costly and hence it is applied more in less financially constrained firms. Our finding is consistent with the impact of being less financially constrained, since we observe that engagements with firms that have lower R&D and capital expenditure, and more cash holdings, are more likely to succeed. Overall, target firms which benefit most from CSR activities and which have the necessary means to do so are most likely to adopt the changes that have been proposed to them, although the experience of other activists could of course be different (c.f., Smith, 1996). In Column (4), we include the number of previous successful engagement sequences as an additional independent variable and find a positive and significant coefficient. This finding suggests that past successful engagement experience with the same target firm significantly contributes to the future success of CSR engagements.

(~Insert Table 4 about here~)

In additional analyses (untabulated), we split the sample into engagements on corporate governance and non-corporate-governance themes and conduct the probit regressions separately for these two subsamples. Our results are qualitatively similar for both subsamples with a few exceptions. For the subsample with a corporate governance theme, the coefficients on capital expenditure, R&D expenditure, and advertising expenditure become insignificant in all model specifications and the coefficients on cash holding become insignificant in most cases. Thus the success of engagements on corporate governance issues does not require heavy spending, nor does it rely on the reputational concerns of engaged companies. On the other hand, for the subsample with non-corporate-governance themes, the coefficients on cash holding, capital expenditure, R&D expenditure, and advertising expenditure become more significant and larger in magnitudes. This suggests that improvements in sustainability, ethics, social, and climate issues are potentially costly and reputational concerns play an important role for the success in these issues.

To examine whether lawsuits would contribute to the success of engagements, in unreported analysis, we include the number of lawsuits as an independent variable in the probit regression of success. We find that the number of lawsuits is positively associated with the probability of success, for both the whole sample and the subsample of non-corporate-governance engagements, whereas the coefficient on the number of lawsuits is not significantly different from zero for the subsample of corporate governance engagements. This suggests that target firms that face potential legal pressure are more likely to adopt changes in environmental and social issues suggested by the CSR activist. This finding is in line with Glac (2010) who states that shareholder activism on CSR challenges the existing legal boundaries, and initiates a shift in legislation and the interpretation of regulations. This shift allows broader increases in public awareness, especially through increased engagements through proxy process. As a response to shareholder and public demands, firms embrace CSR as a strategic opportunity.

4. Stock Market Responses to CSR Engagements

Do CSR engagements create value for shareholders? In order to answer this question, we examine stock market returns, over both the short term and the long term.

4.1. Cumulative Abnormal Returns around Initial Engagements

In our analysis, stock returns are measured by calendar month and the month of the initial engagement date is defined as Month 0. We use monthly stock returns rather than daily for three reasons. First, due to the fact that some of the engagements are private, one must allow adequate time for the market price to reflect non-public information. Second, as noted earlier, engagements are sometimes triggered by public events and the engagement date is potentially some days after the public event, in which case we would expect market reactions to start before the engagement is recorded. Third, in the presence of information leakage, measuring performance prior to and after the event month offers advantages compared to examining performance prior to and after the event day.

We use stock return data from the CRSP monthly files. We compare the average firm characteristics, such as firm size, market-to-book ratio, leverage, etc., of our sample with those of the CRSP universe and find that our sample mean is much more comparable to the value-weighted average of CRSP universe than to the equal-weighted average of CRSP universe. The value-weighted market return from CRSP is therefore the more appropriate benchmark for our sample, and we compute abnormal returns as the monthly stock return minus the value-weighted market return from CRSP.

All abnormal returns are winsorized at the 1st and 99th percentiles before calculating sample means for each window. Figure 1 shows the cumulative abnormal returns of target companies around the initial engagement dates. For each event month, we calculate the average abnormal return as holding an equal-weighted portfolio of all target firms that initiated engagements in Month 0. We set the base value for Month −1 as zero and cumulate the average

abnormal returns from Month –1 through +18. The blue straight line for the whole sample trends upward, indicating that CSR engagements increase shareholders' value on average. This line portrays a +1.8% cumulative abnormal return over a post-engagement horizon of one year.

(~Insert Figure 1 about here~)

We further split the sample into successful (the red double line) and unsuccessful engagements (the green dashed line). To remove duplications, for each sample, we keep only one engagement for each firm in a calendar month (our conclusions are not impacted by this empirical choice). The line of successful engagements documents a cumulative abnormal return of around +4.4% over the year following engagement. The chart clearly shows that the cumulative abnormal return on successful engagements is much higher than that of the unsuccessful ones and the difference becomes larger as time goes by. The difference reaches its peaks of about +4.3% at Months +12 and +16, when the median and average target firm in our sample achieves its milestone, respectively. Within a few months, the stock market partially differentiates successful engagements from those that are destined to be unsuccessful, and after a year it fully distinguishes between these two types. We also find that the predicted probability of success from the probit model in Table 4 is positively associated with the cumulative abnormal returns from Month 0 to +12, with a coefficient of 0.06 and a p-value of 0.106 (untabulated). Given that successful engagements lead to positive abnormal returns, this finding suggests that our success prediction model in Table 4 is well specified.

Another observation from the figure is that the red double line (the successful subsample) increases sharply from Month 0 to +12 and stays flat thereafter, indicating that the stock market continues to react positively to engagements and such positive reaction continues until the milestone is achieved for the median firm in the sample. The concave curve reveals efficiency in the market's response to engagements, insofar as significant improvements are usually made before milestones are recognized and recorded. The green dashed line (the unsuccessful subsample) stays relatively flat through the entire event window. Additionally, we repeat the

above analysis by splitting the engagements into public and private ones based on the definition presented in Section 1.1, and observe similar patterns for both subsamples.

On the one hand, the +1.8% cumulative abnormal return to CSR activism is much higher than the negligible abnormal returns generated by traditional shareholder activism, as discussed in detail by Becht et al (2009). On the other hand, it is lower than the +7% to +10% abnormal returns generated by activist hedge funds, as documented in Brav et al (2008) and Klein and Zur (2009). Thus, in terms of its impact on stock market values, CSR activism lies between traditional shareholder activism and hedge fund activism. The +4.4% annual abnormal return associated with successful engagements broadly matches the annual abnormal return of +4.9% generated by the UK Focus Fund, the strategy of which is midway between a traditional shareholder activist and an activist hedge fund; see Becht et al (2009).

4.2. Cross-Sectional Variation of Abnormal Returns

Table 5 reports the cross-sectional analysis of the cumulative abnormal returns over different event windows. For some firms there are multiple engagements in a month for the same or different issues. To disentangle market reactions to different CSR engagements, we aggregate the engagement information at a monthly frequency. We count the numbers of successful and unsuccessful engagements under different CSR themes for each engagement month and regress cumulative abnormal returns over three different windows (event month, Months 0 to +6, and Months 0 to +12) on these counting variables. We also experiment with using a dummy in place of each counting variable, if its value is positive, and get very similar results (not reported). We include size, market-to-book ratio, and leverage of the previous year in the regressions as controls for traditional risk factors. In addition, we also control for lagged stock return, calculated as the monthly stock return averaged over the same number of months prior to the event window. For example, if CAR is measured over Window (0, +6), the lagged stock return is averaged across months –7 to –1. To facilitate interpretation of the coefficients on the counting variables, all the

control variables are demeaned and the intercepts are suppressed due to the full span of these counting variables. Therefore, the coefficient on a counting variable can be interpreted as the average abnormal return of one additional engagement in that corresponding group, assuming that the target firms are of average characteristics.

For the event month, we do not find that the market reacts differently to different types of engagements. The only variable with a significant coefficient is successful human rights with a 10% significance level. However, in the long run, we do observe different and statistically significant market reactions to various types of engagement. For example, the cumulative abnormal returns over Window (0, +6) are +3.6% for one additional engagement in the corporate governance theme and +7.1% for one additional engagement in the climate change theme; and the cumulative abnormal returns over Window (0, +12) are +7.1% for the corporate governance theme and +10.6% for the climate change theme. These results confirm that activism on CSR is different from hedge fund activism, as both Brav et al (2008) and Klein and Zur (2009) find that the largest market reactions come from engagements on issues of mergers and acquisitions. The positive abnormal return on success in the climate change theme indicates that investors expect the changes on environmental issues also to increase the value of engaged companies. Consistent with this result, by analysing 582 US public firms over 1995–2006, Bauer and Hann (2011) show that firms with proactive environmental engagements have lower cost of debt and that climate change issues play a main role in this relation. Similarly, Chava (2011) finds that firms with environmental concerns have higher cost of capital.

We also find a positive reaction to successful engagements on the public health theme over Window (0, +6), but this is based on just two observations of this type of engagement (Table 1, Panel B), and we are reluctant to draw any inference based on this very small sample size. The reaction to successful engagements on the ecosystem services theme over the same window is +7.4%, and it is marginally non-significant. The median horizon for success is only 123 days for this type of engagement (Table 1, Panel B), which is a possible explanation for not observing

significantly positive reactions over longer horizons. More generally, the varying number of days between initial engagements and the milestones for different engagement themes (Table 1, Panel B) is likely to bias the analysis against finding significant differences among the different engagement themes.

We do not document significant abnormal returns to unsuccessful engagements. The only exception is on the theme of corporate governance (*Unsuccessful corporate governance*) with a positive coefficient of +2.1% significant at 10% level for Window (0, +12). Although identified as unsuccessful, these engagements could of course still be successful in the future. Removing unsuccessful engagements initiated after mid-2008 from the regression, we find the coefficient on unsuccessful corporate governance to become insignificant (unreported).

(~Insert Table 5 about here~)

4.3. Buy-and-Hold Returns

In Section 4.2, we apply the same event window for engagements in all themes, even though the horizon to achieve milestone differs for different successful engagement themes (see Table 1, Panel B). In this section, we calculate the return of a portfolio that buys the stock of the target company at the month of the initial engagement and sells it at the month when the milestone is recorded. For unsuccessful engagements, since there is no milestone date, we form the portfolio using the median horizon of the successful engagements (12 months) as the holding period. The results are similar if we use the average horizon of successful engagements (16 months).

Table 6 reports the distributional statistics of the holding-period raw return, annualized raw return, and annualized market-adjusted return for the whole sample, the successful engagement subsample, and the unsuccessful engagement subsample. Successful engagements generate an annualized market-adjusted return of +6.8% while the annualized market-adjusted return of the unsuccessful sample is not statistically different from zero. The average annualized

market-adjusted return for the whole sample is +2.5%. The magnitude is much smaller compared with that documented in hedge fund activism studies such as the +14.3% reported by Brav et al (2008, Table VI). We also conduct a *t*-test by comparing the mean of the successful subsample with that of the unsuccessful subsample: the deal period return, annualized raw return, and annualized market-adjusted return of the successful subsample are all significantly larger than those of the unsuccessful subsample.

The main purpose in this analysis is not to create a trading strategy, but to determine the difference in stock price performance between successful and unsuccessful engagements. Therefore, using *ex-post* success information is appropriate. The findings are consistent with the evidence presented in Figure 1.

(~Insert Table 6 about here~)

In additional analyses (untabulated), we repeat the above exercise separately for the corporate governance and non-corporate-governance themes. We find that the mean annualized market-adjusted return for successful engagements is +7.5% (*p*-value = 0.05) for the corporate governance subsample. This number is comparable with the +7.1% CAR over Window (0, +12) documented in Table 5, as the median horizon to achieve milestone is roughly one year for engagements on the corporate governance theme (Table 1). We also detect an average annualized market-adjusted return for successful engagements on non-corporate-governance themes of +5.9% (*p*-value = 0.13). The relatively lower significance of this coefficient is affected by the smaller sample size (N=141).

To sum up, CSR engagements increase shareholders' value on average and the positive returns are apparent for engagements on both corporate governance and non-corporate-governance themes. This is in line with Aktas et al (2011) who find a positive market reaction for acquirers investing in target firms with good social and environmental risk management practices. While it is conceivable that the better stock performance of engaged companies is solely attributable to extraordinary stock-picking skills by the asset manager, the fact that we document

different abnormal returns for successful and unsuccessful engagement samples mitigates this potential concern.

5. Post-Engagement Changes in Performance

Lastly, we examine the mechanisms through which successful CSR engagements improve shareholder value. The existing literature highlights four potential sources: first, attracting more socially conscious consumers (Besley and Ghatak, 2007); second, increasing the loyalty of consumers and employees, thereby enhancing operating performance and efficiency (Baron, 2008; Portney, 2008; Benabou and Tirole, 2010); third, attracting more socially conscious shareholders and thereby improving stock market performance (Baron, 2008; Benabou and Tirole, 2010); and fourth, signalling future governance improvements that enhance the value of the engaged company (Brav et al, 2008; Klein and Zur, 2009).

To test the above theories, we employ a difference-in-difference method (see, e.g., Becker and Strömberg, 2012) by comparing the operating performance and efficiency, institutional ownership, stock return volatility, and corporate governance changes of successful engagements with those of unsuccessful ones. The calendar year of the initial engagement date is defined here as Window 0, and for each engagement sequence we obtain information from the years before and after the initial engagement date. We then conduct multivariate regression analysis of the variable of interest on a dummy variable indicating that the observation is from the period after the initial engagement date (*Post*), a dummy variable indicating the success of the engagement (*Success*), and the interaction of these two (*Post×Success*). In these regressions, we also include a series of firm, industry, and year controls. At the firm level, we control for firm size and the market-to-book ratio. We use the industry median of the dependent variable as the industry control. In addition, we also include firm and engagement year fixed effects to control for unmeasured heterogeneity between firms and years. To deal with firms that have multiple

engagements in our sample, all the standard errors are clustered at the firm level. Our baseline result covers one year before and one year after the initial engagement dates, as the median firm achieves a milestone after one year. In untabulated analyses, we expand the window to two years and three years before and/or after the initial engagement dates and the results remain qualitatively similar.

(~Insert Table 7 about here~)

We examine a range of performance measures, including return on assets, profit margin, asset turnover, and sales over employees. The results are reported in Columns (1) to (4) of Table 7, Panel A. Coefficients on control variables are omitted for brevity. Positive and significant coefficients on *Post×Success* for all the measures show that, compared to firms with unsuccessful engagements, firms with successful engagements experience improved operating performance and efficiency one year after the initial engagements. The results on improved operating performance are consistent with the higher EBITDA to assets ratio documented for hedge fund targets in Brav et al (2008). Interestingly, Klein and Zur (2009) fail to document improvement in operating performance in their hedge funds study. Improvement in sales, profitability, and employee efficiency are consistent with the argument that CSR enhances customer and employee loyalty. Thus, our results support the first and second explanation that the improved shareholder value documented in Section 4 is at least partially attributable to better operating performance after CSR activities. The negative and significant coefficients on the *Success* dummy in Columns (1) and (4) indicate that the successful engagement subsample has lower return on assets and sales over employees before the engagement compared with the unsuccessful engagement subsample. This result is consistent with the determinants of success reported in Table 4. These results contrast with the traditional shareholder activism literature that fails to find any significant improvements in target firms' operating performance following shareholder proposals; see Smith (1996) and Karpoff et al (1996). On this evidence, CSR activism is more effective than traditional interventions in bringing changes to target firms' operations.

Next, we examine the changes in shareholdings by the asset manager, by other institutions, and by pension activists, and the changes in stock return volatility. The results are reported in Columns (1) to (4) of Table 7, Panel B. We observe an increase in the shareholdings of the asset manager and pension activists in target firms and a decrease in target firms' return volatility with successful engagements, which supports the third view that CSR activities attract socially conscious shareholders. This result resembles Dhaliwal et al (2011), who find that firms disclosing superior CSR performance attract more institutional investors. We also observe an increase in shareholdings from other institutions (excluding the asset manager) for all target firms, but it seems that other institutions do not differentiate whether or not the engagement is successful.

Last, we turn to post-engagement changes in the corporate governance indexes of target firms. The results support the fourth explanation that intervention leads to improved governance (Table 7, Panel C). This is a strong result given that governance indexes change only every three years – in particular, note that we observe a significant result on governance indexes only using Window +2. Together with the findings from targeting and success analyses in Tables 3 and 4, this contrasts with Cheng et al (2012) who argue that CSR is due to managerial agency problems.

If we split the sample into corporate governance and non-corporate-governance themes, we find the above-mentioned improvements in firm performance to be stronger for the non-corporate-governance subsample (untabulated).

6. Discussion and Conclusion

A question that permeates the activism literature is whether one can infer a causal link between engagements and subsequent corporate performance. We consider several ways in which the favourable performance of successfully engaged companies might be an illusion. First, performance improvements could result from filtering by engaged companies, which accept value-enhancing proposals and reject value-destructive proposals. This would constitute good

governance, so we introduce the governance and entrenchment indexes into the regressions in Table 5. These variables do not have any significant coefficients (untabulated), so the observed performance improvement is unlikely to be attributable purely to management filtering.

Second, we report in Section 5 a positive cumulative abnormal return for successful engagements and a zero return for unsuccessful ones, concluding that (expected) CSR changes increase the value of engaged companies. An alternative explanation is that target firms wait, and adopt the requested changes if their stock prices increase or firms signal their anticipated positive future performance through CSR activities. In other words, it is positive stock market performance which causes CSR changes in the target firms, rather than the other way round. We therefore include the annualized market-adjusted buy-and-hold returns defined in Section 4.3 as an additional predictive variable for the model in Table 4 after controlling for other determinant factors. We use a variety of windows for buy-and-hold returns but none of them has a coefficient significantly different from zero, and the target firm's stock return during the engagement period does not appear to be a determinant of success. This suggests that it is unlikely that CSR changes in the target firms are a result of firms' superior future performance.

A third possibility is that milestones are recorded retrospectively after a positive stock market reaction. However, one third of the milestones coincide with the dates of shareholder meetings, and we have verified that they are recorded correctly. We repeat the analysis in Section 4.1, partitioning the successful engagement subsample into two based on the existence of a shareholder meeting. If the positive market reaction were an artefact of recording milestones after a price rise, the favourable performance would not be apparent when milestones coincide with shareholder meetings. Instead, we find very similar results across these two subsamples.

Given that CSR activities improve shareholder value, a final question is why firms might not voluntarily pursue such a strategy. It is possible for a firm to adopt CSR changes in the absence of intervention, but that is unlikely to happen to the fullest extent for a couple of reasons. On the one hand, Table 3 reveals that target firms have poorer corporate governance than control

firms, indicating more serious agency issues and a greater likelihood of deviating from shareholder value maximisation, which would impede adoption even of value-enhancing CSR projects. On the other hand, the CSR activist provides directional guidance to engaged companies, and in the absence of external input, some engaged companies will inevitably lack the ability to identify and respond appropriately to CSR opportunities. In other words, the asset manager (possibly in association with other active owners) can establish appropriate standards and create the necessary ambience for engaged firms to shift to a new equilibrium with higher firm value and lower CSR risks.

To conclude, based on a proprietary dataset on responsible investment strategies, we document positive market reactions to CSR engagements in US public firms over 1999–2009. On average, CSR activities give rise to a positive abnormal return of +1.8% over the year after initial engagement. The average one-year abnormal return after initial engagement is +4.4% for successful engagements, but there is no reaction to unsuccessful ones. The positive abnormal returns are most pronounced for engagements on the themes of corporate governance and climate change. Compared to matched firms, companies with greater reputational concerns and higher capacity to implement CSR changes are more likely to be targeted, and are more likely to be successful in achieving the activist's objectives. Consistent with arguments that CSR activities attract socially conscious customers and investors, we find that, after successful engagements, engaged companies experience improvements in their operating performance, profitability, efficiency, shareholding, and governance.

Our analysis is based on a single and, in hindsight, successful example of CSR activism, and this calls for caution in interpreting our findings. The +4.4% abnormal returns associated with successful engagements is likely to overstate the shareholder value that could be generated from activism by an under-skilled or under-resourced CSR team. In addition, the abnormal return could also be specific to the time period studied in our sample. As investors learn to appreciate the difference between more and less responsibly managed firms, the abnormal reward from CSR

engagement may evaporate. This would be consistent with the patterns, reported by Bebchuk et al (2013) and Borgers et al (2013), for the abnormal returns associated with good corporate governance and with good stakeholder relations to disappear.

Our study makes a meaningful contribution to the literatures on shareholder engagement and responsible investing. Future research might usefully focus on the precise mechanisms that determine the price reaction to activist engagements, and on examining whether the models developed here for the United States have validity in other markets around the world.

Appendix A: Examples of CSR engagements[6]

A.1 Environmental engagements — AAA Inc. (Environmental management)

On December 14, 2006, the asset manager sent a letter to AAA Inc. highlighting various environmental issues that the company was facing. On January 22, 2007, the manager had a phone conversation with the contact in AAA Inc. as a follow-up to the previous letter and reiterated the need for AAA to demonstrate its commitment to CSR. On February 12, 2007, the manager signed on a group letter, which asks AAA Inc. for specific commitments to solving its environmental issues. The manager records these three engagements as "Request for Change". On May 9, 2007, AAA Inc. announced new environmental commitments in advance of its 2007 annual general meeting which was scheduled to include two environmental shareholder proposals. The manager records this event as "Milestone".

A.2 Social engagements — BBB Inc. (Human rights)

On August 25, 2006, the asset manager had a conference call with two contacts from BBB Inc. to discuss the human rights issues on Access, Security, and Privacy (ASP) that the company was facing. The manager records this engagement as "Raising Awareness". On November 26, 2006, the contact from BBB Inc. attended a seminar that the manager hosted where the manager issued best practice recommendations on how to manage ASP risks. The manager records this engagement as "Request for Change". On June 12, 2007, at BBB Inc.'s 2007 annual meeting, the founder of BBB Inc. announced its commitment to solving its social issues. The manager records this event as "Milestone".

A.3 Governance engagements — CCC Inc. (Corporate governance)

On March 11, 2005, in a meeting with the Vice President of Investor Relations, the asset manager asked whether CCC Inc. planed on producing a CSR report. On August 16, 2005, the manager sent a letter to CCC Inc. and asked for a CSR report. In the letter, the manager gave detailed description on what the manager would expect such a report to cover. The manager records these two engagements as "Request for Change". On October 14, 2005, the manager called the Vice President of Investor Relations in CCC Inc. and left a voice mail referencing the letter sent in August and inquiring about plans to issue a CSR report. The manager records this engagement as "Raising Awareness". On November 16, 2005, the manager filed a shareholder proposal on the 2006 proxy, calling on CCC Inc. to issue a sustainability report based on the Global Reporting Initiative guidelines. The proposal was co-filed with several other institutional investors. The manager records this engagement as "Request for Change". On January 9, 2006, the manager received a phone call from CCC Inc. regarding the shareholder proposal the manager filed. The manager records this engagement as "Raising Awareness". On March 9, 2006, the manager provided formal feedback to CCC Inc.'s first interim sustainability report which it committed to publish on the company website within 60 days. The manager records this engagement as "Request for Change". On May 19, 2006: CCC Inc. published its Response to Investors - Interim Sustainability Report. Report was part of agreement to withdraw the shareholder proposal calling for a sustainability report in 2006. The manager records this as "Milestone".

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[6] AAA, BBB, and CCC are pseudonyms.

Appendix B. Variable definitions

Variable name	Definition	Data source
Firm size	Market value [MV] of equity (in million $)	Compustat Fundamentals Annual
Market-to-book	MV of equity/Book value [BV] of equity	
Tobin's Q	Tobin's Q (MV of equity+BV of debt)/(BV of equity+BV of debt)	
Firm age	Firm age relative to the year when the firm initially appeared in Compustat	
Sales growth	Annual sales growth rate	
Return on assets	Earnings before interest, taxes, depreciation, and amort. (EBITDA)/Average total assets	
Asset turnover	Sales/Average total assets	
Sale over employees	Sales/Number of employees	
Profit margin	Earnings before interest and taxes (EBIT)/Sales	
Cash flow	(Net income before extraordinary items+Dep. and amort.)/Average total assets	
Stock return	Buy-and-hold stock return of the fiscal year	
Stock return volatility	Standard deviation of monthly stock return during the fical year	
Leverage	Book value of debt/(Book value of debt+Book value of equity)	
Cash holding	Cash/Total assets	
Dividend yield	Total dividends/(Market value of common equity+Book value of preferred equity)	
Dividend payout	Total dividends/Net income before extraordinary items	
R&D expenditure	R&D expenditures/Average total assets	
Capital expenditure	Capital expenditures/Average total assets	
Advertising expenditure	Advertising expenditures/Average total assets	
Industry Herfindahl Index	Herfindahl-Hirschman index computed using all firms within the same industry (4-digit SIC)	
Industry advertising intensity	Industry (4-digit SIC) median of advertising intensity (Advertising expenditures/Sales)	
Tangibility	Tangibility ratio (Net PP&E/Total assets)	
Lagged stock return	Monthly stock return averaged over the same number of months prior to the event window	
Shareholding of the asset manager	Percentage of shares held by the asset manager	Thomson Reuters 13F
Shareholding of other institutions	Percentage of shares held by institutions other than the asset manager	
Shareholding of pension activists	Percentage of shares held by activist institutions, defined as per Cremers and Nair (2005) and Larcker et al. (2007). The following public pension funds are coded as activists: California Public Employees Retirement System (12000), California State Teachers Retirement (12100 and 12120), Colorado Public Employees Retirement Association (18740), Florida State Board of Administration (38330), Illinois State Universities Retirement System (81590), Kentucky Teachers Retirement System (49050), Maryland State Retirement and Pension System (54360), Michigan State Treasury (57500), Montana Board of Investment (58650), Education Retirement Board New Mexico (63600), New York State Common Retirement Fund (63850), New York State Teachers Retirement System (63895), Ohio School Employees Retirement System (66550), Ohio School Employees Retirement System (66610), Ohio State Teachers Retirement System (66635), Texas Teachers Retirement System (82895 and 83360), Virginia Retirement System (90803), and State of Wisconsin Investment Board (93405). Manager numbers on Spectrum are in parentheses	
Number of pension activists	Number of activist pension institutions	
Shareholding of block holders	% of shares held by blockholders (institutions holding >1% of the target's total shares	
Number of block holders	Number of blockholders	
Amihud illiquidity	Amihud (2002) illiquidity measure	CRSP
Number of analysts	Number of analysts following the firm	IBES
Governance index	Gompers, Ishii, and Metrick (2003) governance index	RiskMetrics
Entrenchment index	Bebchuk, Cohen, and Ferrell (2009) entrenchment index	
Number of previous successful sequences	Number of successful engagement sequences that the target firm had prior to the current engagement	Asset manager
Successful (unsuccessful) themes	Number of successful (unsuccessful) engagements on that theme within the same month [for Table 5]	

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Table 1. Overview of engagement database

Panel A lists the descriptions of different engagement areas, themes and issues. These categories are listed in a descending order of broadness of scope (i.e., areas contain themes that, in turn, contain issues). Panel B reports the summary of engagement sequences sorted by area and theme. Sequences comprise a series of Raising Awareness (RA) plus Requests for Change (RC) engagements dealing with the same issue. Columns (1) and (2) report the number of sequences, and the percentage among all sequences, of each category. Column (3) reports the percentage of engagement sequences preceded by public news. Columns (4) and (9) break down each category into successful and unsuccessful sequences. Column (5) presents the success rate. Columns (6) and (10) report the average number of engagements within each sequence. Column (7) presents the average [median] number of days between the initial engagement and the milestone. Column (8) reports the percentage of milestones coinciding with shareholder meetings. Panel C reports the number of engagement sequences by calendar year for the whole sample, the successful subsample, and each category of area. Engagement sequences are classified into calendar years according to the initial engagement date. Panel D reports the number of engagement sequences by industry of the target firm.

Panel A. Description of engagement areas, themes, and issues

Areas and Themes	Issues
1. Governance	
Corporate governance	Audit and control, Board structure, Remuneration, Shareholder rights, Transparency and Performance, Other
Business ethics	Bribery and corruption, Political influence, Responsible marketing, Whistle-blowing systems, Other
Sustainability management and reporting	Disclosure and reporting, Governance of sustainability issues, Stakeholder engagement, UNGC compliance, Other
2. Environment	
Climate change	Biofuels, Climate change strategy, Emissions management and reporting, Other
Ecosystem services	Access to land, Biodiversity management, Water, Other
Environmental management	Environmental standards, Pollution control, Product opportunities, Supply chain environmental standards, Waste and recycling, Other
3. Social	
Public health	Access to medicines, HIV/AIDs, Nutrition, Product safety, Other
Human rights	Community relations, Privacy and free expression, Security, Weak governance zones, Other
Labour standards	Diversity, Health and safety, ILO core conventions, Supply chain labour standards, Other

Panel B. Summary of CSR engagements by area and theme

Engagement areas and Themes	Whole sample			Successful					Unsuccessful	
	Num. of sequences (1)	% of Sample (2)	% Public (3)	Num. of sequences (4)	% Success (5)	Num. of RA & RC (6)	Horizon (days) (7)	% Meeting (8)	Num. of sequences (9)	Num. of RA & RC (10)
1. Governance										
Corporate governance	900	41.8%	44.7%	218	24.2%	2.2	525 [369]	44.4%	682	1.6
Business ethics	211	9.8%	43.6%	29	13.7%	4.8	647 [539]	25.9%	182	2.2
Sustainability mgt and reporting	149	6.9%	56.4%	14	9.4%	3.8	284 [77]	23.1%	135	1.8
2. Environment										
Climate change	156	7.2%	54.5%	16	10.3%	3.9	521 [524]	18.8%	140	1.9
Ecosystem Services	77	3.6%	46.8%	8	10.4%	3.0	512 [123]	25.0%	69	2.1
Environmental mgt	221	10.3%	46.6%	39	17.6%	3.2	386 [246]	17.1%	182	1.8
3. Social										
Public health	31	1.4%	80.6%	2	6.5%	3.5	622 [622]	50.0%	29	1.6
Human rights	182	8.5%	40.1%	18	9.9%	4.7	591 [472]	18.8%	164	3.1
Labour standards	225	10.5%	45.8%	38	16.9%	2.8	410 [165]	8.6%	187	1.6
Total/Average	2,152	100.0%	46.6%	382	17.8%	2.9	503 [349]	33.4%	1,770	1.9

Panel C. Summary of CSR engagements by year

Engagement year	Number of sequences						
	Whole sample	% Sample	Successful	% Success	Governance	Environment	Social
1999	8	0.4%	2	25.0%	-	-	8
2000	27	1.3%	10	37.0%	7	7	13
2001	77	3.6%	23	29.9%	14	9	54
2002	103	4.8%	49	47.6%	51	35	17
2003	158	7.3%	54	34.2%	94	42	22
2004	419	19.5%	113	27.0%	347	27	45
2005	207	9.6%	52	25.1%	114	49	44
2006	200	9.3%	32	16.0%	111	56	33
2007	207	9.6%	9	4.3%	92	56	59
2008	434	20.2%	31	7.1%	263	88	83
2009	312	14.5%	7	2.2%	167	85	60
Total/Average	2,152	100.0%	382	17.8%	1,260	454	438

Panel D. Summary of CSR engagements by industry

Industry division	Whole sample	% Sample	Successful	% Success	Governance	Environment	Social
			Number of sequences				
Agriculture, Forestry, Fishing	10	0.5%	1	10.0%	8	-	2
Mining	103	4.8%	8	7.8%	58	23	22
Construction	12	0.6%	3	25.0%	8	2	2
Manufacturing	963	44.7%	186	19.3%	538	192	233
Transport, Coms, Elec, Gas, Svcs	169	7.9%	30	17.8%	116	25	28
Wholesale Trade	30	1.4%	4	13.3%	18	5	7
Retail Trade	203	9.4%	39	19.2%	108	41	54
Finance, Insurance, Real Estate	437	20.3%	68	15.6%	259	127	51
Services	166	7.7%	34	20.5%	114	22	30
Public Administration	28	1.3%	9	32.1%	15	9	4
Missing Industry Identification	31	1.4%	-	-	18	8	5
Total/Average	2,152	100.0%	382	17.8%	1,260	454	438

Transport, Coms, Elec, Gas, Svcs = Transportation, Communications, Electric, Gas, and Sanitary Services

Table 2. Characteristics of target companies

This table reports the characteristics of target companies and comparisons with a set of matched companies. The first three columns report the mean, median, and standard deviation of the characteristics for the target companies. Column (4) is the number of observations. Columns (5) through (7) report the average difference between the sample firms and the 3-digit SIC industry/size/market-to-book matched firms, the *t*-statistics for the average difference, and the Wilcoxon signed rank statistics. Please see Appendix B for variable definitions. All variables are winsorized at 1 and 99 percentile levels.

Firm characteristics	Summary Statistics				Difference with Matched Firms		
	Mean	Median	StDev	Obs	Avg. Diff.	t-stat	Z-stat
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Firm size	53.52	18.191	74.341	1,746	49.050	27.74	33.881
Market-to-book	4.042	2.881	3.663	1,746	-0.297	-2.75	1.129
Tobin's Q	2.974	2.173	2.453	1,739	-0.145	-2.26	-1.005
Firm age	33.066	32.000	18.142	1,746	12.135	27.42	18.834
Sales growth	0.121	0.085	0.247	1,742	-0.151	-10.53	-13.803
Stock return	0.104	0.084	0.398	1,692	-0.139	-9.90	-7.045
Stock return volatility	0.090	0.075	0.053	1,711	-0.021	-16.13	-13.568
Return on assets	0.148	0.153	0.102	1,596	-0.001	-0.31	1.877
Asset turnover	0.847	0.706	0.712	1,746	-0.095	-5.79	-3.850
Sales over employees	0.681	0.396	0.856	1,717	-0.473	-7.16	-0.902
Cash flow	0.100	0.107	0.090	1,596	0.001	0.51	2.444
Leverage	0.372	0.331	0.266	1,739	0.039	6.77	2.892
Cash holding	0.086	0.053	0.091	1,708	-0.020	-8.36	-9.148
Dividend yield	0.019	0.012	0.023	1,746	0.002	3.18	5.941
Dividend payout	0.322	0.191	0.670	1,746	0.059	2.51	7.386
R&D expenditure	0.030	0.001	0.046	1,746	-0.002	-2.37	-0.394
Capital expenditure	0.049	0.035	0.054	1,698	-0.005	-3.71	-2.863
Advertising expenditure	0.013	0.000	0.027	1,746	0.003	4.06	-4.798
Industry Herfindahl index	0.337	0.283	0.252	1,657	0.019	3.63	0.492
Industry advertising intensity	0.005	0.000	0.012	1,660	0.001	4.34	-2.843
Shareholding of the asset manager	0.001	0.000	0.001	1,746	0.000	7.31	12.635
Shareholding of other institutions	0.658	0.703	0.293	1,746	-0.043	-4.98	-3.267
Shareholding of pension activists	0.024	0.027	0.011	1,746	0.002	5.25	9.169
Shareholding of block holders	0.382	0.376	0.215	1,746	-0.087	-13.84	-13.145
Amihud illiquidity	0.015	0.010	0.017	1,702	-0.022	-34.92	-36.156
Governance index	9.141	9.000	2.419	1,205	0.200	2.16	1.831
Entrenchment index	1.994	2.000	1.356	1,435	-0.347	-8.12	-7.533
Number of analysts	16.600	17.000	8.446	1,746	6.857	35.39	25.659
Number of pension activists	11.179	13.000	4.601	1,746	2.340	18.15	29.839
Tangibility	0.244	0.175	0.214	1,582	0.000	0.01	-0.356

Table 3. Probit analysis on targeting

This table reports the marginal effects of characteristics of being targeted. The dependent variable is a dummy variable equal to one if the company is targeted during the following year, and zero for a control firm-year. Only the initial engagement is kept for each sequence. Year fixed effects are included in all regressions. Standard errors are clustered at the firm level. All independent variables are defined in Appendix B. All variables are winsorized at 1 and 99 percentile levels. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	(1)		(2)		(3)	
1 if targeted, 0 otherwise	Mar. Eff.	t-stat	Mar. Eff.	t-stat	Mar. Eff.	t-stat
Firm size	0.008***	7.46	0.005***	6.41	0.007***	6.05
Tobin's Q	-0.002	-0.37	-0.003	-0.77	0.000	0.06
Firm age	0.001***	2.60	0.001***	3.49	0.001**	2.37
Sales growth	-0.051***	-2.91	-0.063**	-2.24	-0.128***	-3.83
Stock return	-0.019	-1.27	-0.011	-1.05	-0.016	-1.00
Return on assets	-0.286***	-3.30	-0.076	-1.10	-0.067	-0.70
Sales over employees	-0.017	-1.39	-0.012	-1.24	-0.005	-0.36
Cash holding	0.130	1.35	-0.038	-0.60	-0.038	-0.36
Leverage	0.005	0.14	-0.003	-0.12	0.039	1.08
Dividend yield	0.238	0.47	-0.188	-0.59	-0.427	-0.76
Capital expenditure	0.099	0.67	-0.140	-1.40	-0.314**	-2.00
R&D expenditure	-0.280	-1.43	-0.105	-0.77	-0.161	-0.81
Advertising expenditure	0.509*	1.91	0.392**	2.03	0.701**	2.46
Shareholding of the asset manager	26.699***	4.77	8.869**	2.22	19.876***	2.90
Shareholding of other institutions	0.030	1.01	0.051**	2.50	0.089***	2.90
Amihud illiquidity	-0.387	-1.23	-0.735**	-2.06	-1.172**	-2.07
Number of analysts	0.005***	3.33	0.003***	2.94	0.005***	3.42
Entrenchment index			0.010**	2.47		
Governance index					0.009***	2.96
Year Fixed Effect	Yes		Yes		Yes	
Obs	2,904		2,562		2,210	
Pseudo R2	0.469		0.538		0.544	

Table 4. Probit analysis on success

This table reports the marginal effects of characteristics of being successful. The dependent variable is a dummy variable equal to one if such engagement sequence is successful, and zero for other engagements. An engagement sequence is defined as successful if a milestone is achieved and recorded in our database. Only the initial engagement is kept for each sequence. Year fixed effects are included in all regressions. Standard errors are clustered at the firm level. All independent variables are defined in Appendix B. All variables are winsorized at 1 and 99 percentile levels. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable: 1 if success, 0 otherwise	(1)		(2)		(3)		(4)	
	Mar. Eff.	t-stat	Mar. Eff.	t-stat	Mar. Eff.	t-stat	Mar. Eff.	t-stat
Firm size	0.000***	3.50	0.000***	2.72	0.000***	2.66	0.000*	1.66
Tobin's Q	-0.003	-0.56	-0.003	-0.56	-0.003	-0.47	-0.003	-0.51
Firm age	0.001	1.25	0.001	1.36	0.001	1.29	0.001	1.15
Sales growth	0.034	0.67	0.085	1.45	0.100	1.35	0.051	1.00
Stock return	-0.036	-1.00	-0.055	-1.32	-0.064	-1.37	-0.034	-0.95
Return on assets	-0.343*	-1.88	-0.505**	-2.56	-0.553**	-2.34	-0.333*	-1.88
Sales over employees	-0.010	-0.91	-0.017	-1.37	-0.010	-0.63	-0.025**	-2.08
Cash holding	0.281*	1.90	0.423**	2.48	0.439**	2.09	0.213	1.49
Leverage	-0.082	-1.42	-0.091	-1.37	-0.087	-1.18	-0.066	-1.22
Dividend yield	-0.606	-0.75	-0.930	-1.04	-1.349	-1.09	-0.525	-0.66
Capital expenditure	-0.792**	-2.55	-0.674*	-1.89	-0.699*	-1.74	-0.786***	-2.59
R&D expenditure	-1.006***	-3.76	-1.179***	-3.68	-1.215***	-3.16	-0.958***	-3.80
Advertising expenditure	0.729*	1.65	1.060**	2.12	1.243**	2.11	0.773*	1.88
Shareholding of the asset manager	13.297	1.05	8.104	0.59	11.776	0.77	13.191	1.04
Shareholding of other institutions	-0.023	-0.62	-0.049	-1.08	-0.064	-1.21	-0.014	-0.38
Amihud illiquidity	-3.588*	-1.90	-6.669**	-2.41	-7.195**	-2.31	-3.242*	-1.94
Number of analysts	0.009***	4.48	0.009***	3.89	0.010***	3.74	0.009***	4.75
Entrenchment index			0.010	0.93				
Governance index					0.007	1.18		
Number of previous successful sequences							0.012***	2.89
Year Fixed Effect	Yes		Yes		Yes		Yes	
Obs	1,452		1,281		1,105		1,452	
Pseudo R2	0.222		0.220		0.199		0.228	

Table 5. Cross-sectional variation on abnormal returns

This table reports the regression results on cumulative abnormal returns (adjusted for the value-weighted market returns) around the initial engagements for nine engagement themes, as defined in Table 1, Panel A. The independent variables are counting variables indicating the number of successful and unsuccessful engagement sequences under each theme initiated during the event month. Event CAR is the monthly abnormal return for the event calendar month. CAR(0, +6) is the sum of monthly abnormal returns over Month 0 to Month +6. CAR(0,+12) is the sum of monthly abnormal returns over Month 0 to Month +12. Other independent variables are defined in Appendix B. All non-counting variables are expressed as the deviation from the sample average values. Intercepts are suppressed. Standard errors are clustered at the firm level. All variables are winsorized at 1 and 99 percentile levels. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Event CAR		CAR(0,+6)		CAR(0,+12)	
	Coefficient	t-stat	Coefficient	t-stat	Coefficient	t-stat
Firm size	0.008	0.28	-0.144*	-1.91	-0.360***	-2.95
Market-to-book	-0.001	-1.50	-0.002	-0.88	-0.004	-1.47
Leverage	-0.011	-1.18	-0.004	-0.15	-0.004	-0.09
Lagged stock return	-0.009	-0.29	-0.317	-1.08	-0.802	-1.32
Successful corporate governance	0.002	0.38	0.036***	2.62	0.071***	3.88
Successful business ethics	0.000	0.04	-0.003	-0.09	0.015	0.27
Successful sustainability management	-0.007	-0.75	0.006	0.18	-0.008	-0.19
Successful climate change	-0.012	-0.82	0.071**	2.26	0.106**	2.32
Successful ecosystem services	-0.021	-0.87	0.074	1.62	0.114	1.03
Successful environmental management	-0.013	-0.94	0.004	0.18	0.013	0.30
Successful public health	-0.012	-0.20	0.119***	2.87	0.032	1.42
Successful human rights	0.040*	1.82	0.076	1.45	0.005	0.08
Successful labor standards	0.012	0.78	0.045	1.32	0.058	0.86
Unsuccessful corporate governance	0.005	1.46	0.011	1.19	0.021*	1.78
Unsuccessful business ethics	-0.008	-1.26	0.027	1.49	0.034	1.57
Unsuccessful sustainability management	0.002	0.25	0.028	1.15	0.040	1.62
Unsuccessful climate change	0.002	0.30	-0.015	-0.77	-0.029	-1.16
Unsuccessful ecosystem services	-0.001	-0.08	-0.024	-0.86	-0.016	-0.45
Unsuccessful environmental management	-0.007	-1.32	0.005	0.31	0.007	0.31
Unsuccessful public health	0.015	0.78	0.052	1.16	0.046	0.86
Unsuccessful human rights	-0.005	-0.69	0.018	0.78	0.019	0.67
Unsuccessful labor standards	-0.006	-0.80	-0.030	-1.43	-0.031	-1.13
Obs	1,392		1,385		1,362	
R2	0.016		0.022		0.037	

Table 6. Buy-and-hold trading strategy returns

This table reports the average raw and annualized buy-and-hold returns based the following trading strategy: for successful engagement sequences, buy at the initial engagement month and sell in the month when milestone is achieved; for unsuccessful engagement sequences, buy at the initial engagement month and sell after 349 days (median horizon to achieve milestone). The last three columns report the annualized buy-and-hold return in excess of the value-weighted market returns. All variables are winsorized at 1 and 99 percentile levels. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Deal Period Raw Return			Annualized Raw Return			Annualized Market Adjusted Return		
	Whole sample	Successful	Unsuccessful	Whole sample	Successful	Unsuccessful	Whole sample	Successful	Unsuccessful
Mean	0.089***	0.155***	0.068***	0.086***	0.141***	0.069***	0.025***	0.068***	0.012
St. Dev.	0.390	0.391	0.388	0.443	0.582	0.388	0.368	0.518	0.306
P-val. (Mean)	0.00	0.00	0.000	0.000	0.00	0.00	0.008	0.014	0.186
Diff. in Mean		0.087***			0.072***			0.056***	
P-val. (Diff.)		0.00			0.01			0.01	
Obs	1,487	353	1,134	1,487	353	1,134	1,487	353	1,134

Table 7. Performance, ownership, and governance after CSR engagements

This table reports difference-in-difference regression results on all engagement sequences (successful and unsuccessful). The calendar year of the initial engagement date is defined as Window 0. Panels A and B and the first two columns of Panel C include observations from Window –1 and Window +1. The last two columns of Panel C include observations from Window –1 and Window +2. The dependent variables are corresponding measures in firm performance, shareholdings, and corporate governance. *Success* is a dummy variable defined as one for successful engagement sequences, and zero otherwise. Firm controls include firm size and market-to-book ratio. Industry control is the industry (4-digit SIC) median of the corresponding dependant variable in a certain year. Firm and engagement year fixed effects are include in all regressions. Standard errors are clustered at the firm level. Other variables are defined in Appendix B. All variables are winsorized at 1 and 99 percentile levels. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Operating performance

	Post=1 if Window=+1, Post=0 if Window=−1							
	Change in Firm Performance							
	(1)		**(2)**		**(3)**		**(4)**	
	Return on assets		Profit margin		Asset turnover		Sales over employees	
Dependent variable	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat
Post	-0.004	-1.21	0.000	0.04	-0.035***	-4.08	-0.038	-1.16
Success	-0.007*	-1.91	-0.004	-0.55	-0.003	-0.20	-0.066**	-2.31
Post x Success	**0.010****	**2.24**	**0.015***	**1.85**	**0.021***	**1.73**	**0.088****	**2.49**
Firm Controls	Yes		Yes		Yes		Yes	
Industry Control	Yes		Yes		Yes		Yes	
Firm Fixed Effect	Yes		Yes		Yes		Yes	
Year Fixed Effect	Yes		Yes		Yes		Yes	
Obs	3,614		3,877		3,880		3,847	
R2	0.859		0.878		0.975		0.928	

Panel B. Institutional ownership and return volatility

Dependent variable	Post=1 if Window=+1, Post=0 if Window=−1							
	Change in Shareholdings							
	(1)		**(2)**		**(3)**		**(4)**	
	Shareholding of asset manager		Shareholding of other institutions		Shareholding of pension activists		Stock return volatility	
	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat
Post	-0.116	-1.31	0.024***	3.43	-0.001***	-4.85	0.005	1.62
Success	-0.092	-1.42	0.003	0.32	-0.001	-1.46	0.006*	1.67
Post x Success	**0.258*****	**2.66**	**0.016**	**1.52**	**0.002*****	**2.97**	**-0.013*****	**-2.87**
Firm Controls	Yes		Yes		Yes		Yes	
Industry Control	No		No		No		No	
Firm Fixed Effect	Yes		Yes		Yes		Yes	
Year Fixed Effect	Yes		Yes		Yes		Yes	
Obs	4,098		4,098		4,098		3,730	
R2	0.678		0.895		0.850		0.614	

Panel C. Governance and entrenchment indexes

Dependent variable	Post=1 if Window=+1, Post=0 if Window=−1				Post=1 if Window=+2, Post=0 if Window=−1			
	Change in Corporate Governance							
	(1)		**(2)**		**(3)**		**(4)**	
	Governance index		Entrenchment index		Governance index		Entrenchment index	
	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat
Post	-0.107**	-2.07	0.172**	2.11	-0.106*	-1.8	0.240***	3.74
Success	0.053	1.11	-0.005	-0.07	0.072	1.49	0.082	1.35
Post x Success	**-0.058**	**-0.92**	**-0.091**	**-1.07**	**-0.226*****	**-2.17**	**-0.257*****	**-3.07**
Firm Controls	No		No		No		No	
Industry Control	No		No		No		No	
Firm Fixed Effect	Yes		Yes		Yes		Yes	
Year Fixed Effect	Yes		Yes		Yes		Yes	
Obs	2,685		3,704		2,487		3,428	
R2	0.959		0.731		0.959		0.799	

Figure 1. Cumulative abnormal returns around initial CSR engagements

This figure plots the cumulative monthly abnormal returns (CARs) around the initial engagements from 1 month prior to the engagement month to 18 months afterwards. For each event month, we calculate the average abnormal return as holding an equal-weighted portfolio of all target firms that initiated engagements in Month 0. The stock returns are adjusted for CRSP value-weight market returns. The stock returns are winsorized at 1 and 99 percentile levels before calculating the average CARs.