Does Corporate Social Responsibility Lead to Superior Financial Performance?

A Regression Discontinuity Approach

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Abstract

This study examines the effect of corporate social responsibility (CSR) on financial performance. Specifically, I analyze the effect of CSR-related shareholder proposals that pass or fail by a small margin of votes. The passage of such "close-call" proposals is akin to a random assignment of CSR to companies and hence provides a clean causal estimate. Consistent with the view that CSR is a valuable resource, I find that the adoption of CSR proposals leads to positive announcement returns and superior accounting performance. When I examine the channels through which companies benefit from CSR, I find that the adoption of CSR proposals is associated with an increase in labor productivity and sales growth. This evidence suggests that CSR improves employee satisfaction and helps companies cater to customers that are responsive to sustainable practices.

Keywords: corporate social responsibility; financial performance; regression discontinuity; shareholder proposals.

1

1. Introduction

Does corporate social responsibility (CSR) lead to superior corporate financial performance (CFP)? Anecdotal evidence points toward a positive relationship between the two. For instance, the U.K. retailer Marks & Spencer implemented an ambitious CSR program in 2007, "with the ultimate goal of becoming the world's most sustainable major retailer". Five years later, this program turned out to be very profitable. In particular, CEO Marc Bolland qualifies the outcome as "a strong business case for sustainability, with £185 million in net benefits" (MIT Sloan Management Review 2012a). More generally, recent surveys indicate that a large majority of CEOs believe that CSR can improve a firm's competitiveness and is critical to its future success (see, e.g., Accenture and UNGC 2010, MIT Sloan Management Review 2012b).

Understanding the relationship between CSR and CFP has spurred a large academic literature. In their recent review, Margolis, Elfenbein, and Walsh (2007) report that 167 studies have examined the CSR-CFP link between 1972 and 2007. These studies have been surveyed in no less than 16 review articles. The typical approach in this literature is to regress measures of CFP (e.g., Tobin's Q, return on assets, etc.) on measures of CSR (e.g., the Kinder, Lydenberg, and Domini (KLD) index of social performance). In their meta-analysis of these studies, Margolis et al. (2007) conclude that the overall correlation between CSR and CFP—more precisely, the coefficient of CSR in the above regression—is positive but small.

A limitation of this literature is that CSR is endogenous with respect to CFP, i.e. a company's decision to engage in CSR activities likely correlates with unobservable firm characteristics that may also affect CFP. For example, it could be that companies engage in CSR *because* they are more profitable or expect their future profitability to be higher. Or it could be that CEOs who implement long-term CSR strategies are also those who are more likely to perform well (e.g., since they are more talented). In sum,

2

the positive correlation between CSR and CFP that emerges from the literature, albeit interesting, does not warrant a causal interpretation.[1]

Going beyond such correlation is difficult. From an empirical perspective, the ideal experiment would be to randomly assign firms into a "high CSR group" and a "low CSR group" and compare their financial performance following this "treatment". Obviously, such ideal experiment would be difficult and unreasonably costly to implement in the field.

In this paper, I consider a quasi-natural experiment that is very close in spirit to this ideal experiment. Specifically, I compare the effect of shareholder-sponsored CSR proposals that pass or fail by a small margin of votes in annual meetings. The passage of such "close-call" proposals is akin to a random assignment of CSR to companies and hence is uncorrelated with firm characteristics. Intuitively, there is no reason to expect any systematic difference between a company for which a CSR proposal passes with 50.1% of the votes, and a company for which a similar proposal fails with 49.9% of the votes. Accordingly, close-call CSR proposals provide a source of random variation in CSR which can be used to estimate the causal effect of CSR on CFP. The general approach of comparing outcomes just above and below a discontinuous threshold is known as "regression discontinuity design" (RDD) in the economic literature. In this paper, the discontinuity arises because, around the 50% majority threshold, a minor difference in vote shares leads to a discrete change (i.e., a discontinuity) in the adoption of CSR policies.[2]

The data on CSR proposals are obtained from RiskMetrics and SharkRepellent, which compile information on shareholder proposals of U.S. publicly-traded companies that came to a vote from 1997 to 2012. The proposals are classified into two broad categories: social issues (e.g., the implementation of non-discrimination policies) and environmental issues (e.g., the reduction of CO_2 emissions).[3]

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[1] Similarly, Margolis et al. (2007) conclude their meta-analysis by highlighting the need to move beyond the "simple correlation between CSP and CFP" (p. 33).

[2] See Lee and Lemieux (2010) and Roberts and Whited (2013) for surveys of RDD applications in the economics and finance literature. For a formal treatment of the RDD methodology as well as practical advice, see Imbens and Lemieux (2008).

[3] Some scholars use a broader definition of CSR which also encompasses corporate governance—i.e., "ESG" (environmental, social, and governance). The definition of CSR used in this paper does not include corporate governance. For a study of governance proposals, see Cuñat, Giné, and Guadalupe (2012).

My main finding is that CSR significantly increases shareholder value. On the day of the shareholder meeting, a CSR proposal that passes by a narrow margin of votes yields an abnormal return of 0.92% compared to a CSR proposal that fails marginally. Since shareholder proposals are not binding, this estimate only measures the effect of approving a CSR proposal as opposed to the effect of implementing a CSR proposal. The latter can be approximated by rescaling the estimated coefficient by the probability of implementing the proposal. I find that CSR proposals have a 52% probability of being implemented. Accordingly, my results imply that implementing a CSR initiative leads to an increase in shareholder value by about 1.77%. This finding is consistent with the view that CSR is a valuable resource, which is in line with, e.g., the resource-based view of the firm (e.g., Hart 1995, Russo and Fouts 1997), instrumental stakeholder theory (e.g., Jones 1995), and Porter and Kramer's (2006, 2011) shared value argument.

I also examine how the increase in shareholder value varies depending on cross-sectional characteristics. First, I find that the value gains are larger for companies with relatively low levels of CSR prior to the vote. This suggests that CSR is a resource with decreasing marginal returns, i.e. the CSR-CFP relationship is concave. Intuitively, initial efforts to improve CSR may yield substantial benefits (the "low hanging fruits" of CSR). However, as companies keep increasing their social performance, the returns from an additional CSR initiative may decrease. Second, I find that the value gains are stronger for companies operating in industries with higher institutional norms of CSR (i.e., "clean" industries). Arguably, in these industries, stakeholders such as customers and strategic partners are more responsive to CSR initiatives. In turn, this may translate into higher returns.

Finally, I examine the channels through which CSR increases shareholder value. I find that the passing of close call CSR proposals has a positive impact on operating performance in the years following the vote (i.e., beyond the short-term stock market reaction). When I further examine what explains the increase in operating performance, I find that the adoption of CSR proposals has a positive impact on labor productivity and sales growth. This evidence suggests that CSR programs improve employee satisfaction and help companies cater to customers that are responsive to sustainable practices.

The remainder of this paper is organized as follows. Section 2 describes the competing hypotheses on the CSR-CFP relationship. Section 3 describes the data and empirical methodology. Section 4 presents the results. Section 5 concludes.

2. Background: The Relationship between Social and Financial Performance

The relationship between social and financial performance has received considerable attention in the theory literature. The early literature, in the spirit of shareholder theory (e.g., Friedman 1962, 1970), views social responsibility as a "donation" from shareholders to stakeholders that reduces profits. Similarly, CSR may be the outcome of an agency conflict between shareholders and managers (Jensen and Meckling 1976): companies' social engagement may be driven by managers' own social preferences or their desire to establish overly friendly relationships with specific stakeholders.

While the early literature predicts a negative relationship between CSR and financial performance, subsequent research emphasizes the potential value of CSR. For example, Freeman's (1984) stakeholder theory argues that companies should consider the interests of everyone who can substantially affect, or be affected by, the welfare of the company. This theory has been extended in various ways (for a review, see Agle, Donaldson, Freeman, Jensen, Mitchell, and Wood 2008). For instance, instrumental stakeholder theory argues that CSR efforts are actions taken to benefit stakeholders with the ultimate goal of benefiting shareholders, i.e. CSR is "instrumental" to firm performance (e.g., Jones 1995). Similarly, in line with the literature on sustainability in business and the resource-based view of the firm, companies may engage in CSR in order to improve their efficiency and enhance, e.g., their reputation, brand, and trust (e.g., Barney 1991, Hart 1995, Porter 1991, Porter and Kramer 2006, 2011, Russo and Fouts 1997). In turn, such actions may attract new customers (such as socially conscious customers, "green" consumers, etc.), increase the companies' profitability, and enhance their competitiveness.

A large set of anecdotal evidence suggests that a growing number of multinational companies—including, e.g., General Electric, Google, IBM, Intel, Johnson & Johnson, Marks & Spencer, Nestle,

5

Unilever and Wal-Mart—see the benefits of creating "shared value" (Porter and Kramer 2011) and, in particular, expect to gain a competitive advantage from CSR initiatives. For example, General Electric's CEO Jeffrey Immelt stated about GE's "ecomagination" program: "We did it from a business standpoint from Day 1, […], it was never about corporate social responsibility" (*New York Times* 2011).

Similarly, shareholders from various companies seem to value not only the social, but also the economic benefits of CSR policies. For example, in the supporting statement of a proposal to implement a non-discrimination policy, shareholders of Gardner Denver Inc. argue as follows: "Employment discrimination on the basis of sexual orientation and gender identity diminishes employee morale and productivity. Because state and local laws are inconsistent with respect to employment discrimination, our company would benefit from a consistent, corporate-wide policy to enhance efforts to prevent discrimination, resolve complaints internally, access employees from the broadest talent pool, and ensure a respectful and supportive atmosphere for all employees. Gardner Denver will enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees" (SEC Form DEF 14A, filed by Gardner Denver, Inc. on March 17, 2010).

In sum, the recent literature as well as a large body of anecdotal evidence suggests that CSR may be a *causal* determinant of firm performance. In this study, I examine whether such causal link is supported by the data.

3. Data and Methodology

3.1. Shareholder Proposals

The data on shareholder proposals are obtained from two databases: RiskMetrics and SharkRepellent. RiskMetrics covers shareholder proposals that came to a vote from 1997 to 2011 at S&P 1,500 companies as well as approximately 400-500 additional widely held companies. SharkRepellent's proxy voting database includes shareholder proposals from a broad universe of about 4,000 companies in the Russell

3,000 index from 2005 to 2012. Both databases include firm identifiers, a description of the proposal, the date of the annual meeting, the proposal's sponsor, the voting requirement, and the outcome of the vote.

I merge both databases to obtain a comprehensive dataset of shareholder proposals that came to a vote between 1997 and 2012. I then restrict the sample to shareholder proposals that are related to CSR. In RiskMetrics, such proposals are identified by the resolution type "SRI" (social responsible initiative), in SharkRepellent by the proposal category "Social/Environmental Issues".[4] The final sample consists of 2,729 CSR proposals. Two specific examples are provided in Table 1.

CSR proposals typically do not fare well at annual meetings. Figure 1 provides the histogram of the vote outcome of the 2,729 CSR proposals. As is shown, most proposals receive very little support: about 75% of the proposals receive less than 20% of favorable votes. Only a small fraction of proposals make it close to the majority threshold. This pattern suggests that the bulk of CSR proposals may be "symbolic" in nature. Shareholders submit them not so much because they expect the proposals to pass, but rather to bring social issues to the attention of management and the public (e.g., Loss and Seligman 2004).

My identification strategy relies on proposals with a close call outcome. Fortunately, although the number of close call proposals is small relative to the total number of proposals, it is sufficiently large in absolute terms: 61 proposals received a vote share within the [-5%, +5%] interval around the majority threshold, 122 within the [-10%, +10%] interval. This lends sufficient power to the identification.

Table 2 provides more details about the 2,729 CSR proposals. Panel A reports the frequency of shareholder proposals by year as well as summary statistics on the vote outcomes. As can be seen, both the number of proposals and the proportions of favorable votes have increased over time. In particular,

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[4] An inconsistency between the two databases is that proposals pertaining to the representation of women and minorities on the board are coded as governance proposals in RiskMetrics, whereas SharkRepellent classifies them as CSR proposals. Since the finer classification used in this paper (see below) is based on SharkRepellent's taxonomy I include these proposals in the final sample. Another proposal category whose classification is ambiguous pertains to employee compensation (e.g., the introduction of employee stock ownership plans). On one hand, such proposals aim at improving job satisfaction; on the other hand, they provide financial incentives and hence may be seen as a form of governance. Since both databases classify such proposals as governance proposals, I did not include them in my final sample. In untabulated regressions, I have verified that my results are similar if they are included.

while the average percentage of votes in favor was merely 9% in the first half of the sample (1997-2004), it increased to 17% in the second half (2005-2012). This evolution is consistent with previous evidence documenting an increase in shareholders' awareness for CSR-related issues over time (see, e.g., Flammer 2013).

Panel B further reports the breakdown of the proposals according to the different types of CSR. The classification is obtained from the SharkRepellent database, where CSR proposals are partitioned into nine categories. The precise definition of each category is provided in Appendix Table A. RiskMetrics does not provide a classification of CSR proposals, but does include a one-sentence description of the proposal's content. I use this description to manually assign each proposal to a SharkRepellent category. As can be seen, the proposals that are most likely to be approved are those pertaining to labor issues (5.27% are approved).

Panel C further provides a breakdown according to the type of sponsor of the proposal. The most common sponsors are religious groups, yet they are also the least likely to succeed. The most successful activists are public pension funds and SRI funds, who see 3.89% and 3.36%, respectively, of their proposals being approved.

3.2. Methodology

Cuñat, Giné, and Guadalupe (2012, henceforth "CGG") develop a methodology that adapts the regression discontinuity framework in order to estimate the effect of shareholder proposals on shareholder returns and other outcomes variables. This paper uses the same methodology, except that CSR proposals are used instead of governance proposals. In the following, I provide a brief summary of this methodology. For more details, see Section II of CGG.

A. Regression Discontinuity in Shareholder Votes

The objective is to estimate the effect of passing a CSR proposal on an outcome variable for firm i at time t, denoted by y_{it} (e.g., the stock market reaction on the day of the shareholder meeting). The proposal receives a vote share v_{it}. Whether or not the proposal is approved is denoted by the indicator variable $\text{Pass}_{it} = 1(v_{it} \geq v^*)$, where v^* is the majority threshold.[5] To estimate the effect of adopting a CSR proposal, one could estimate the following regression:

$$y_{it} = \alpha + \beta \times \text{Pass}_{it} + \varepsilon_{it},$$

where β measures the effect of passing a CSR proposal on y_{it}, and ε_{it} is the error term. However, a concern with this regression is that the passing of a CSR proposal may be correlated with unobservable firm characteristics (e.g., shareholders' long-term orientation) that may also influence y_{it}. In this case, the identifying assumption is violated ($E[\text{Pass}_{it} \times \varepsilon_{it}] \neq 0$) and the estimate of β will be inconsistent.

To obtain a consistent estimate of β, I would ideally need a randomized assignment of "passing a CSR proposal". The regression discontinuity design (RDD) is helpful in approximating this ideal setting, since it relies on proposals that pass or fail by a narrow margin of votes. Arguably, whether a proposal passes by 50.1% of the votes, or whether it fails by 49.9% is as good as random. Accordingly, such close-call CSR proposals provide a source of random variation in the adoption of CSR proposals which can be used to estimate the causal effect of passing a CSR proposal on y_{it}.

The RDD can be implemented by estimating the difference in average y_{it} between CSR proposals that pass or fail by a small margin of votes. While this difference does provide an unbiased estimate of β, it comes at the cost of discarding all non-close proposals. A more efficient estimate of β can be obtained by using all CSR proposals and approximating the continuous relationship between y_{it} and v_{it} with a

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[5] For most companies, the threshold is 50% of the votes. In the rare cases when companies have a stricter majority requirement (e.g., a "supermajority" requirement of two-thirds of the votes), I adjust v^* accordingly.

polynomial in v_{it}, allowing for a discontinuous jump at the majority threshold v^*. Following CGG, I allow for a different polynomial for observations on the left-hand side of the threshold $P_l(v_{it}, \gamma_l)$ and on the right-hand side of the threshold $P_r(v_{it}, \gamma_r)$. The RDD specification can be written as follows:

$$y_{it} = \beta \times \text{Pass}_{it} + P_l(v_{it}, \gamma_l) + P_r(v_{it}, \gamma_r) + \varepsilon_{it}.$$

(1)

The estimate of β captures the discontinuity at the majority threshold, and hence provides a consistent estimate of the causal effect of passing a CSR proposal on y_{it}.[6] To account for within-firm dependence across observations, I cluster standard errors at the firm level. Throughout the paper, I use polynomials of order three. The results are similar if second- or fourth-order polynomials are used instead.

B. Dynamic Considerations and Multiple Votes

As CGG emphasize, the specification in equation (1) is subject to two potential caveats. First, the shareholder vote at time t may have an impact on outcomes at $t + 1$, $t + 2$, etc. Second, for each firm and meeting date, shareholders may have to vote on more than one CSR proposal.

To address these two caveats, CGG propose a dynamic version of specification (1) in which multiple CSR proposals in a given meeting are "aggregated". In a nutshell, this procedure can be implemented as follows. First, the dynamics is accounted for by using a panel dataset in which, for each firm-meeting (i, t), observations at time $t + \tau$ are pooled for multiple τ, including $\tau < 0$. Specifically, I use observations in periods $t - 2$ to $t + T$ (as in CGG, T is up to 7 days for abnormal returns, and up to 4 years for annual variables such as the return on assets). The coefficient on the dummy for whether the proposal has passed β_τ is then τ-specific and is constrained to zero for $\tau < 0$. Similarly, the parameters of the polynomials $\gamma_{l,\tau}$ and $\gamma_{r,\tau}$ are allowed to vary for $\tau \geq 0$. Since observations before and after the event are

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[6] Since shareholder proposals are not binding, β only measures the effect of approving a CSR proposal as opposed to the effect of implementing a CSR proposal. The latter can be approximated by rescaling the estimate of β by the probability of implementation, see Section 4.1.E.

pooled together, an advantage of this specification is that I can include firm-meeting fixed effects in the regression α_{it}. Doing so accounts for any unobservable firm characteristics that are constant during the event window. Following CGG, I further include fixed effects for the time period relative to the meeting date α_τ ("distance-to-the-election" fixed effects), and fixed effects for the calendar year α_c.

Second, CGG propose an aggregation procedure that accounts for the possibility of multiple proposals in the same shareholder meeting. Implementing this procedure is straightforward. Essentially, the pass dummy in equation (1) is replaced by the sum of the pass dummies for all n proposals that are voted upon in the same meeting (i.e., the "aggregated pass dummy" becomes a count variable for the number of CSR proposals that are passed in the meeting). The polynomials in vote share are adjusted accordingly. A formal treatment of this aggregation procedure is provided in CGG.

The dynamic version of equation (1) that accounts for the possibility of multiple proposals can be expressed as follows:

$$y_{i,t+\tau} = \beta_\tau \sum_{k=1}^{n} \text{Pass}_{it}^{k} + \left[P_l\left(\sum_{k=1}^{n} v_{it}^{k}, \gamma_{l,\tau}^{k} \right) + P_r\left(\sum_{k=1}^{n} v_{it}^{k}, \gamma_{r,\tau}^{k} \right) \right] + \alpha_{it} + \alpha_\tau + \alpha_c + \varepsilon_{i,t+\tau}. \qquad (2)$$

This specification is essentially equation (7) in CGG (p. 1958). As in specification (1), standard errors are clustered at the firm level and third-order polynomials are used throughout.

3.3. Variable Definitions and Sample Characteristics

A.   Abnormal Returns

The main dependent variable used in this paper is the abnormal return on the day of the shareholder meeting ($t = 0$). Using abnormal returns is appealing because they provide an estimate of the effect of passing a CSR proposal on firm value, thus capturing all potential channels through which CSR may

benefit shareholders. In Section 4.3, I consider several other dependent variables (e.g., operating performance, labor productivity, etc.) that are helpful in understanding the precise channel.

Following CGG, I compute abnormal returns using the four-factor model of Carhart (1997). The four factors are the market return RMRF (the return on the market portfolio minus the risk-free rate), the size factor SMB ("small minus big"), the book-to-market factor HML ("high minus low") and the momentum factor UMD ("up minus down"). In robustness checks, I show that my results are similar if I use the market model instead.

Daily stock return data are obtained from the Center for Research in Security Prices (CRSP). The four factors are obtained from Kenneth French's website. The coefficients of the four-factor model are estimated by OLS using an estimation period of 200 trading days that starts 20 trading days prior to the shareholder meeting. To be included in the sample, a stock needs to have at least 15 days with non-missing returns during the 200-day estimation period.

B. Summary Statistics

The 2,729 CSR proposals used in this study correspond to 1,845 firm-year observations. Table 3 provides summary statistics for the abnormal return on the day of the shareholder meeting (first row) as well as several other characteristics, which are constructed from various data sources.

The companies' financials are computed from Standard & Poor's Compustat in the fiscal year that ends prior to the shareholder meeting. Market value is the number of shares outstanding multiplied by the stock price at the end of the fiscal year. Total assets is the book value of assets. Return on assets (ROA) is the ratio of operating income before depreciation to the book value of assets. Return on equity (ROE) and net profit margin (NPM) are defined similarly except that the denominator is the book value of equity plus deferred taxes and investment tax credit, and sales, respectively. Tobin's Q is the ratio of the market value of total assets (book value of assets plus the market value of equity minus the sum of the book value of equity plus deferred taxes and investment tax credit) to the book value of total assets. Labor

productivity is the ratio of sales to the number of employees. Capital expenditures is the ratio of capital expenditures to total assets. Sales growth is the growth in sales compared to the previous fiscal year. Leverage is the ratio of debt in current liabilities and long-term debt to total assets. Finally, cash is the ratio of cash and short-term investments to total assets. To mitigate the impact of outliers, all ratios are winsorized at the 5th and 95th percentiles of their empirical distribution.

In addition to accounting variables, Table 3 also includes a measure of CSR: the KLD-index. This index is obtained from the Kinder, Lydenberg, and Domini (KLD) database. KLD is a social choice investment advisory firm that relies on independent rating experts to assess how well companies address the needs of their stakeholders based on multiple data sources including annual questionnaires sent to companies' investor relations offices, firms' financial statements, annual and quarterly reports, general press releases, government surveys, and academic publications. The composite KLD-index is constructed by summing up the number of CSR strengths along the following dimensions: employees, customers, the natural environment, and society at large (community and minorities).[7] The KLD-index is computed in the calendar year that ends prior to the shareholder meeting. As can be seen, the average KLD-index is 4.06, which indicates that the average company in my sample has about 4 CSR strengths.

Finally, Table 3 also includes governance variables. The G-index is the governance index of Gompers, Ishii, and Metrick (2003) in the calendar year that ends before the shareholder meeting. It adds one index points for each of 24 (anti-)governance provisions. The G-index is obtained from RiskMetrics. It is available for the years 1990, 1993, 1995, 1998, 2000, 2002, 2004, and 2006. To fill in the missing years, I use the latest available value of the index. Institutional ownership is the percentage of shares owned by institutional investors in the quarter that ends prior to the date of the shareholder meeting. The data on institutional ownership are obtained from Thomson-Reuters institutional holdings database. Lastly, inside ownership is the percentage of shares owned by all executives of the firm, which is obtained from Execucomp in the fiscal year that ends prior to the shareholder meeting.

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[7] The KLD database also compiles strengths pertaining to corporate governance. Since the definition of CSR underlying this study does not encompass corporate governance, governance strengths are not included in the calculation of the KLD-index.

C. How Representative is the Sample?

Are the companies in my sample representative of the average public firm in the U.S. economy? To assess whether this is the case, I benchmark my sample with the Compustat universe. The comparison is provided in Appendix Table B. The columns under the heading "CSR Proposal Sample" restate means and medians from Table 3, while the columns under the heading "Compustat" provide the corresponding means and medians based on all firm-year observations in Compustat during the sample period (1997-2012). The last column reports the *p*-value of the difference-in-means test.

As can be seen, the two samples differ on the basis of several characteristics. Two main differences are worth emphasizing. First, companies in my sample are significantly larger.[8] This pattern is similar to Cuñat, Giné, and Guadalupe's (2013) finding that companies whose shareholders submit "Say on Pay" proposals are on average larger than S&P 1,500 companies. Second, companies in my sample display higher levels of CSR: their number of KLD strengths is about four times higher. (Since the statistics for the "CSR Proposal Sample" are computed in the year preceding the shareholder meeting, this difference is not driven by the vote itself.) This difference is intuitive: companies whose shareholders are more inclined toward CSR have higher levels of CSR and at the same time are more likely to submit CSR proposals.

Overall, these differences suggest that my sample is not directly comparable to the average U.S. public firm. Importantly, these differences do not bias my estimate of the treatment effect. However, they do need to be taken into account when assessing the external validity of my findings (see Section 5).

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[8] To the extent that the main sampling frame of SharkRepellent and RiskMetrics are the Russell 3,000 and the S&P 1,500 indices, respectively, this difference is partly mechanical. However, it does subsist if instead of the Compustat universe I use the Russell 3,000 universe as benchmark.

3.4. Tests for Quasi-Randomized Assignment

The identifying assumption of the RDD is that, around the majority threshold, passing a CSR proposal is as good as randomly assigned. This assumption has testable implications, akin to the tests of effective randomization in experimental data. In this section, I provide two standard tests of this assumption.

A. Continuity in the Distribution of Shareholder Votes

The first test evaluates whether the distribution of shareholder votes is continuous around the majority threshold—any discontinuity would be symptomatic of a non-random assignment of "pass" versus "fail" around the threshold.

A visual inspection of the histogram in Figure 1 suggests that the distribution is indeed smooth and continuous around the majority threshold. A more formal approach is provided in Figure 2, which implements the McCrary (2008) test for smoothness of the density function around the threshold. As is shown, there is no evidence for a discontinuous jump. The null of continuity of the density function at the threshold cannot be rejected (p-value = 0.974).[9]

B. Pre-Existing Differences

The second testable implication of the randomness assumption is that companies whose voting share is immediately below or above the majority threshold should be very similar on the basis of *ex ante* characteristics. Intuitively, if the outcome of close call proposals is as good as randomized, it should be orthogonal to firm characteristics prior to the vote.

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[9] Finding a smooth distribution around the majority threshold is typical of shareholder-sponsored proposals (e.g., CGG, Cuñat et al. 2013, Listokin 2008). This is in stark contrast to *management*-sponsored proposals (which are excluded from my analysis). As Listokin (2008, p. 161) shows, for management-sponsored proposals the distribution of votes exhibits a sharp discontinuity at the majority threshold. Essentially, these proposals rarely fail as management strategically withdraws those proposals that are expected to fail.

In Table 4, I examine whether there are any pre-existing differences between companies that pass and reject CSR proposals. I consider all characteristics listed in Table 3. In columns (1) and (2), I examine these characteristics in the year preceding the shareholder meeting ($t - 1$). In columns (3) and (4), I examine the change in these characteristics between years $t - 2$ and $t - 1$. The exception is the abnormal return in the first row of the table where $t - 1$ is the day prior to the meeting and the change from $t - 2$ to $t - 1$ refers to the difference in abnormal returns in the two days preceding the meeting. Columns (1) and (3) report the differences among all firms in my sample, whereas columns (2) and (4) report the differences at the majority threshold by including polynomials of order three on both sides of the threshold.[10]

As can be seen in columns (1) and (3), companies that pass a CSR proposal differ significantly from companies that reject it. Importantly, however, columns (2) and (4) show that these differences disappear at the majority threshold.[11] Overall, this evidence suggests that there is no significant difference between companies that pass and reject CSR proposals around the majority threshold, which lends support to my identification strategy.

4. Results

4.1. Main Results

A. Graphical Analysis

To measure the impact of passing a CSR proposal on shareholder value, I examine the stock market reaction on the day of the shareholder meeting. Figure 3 provides a visualization of the data. Specifically,

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[10] See CGG (pp. 1959-1961) for a similar test.
[11] Leverage in $t - 1$ is significantly different at the 10% level. However, given the large number of characteristics considered in Table 4, it is expected that some of them would appear significantly different even if the two groups of firms are drawn from the same distribution.

the figure plots abnormal returns against the victory margin (i.e., the vote share minus the majority threshold). Each dot in the figure represents the average abnormal return in 2% bins of vote share. The solid line plots predicted values of abnormal returns from third-order polynomials in vote share estimated separately to the left and right of the majority threshold.

As can be seen from the figure, abnormal returns appear to be a continuous and smooth function of the vote share everywhere except at the winning threshold, where there is a discontinuous jump. This evidence suggests that proposals that are approved by a small margin of votes lead to an increase in firm value compared to proposals that fail by a small margin of votes. Interestingly, abnormal returns seem to converge to zero as we move further to the left or right of the majority threshold. This pattern suggests that the outcome of non-close votes is anticipated by the market, and hence any value implication is already impounded in stock prices.[12]

B. Regression Analysis

The graphical analysis in Figure 3 suggests that the adoption of close call CSR proposals leads to an increase in shareholder value. A more formal test of this hypothesis is provided in Table 5, which reports estimates of the difference in abnormal returns between CSR proposals that pass and CSR proposals that fail for increasingly small intervals around the majority threshold.

Column (1) estimates this difference in the full sample of 2,729 proposals and shows that it is insignificant. The lack of significance is driven by the "non-close" proposals (i.e., those proposals whose vote share is more than 10% above or below the majority threshold). As is shown in column (2), restricting the sample to non-close proposals yields a difference in abnormal returns that is virtually zero. This finding likely reflects the fact that the outcome of non-close proposals is highly predictable and hence their effect is already incorporated in stock prices prior to the vote.

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[12] This pattern is in line with the theoretical prediction of CGG (see their Figure 1 on p. 1951).

Column (3) restricts the sample to the 122 CSR proposals whose vote share is within 10% of the majority threshold. The difference in abnormal returns is 1.07%, which is significant at the 5% level. This difference is somewhat larger in columns (4)–(6), where the sample is restricted to proposals whose vote share is within 5%, 2.5%, and 1.5%, respectively, of the majority threshold (the difference in abnormal returns lies between 1.09% and 1.36%). It is significant in columns (4) and (5), and marginally insignificant ($t = 1.58$) in column (6). The weaker significance in column (6) is likely due to the small number of observations (only 9 proposals have vote shares within 1.5% of the threshold). Overall, the evidence in columns (3)–(6) indicates that CSR proposals that are approved by a small margin of votes lead to a significant increase in shareholder value compared to CSR proposals that are marginally rejected.

In column (7), I estimate the specification given by equation (1). This specification controls for two polynomials of order three in the vote share on both sides of the majority threshold. Unlike the non-parametric estimates in columns (3)–(6), this approach makes use of all 2,729 CSR proposals and hence provides a more efficient estimate of the causal effect of CSR proposals on abnormal returns. As is shown, the coefficient on the pass dummy is 1.18% and it is significant at the 5% level. This coefficient is very similar to the estimate in column (6) that relies on proposals whose outcome is closest to the threshold.[13]

Finally, in column (8), I re-estimate column (7)'s regression with control variables. The controls include all variables listed in Table 3 measured prior to the vote, as well as year dummies. If the outcome of the vote is truly random, including these controls should not affect the coefficient on the pass dummy—as in randomized experiments—since all predetermined characteristics should be orthogonal to the assignment of "pass" versus "fail". Indeed, I find that the coefficient is very similar to the one in column (7).

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[13] The coefficient on the pass dummy is very similar if instead of third-order polynomials in the vote share, I use second- or fourth-order polynomials. The corresponding coefficients are 1.20% ($t = 2.28$) and 1.12% ($t = 1.89$), respectively.

C. Multiple Votes and Dynamic Analysis

As discussed in Section 3.2, the analysis in Table 5 does not account for the possibility that shareholders may have to vote on more than one CSR proposal in a given meeting. Nor does it account for the possibility that the effect of the shareholder vote may affect returns beyond the day of the meeting.

To address these caveats, I estimate the specification given by equation (2), i.e. the dynamic specification in which multiple CSR proposals in a given meeting are "aggregated". This regression estimates the effect of passing a CSR proposal on abnormal returns on the meeting date (t), the day after ($t + 1$), and over the period from $t + 2$ to $t + 7$ (the cumulative abnormal returns over this period). The results are presented in column (1) of Table 6. As is shown, I only find a significant effect on the day of the meeting (0.92% abnormal returns, $t = 2.56$), and the magnitude of this effect is similar to the full model estimates in Table 5. In the days following the meeting, the abnormal returns are small and insignificant. This pattern indicates that shareholders react on the day of the vote, when the surprise around the threshold occurs. In the remainder of this paper, I will refer to the specification used in column (1) as my baseline specification since it is more conservative than the specifications used in Table 5.

D. Robustness

Columns (2)–(4) of Table 6 present several robustness checks. These robustness checks are variants of the baseline specification used in column (1).

In column (2), I compute abnormal returns using the market model instead of the four-factor model. As can be seen, all coefficients are very similar to before: the effect on the day of the vote is 0.93%, while there is no significant effect in the following days.

Given the small number of close call CSR proposals, a potential concern is that my results may be driven by a few large abnormal returns around the majority threshold. To address this concern, I re-estimate my baseline specification replacing the abnormal returns by a dummy variable that equals one if

19

the abnormal return is positive and zero otherwise. Since this dummy ignores the magnitude of the abnormal return, it is not sensitive to outliers. (See CGG for a similar robustness check.) As is shown in column (3), the pattern is similar to before. In particular, on the day of the vote, CSR proposals that pass by a small margin of votes are 27% more likely to have positive abnormal returns compared to CSR proposals that fail marginally.

Another potential concern is that shareholders may not only vote on CSR objects, but also on governance objects during the same meeting. As CGG show, governance proposals are very frequent and the adoption of close call governance proposals generates substantial abnormal returns. If, for some reason, shareholders tend to vote in a similar way on all proposals, it could be that CSR proposals that pass by a small margin of votes tend to occur in meetings in which governance proposals also pass by a small margin. In this case, my results may be capturing some of the effect of governance proposals. To rule out this concern, I re-estimate my baseline specification after excluding all shareholder meetings in which a governance proposal received a vote share within 10% of the majority threshold. As is shown in column (4), my results are robust to this exclusion. In fact, the effect on the day of the vote is even slightly larger than before.[14]

E. Magnitude of the Effect

In my baseline specification, the abnormal return of passing a (close call) CSR proposal is 0.92%. Since shareholder proposals are not binding, this estimate only measures the effect of approving a CSR proposal as opposed to the effect of *implementing* a CSR proposal. The latter can be approximated by rescaling the estimated coefficient by the probability of implementing the proposal (for details, see CGG). In Section

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[14] Another interesting test would be to re-estimate my baseline specification separately for the nine proposal categories listed in Table 2. However, such analysis cannot be conducted since there are too few close call proposals in each category. Instead, I can focus on the two broad SharkRepellent categories indicated in Appendix Table A, i.e. environment versus social issues. When I do so, I find that the effect on the day of the vote is 0.71% for proposals on environmental issues and 0.94% for proposals on social issues. The two coefficients are not significantly different from each other. This suggests that my results are not driven by a specific (broad) type of CSR.

4.3.A, I show that CSR proposals have a 52% probability of being implemented. Accordingly, the approximate effect of implementing a CSR proposal is 0.92/0.52 = 1.77% in abnormal returns. Loosely speaking, this implies that implementing a CSR initiative leads to an increase in shareholder value by about 1.77%.

It is helpful to compare this effect with the effect of other shareholder proposals that have been studied in the literature. In their study of governance proposals, CGG find that adopting close call governance proposals leads to an increase in shareholder value by 2.8%. In a related study, Cuñat et al. (2013) show that the adoption of close call say-on-pay proposals increases shareholder value by 4.6%. This comparison indicates that, although CSR proposals are beneficial to shareholders, the benefits are not as substantial as those from governance-type proposals.

While the value gains from CSR proposals may seem small compared to other proposals, they are nevertheless economically significant. This can be seen by benchmarking my results against the findings from other CSR studies. In particular, Klassen and McLaughlin (1996) find abnormal returns of 0.82% around the announcement of environmental awards. Similarly, Flammer (2013) finds abnormal returns of 0.84% around the announcement of green initiatives. Lastly, Edmans (2012) shows that companies listed in the "100 Best Companies to Work For in America" generated 2.3% to 3.8% higher abnormal returns per year from 1984 through 2011. Overall, my estimate of 1.77% lies within the ballpark of what these studies have found.

4.2. Cross-Sectional Heterogeneity

In this section, I examine whether my baseline results differ depending on cross-sectional characteristics. This analysis is conducted by splitting the sample according to each characteristic.[15]

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[15] While informative, one caveat of this analysis is that I do not have exogenous variation in the cross-sectional characteristics of interest, and hence they may correlate with other variables (e.g., implementation differences, corporate culture, etc.). Accordingly, the results presented in this section do not necessarily warrant a causal interpretation.

A. Level of CSR

The results presented so far suggest that CSR improves CFP, which is consistent with the view that CSR is a valuable resource for firms. That being said, the "stock" of CSR resources that is already in place may influence the benefits from implementing an additional CSR program, i.e. the CSR-CFP relationship may not be linear. Arguments can be made for either a concave or convex relationship.

An argument in the spirit of neoclassical economic theory can motivate a concave relationship. Neoclassical models of the firm typically assume decreasing marginal returns of the production factors (e.g., capital and labor). By the same reasoning, CSR as a resource may exhibit decreasing marginal returns. Intuitively, in early stages of designing CSR policies, it may be fairly easy and inexpensive for companies to implement social programs that yield substantial monetary benefits. However, once the low-hanging fruits of CSR have been harvested, it may become increasingly difficult to adopt social policies that further improve the company's financial performance (for a related argument in the context of green initiatives, see Flammer 2013).

On the other hand, it could also be that CSR only affects CFP once a "critical mass" of CSR resources is in place, in which case the relationship is convex. Edmans (2011, 2012) provides evidence along these lines: he shows that there are benefits to being in the very top level of employee satisfaction (the top 100, rather than merely above average).

Accordingly, establishing the precise shape of the CSR-CFP relationship is an empirical question. The empirical framework used in this paper is helpful in addressing this question. Specifically, in columns (1) and (2) of Table 7, I re-estimate my baseline specification separately for companies whose KLD-index is below or above the median across all firms in the same 2-digit SIC industry (in the year that ends prior to the vote). As is shown, the effect is about twice stronger for companies with a lower KLD-index. This implies that companies with stronger social performance benefit less from the passing of an additional CSR resolution, thus pointing at a concave relationship between CSR and CFP.

B. Institutional Norms of CSR

In columns (3) and (4), I further examine whether the effect of passing a CSR proposal is stronger in industries that have higher institutional norms of CSR. Arguably, in such industries ("clean" industries) stakeholders are more sensitive to companies' CSR efforts. This higher CSR-sensitivity may, in turn, translate into higher value gains from CSR proposals. Conversely, in industries with lower institutional norms of CSR ("dirty" industries), stakeholders are likely less responsive to companies' engagement in CSR, which may lead to lower returns from CSR proposals.[16]

To obtain a measure of institutional pressure to engage in CSR at the industry level, I compute the fraction of shareholder proposals related to CSR to the total number of shareholder proposals submitted to all companies in a given 2-digit SIC industry and year. I then re-estimate my baseline specification separately for companies that operate in a 2-digit SIC industry where institutional pressure is below or above the median across all industries in the year preceding the shareholder meeting. As can be seen from the results in columns (3) and (4), the abnormal returns are indeed larger in industries with higher institutional pressure. This suggests that the adoption of CSR proposals pays off more in industries that face higher institutional norms of CSR.

4.3. Long-Run Effects of CSR

In this section, I evaluate the effect of adopting a CSR proposal on long-term firm outcomes (as opposed to the short-term stock market reaction). The specification used throughout is the specification given by equation (2) at annual frequency. This specification estimates the effect of passing a CSR proposal on a

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[16] This argument is related to a large literature in institutional theory and stakeholder theory according to which companies may react to institutional pressure by implementing more CSR initiatives (e.g., Agle et al. 2008, Bansal 2005, Bansal and Roth 2000, Campbell 2007, Delmas and Toffel 2004, Freeman 1984, Hoffman 1999, 2001, Jennings and Zanbergen 1995, Kassinis and Vafeas 2006, Sharma and Henriques 2005).

given outcome variable in the year of the proposal (t), the following year ($t + 1$), and the subsequent three

years (the average of the outcome variable from $t + 2$ to $t + 4$). All results are presented in Table 8.

A. Implementation

As mentioned in Section 4.1, shareholder proposals are not binding. While data on whether each proposal

was implemented are not publicly available, I do observe whether the KLD-index (i.e., the number of

CSR strengths) has increased after the shareholder meeting. Thus, studying the changes in the KLD-index

provides a rough estimate of the implementation probability.[17]

The results with the KLD-index as dependent variable are presented in column (1). As is shown,

the KLD-index increases by 0.52 CSR strengths in the year of the proposal (i.e., the year that ends after

the meeting date), which can be interpreted as a 52% implementation likelihood. The KLD-index remains

around that level in the subsequent years.[18]

B. Operating Performance and Firm Value

Next, I examine the effect of passing a CSR proposal on operating performance. I consider three measures

of operating performance: return on assets (ROA), net profit margin (NPM), and return on equity (ROE).

The results for ROA are provided in column (2). As can be seen, ROA increases in the year of the

meeting. However, the increase is small and insignificant. In the first year after the meeting, the increase

in ROA is larger and statistically significant. It is also economically significant: the reported coefficient of

0.0043 corresponds to an increase in ROA by 3.1%, which represents 5% of the standard deviation of

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[17] See CGG (p. 1968) for a similar approach. In their analysis of governance proposals, CGG look at changes in the G-index of Gompers, Ishii, and Metrick (2003)—the number of antitakeover provisions in place—to evaluate whether a governance proposal was implemented or not.

[18] The 52% implementation likelihood is in the ballpark of what prior studies have found for other types of shareholder proposals. CGG and Ertimur, Ferri, and Stubben (2010) find that governance proposals that pass have an implementation likelihood of 31.3% and 31.1%, respectively. Cuñat et al. (2013) find that say on pay proposals that are approved have a 52.5% probability of being implemented.

ROA (mean and standard deviation of ROA are 0.137 and 0.083, respectively, see Table 3). In years $t + 2$

to $t + 4$, the effect remains stable. Overall, the dynamic pattern indicates that it takes 12 to 24 months for

the passing of a CSR proposal to materialize into higher profitability, and this effect appears to be long-

lasting. The pattern is qualitatively similar when I look at NPM and ROE in columns (3) and (4), although

the coefficients in the ROE regression are not significant.

Finding a long-lasting increase in operating performance indicates that the increase in shareholder

value—which represents the sum of all discounted future cash flows—may be permanent as well. To

examine whether this is the case, I use Tobin's Q as dependent variable in column (5). As is shown,

Tobin's Q increases already in the year of the meeting (which is likely driven by the stock market reaction

around the day of the vote). In the subsequent years, it remains at a similar level. This pattern is consistent

with the argument that the value gains from CSR are long-lasting.

C. How Does CSR Benefit Companies?

The evidence reported so far suggests that CSR benefits shareholder value through an increase in

operating performance. In the following, I discuss several plausible channels through which CSR may

improve operating performance.

First, implementing CSR programs may be a way to cater to customers that are responsive to

sustainable practices (e.g., Baron 2008, McWilliams and Siegel 2001, Reinhardt 1998). In this case, one

might expect an increase in sales growth following the adoption of CSR proposals, as they would allow

companies to extend their customer base.

Second, it could be that CSR programs increase employee satisfaction. Several articles in the

management literature argue that by nurturing the relationship to its employees, a company can attract,

motivate, and retain the most talented employees in the industry (e.g., Albinger and Freeman 2000,

Greening and Turban 2000, Peterson 2004, Pfeffer 1994, Turban and Greening 1996, Vogel 2005).

Relatedly, Edmans (2011, 2012) shows that companies with higher job satisfaction earn higher abnormal

returns compared to their peers. Accordingly, if employee satisfaction is the underlying mechanism behind the increase in profitability, I should observe an increase in labor productivity following the passage of close call CSR proposals.

Third, CSR initiatives may foster the use of more efficient technologies or production processes (e.g., environment-friendly technologies). In particular, Porter (1991) views pollution as a waste of resources (e.g., energy and material) and argues that efforts to reduce pollution might not only reduce a company's environmental footprint but also strengthen its competitiveness. A growing literature extends Porter's view (for reviews, see Ambec and Lanoie 2008, Berchicci and King 2007, Etzion 2007). For instance, the literature on sustainability in business examines ways in which companies can become more environment-friendly and how these greening initiatives influence financial performance. In particular, companies can become more sustainable by leveraging the low hanging fruits of efficiency and waste management and hence achieve significant financial benefits (e.g., Clelland, Dean, and Douglas 2000, Rusinko 2007, Russo and Harrison 2005). Accordingly, if the increase in performance comes from improved production processes and technologies, I should observe an increase in capital investment after the passing of close call CSR proposals.

I examine these three channels in columns (6)–(8). As is shown in column (6), sales growth increases after the adoption of CSR proposals, which is consistent with the demand channel. As for the supply-side mechanisms, the estimates in column (7) show that labor productivity increases significantly after the passing of close call CSR proposals, which lends support to the employee satisfaction channel. In contrast, the estimates in column (8) show no evidence for a significant increase in physical investment following the adoption of CSR proposals. The latter finding does not necessarily reject the investment channel. For example, it could be that companies' efforts to reduce emissions translate in a decrease in investment (e.g., the closure of polluting facilities), so that the net effect is ambiguous. A more thorough analysis of this mechanism would require detailed facility-level data.[19]

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[19] In untabulated regressions, I also examine whether companies increase their marketing expenses after the passage of CSR proposals—e.g., as a way to communicate their CSR efforts to their customer base. Specifically, I consider

5. Conclusion

Is there a business case for CSR? Using the passage of close-call shareholder proposals on CSR as a source of exogenous variation in CSR, I find evidence suggesting that the answer to this question is affirmative.

First, using an RDD methodology, I find that the adoption of close call CSR proposals leads to a significant increase in shareholder value by 1.77%. This finding is consistent with the view that CSR is a valuable resource, which is in line with, e.g., the resource-based view of the firm (e.g., Hart 1995, Russo and Fouts 1997), instrumental stakeholder theory (e.g., Jones 1995), and Porter and Kramer's (2006, 2011) shared value argument.

Second, I find that the value gains are stronger for firms with relatively low levels of CSR prior to the vote. This suggests that CSR is a resource with decreasing marginal returns, i.e. the CSR-CFP relationship is concave. I also find that the value gains are higher for companies operating in industries with higher institutional norms of CSR ("clean" industries). Arguably, in such industries stakeholders are more sensitive to companies' social engagement, which translates in higher payoffs of CSR initiatives.

Third, I examine the mechanisms through which CSR increases shareholder value. I find that the passing of close call CSR proposals has a positive impact on operating performance (ROA, NPM, and ROE). When I further examine what explains the increase in operating performance, I find that the adoption of CSR proposals has a positive impact on labor productivity and sales growth. This evidence suggests that CSR programs improve employee satisfaction and help companies cater to customers that are responsive to sustainable practices.

To the best of my knowledge, this study is the first to provide empirical evidence on the causal effect of CSR on CFP. While a large empirical literature points toward a positive correlation between CSR and CFP (for detailed reviews of this literature, see, e.g., Margolis et al. 2007, Margolis and Walsh

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advertising expenses (defined as the ratio of advertising expenses to total assets form Compustat) as dependent variable. I find no significant change in this variable after the vote.

2001, 2003, Orlitzky, Schmidt, and Rynes 2003, Roman, Hayibor, and Agle 1999), this correlation does not warrant a causal interpretation. This limitation arises because CSR is endogenous with respect to CFP—a company's decision to engage in CSR activities likely correlates with firm characteristics that may also affect CFP. In this study, I overcome this limitation by exploiting exogenous variation in CSR in the form of close-call shareholder proposals on CSR. The adoption of such close-call proposals is akin to a random assignment of CSR to companies and hence is uncorrelated with firm characteristics. Accordingly, it provides exogenous variation in CSR that can be used to estimate a clean causal effect of CSR on CFP. In the previous literature, the papers that are closest to making causal statements are Dowell, Hart, and Yeung (2000), Lev, Petrovits, and Radhakrishnan (2010), Preston and O'Bannon (1997), Waddock and Graves (1997), and Edmans (2011, 2012). The first four articles rely on so-called Granger causality tests (the comparison of leads and lags of CSR and CFP). However, as Lev et al. (2010) emphasize, while this methodology has its merits, it does not establish causality.[20] Accordingly, it does not substitute for the need to look for (quasi-)natural experiments like the one I consider in this study. Edmans (2011, 2012) uses a different approach. He constructs a value-weighted portfolio of the "100 Best Companies to Work For in America" and shows that this portfolio significantly outperforms industry benchmarks. An appealing feature of his approach is that the effect of observable variables that are correlated with employee satisfaction is likely to be already impounded into the stock prices, which helps address causality.[21]

The analysis presented in this paper is subject to two caveats. First, like most RDD studies, the identifying variation comes from a relatively small number of observations, namely those that are close to the majority threshold. Second, as discussed in Section 3.3.C, companies that vote on CSR proposals are not directly comparable to the universe of public firms in the U.S. In particular, the companies in my

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[20] As Leamer (1985) points out, Granger causality does not imply "causality," but rather "precedence" in a lead-lag relationship. In the CSR-CFP context, finding that CSR precedes (i.e., predicts future values of) CFP does not necessarily imply that CSR causes CFP. For example, it could be that companies engage in CSR because they expect their future profitability to be higher. In this scenario, CSR predicts future CFP; yet, there is no causal relationship between the two.

[21] Employee satisfaction may, however, correlate with unobservable firm characteristics that investors have not fully incorporated into stock prices.

sample are on average larger and also have more CSR provisions in place. Extending the external validity of this study's findings by identifying natural experiments that apply to a broader universe of firms is an exciting and challenging avenue for future research.

Finally, my finding that "doing good" pays off has potentially far-reaching implications for corporate decision making and strategic management. In particular, companies may find it worthwhile to devote sufficient resources to developing and implementing their CSR strategy. From a broader perspective, this insight suggests an important, and perhaps unique, feature of CSR: everybody wins— stakeholders *and* shareholders.

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Figure 1. Distribution of Votes for Shareholder CSR Proposals

Notes. This figure presents the histogram of the vote shares in favor of the CSR proposals. The horizontal axis indicates the vote share in 5% intervals. The vertical axis indicates the frequency of proposals. The sample consists of all CSR proposals in the RiskMetrics and SharkRepellent databases from 1997 to 2012.

33
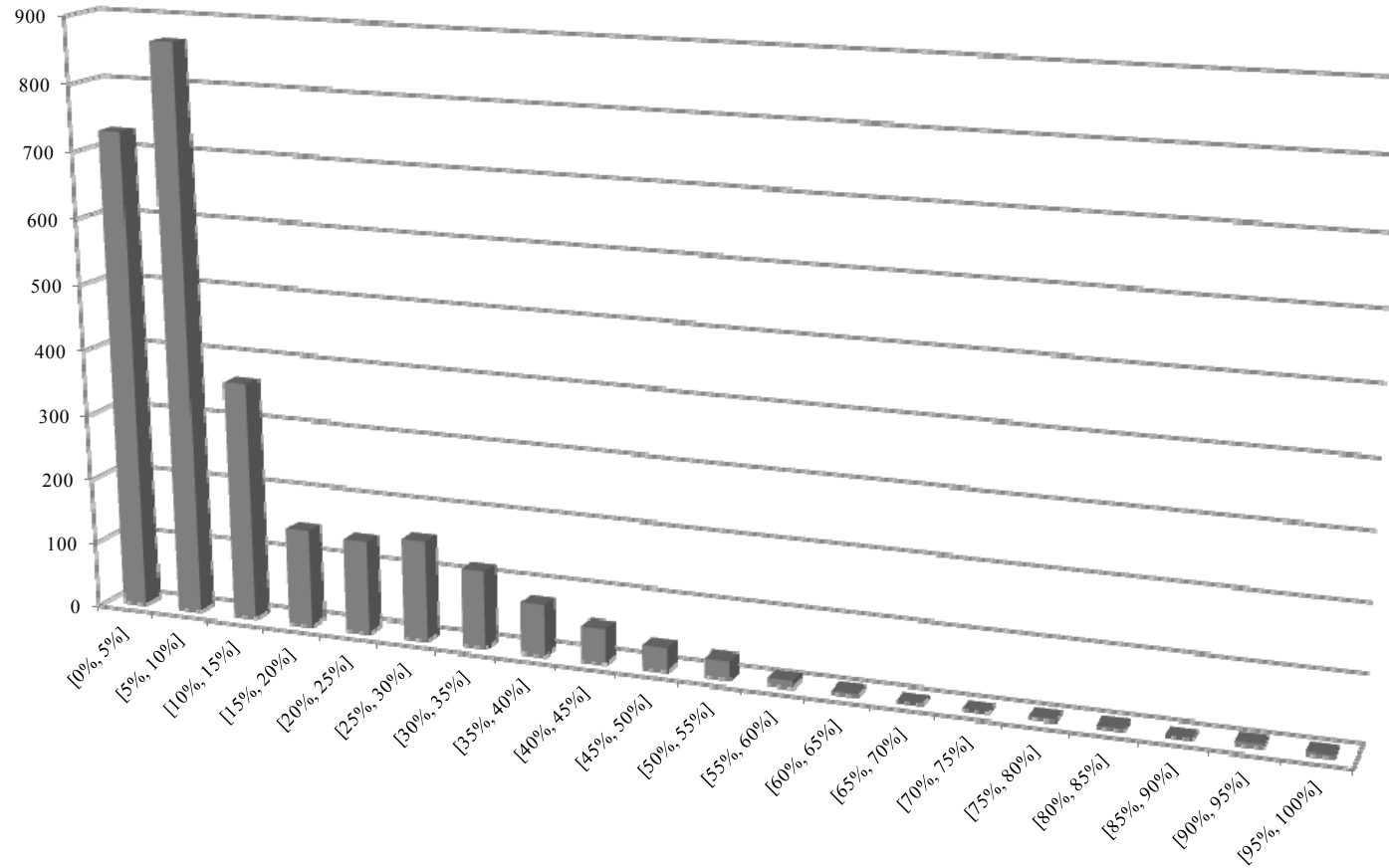
Figure 2. McCrary (2008) Test

Notes. This figure presents a visualization of the McCrary (2008) test for the continuity of the vote share distribution around the majority threshold. The horizontal axis indicates the victory margin (i.e., the vote share minus the majority threshold). The vertical axis indicates the logarithm of the estimated density.
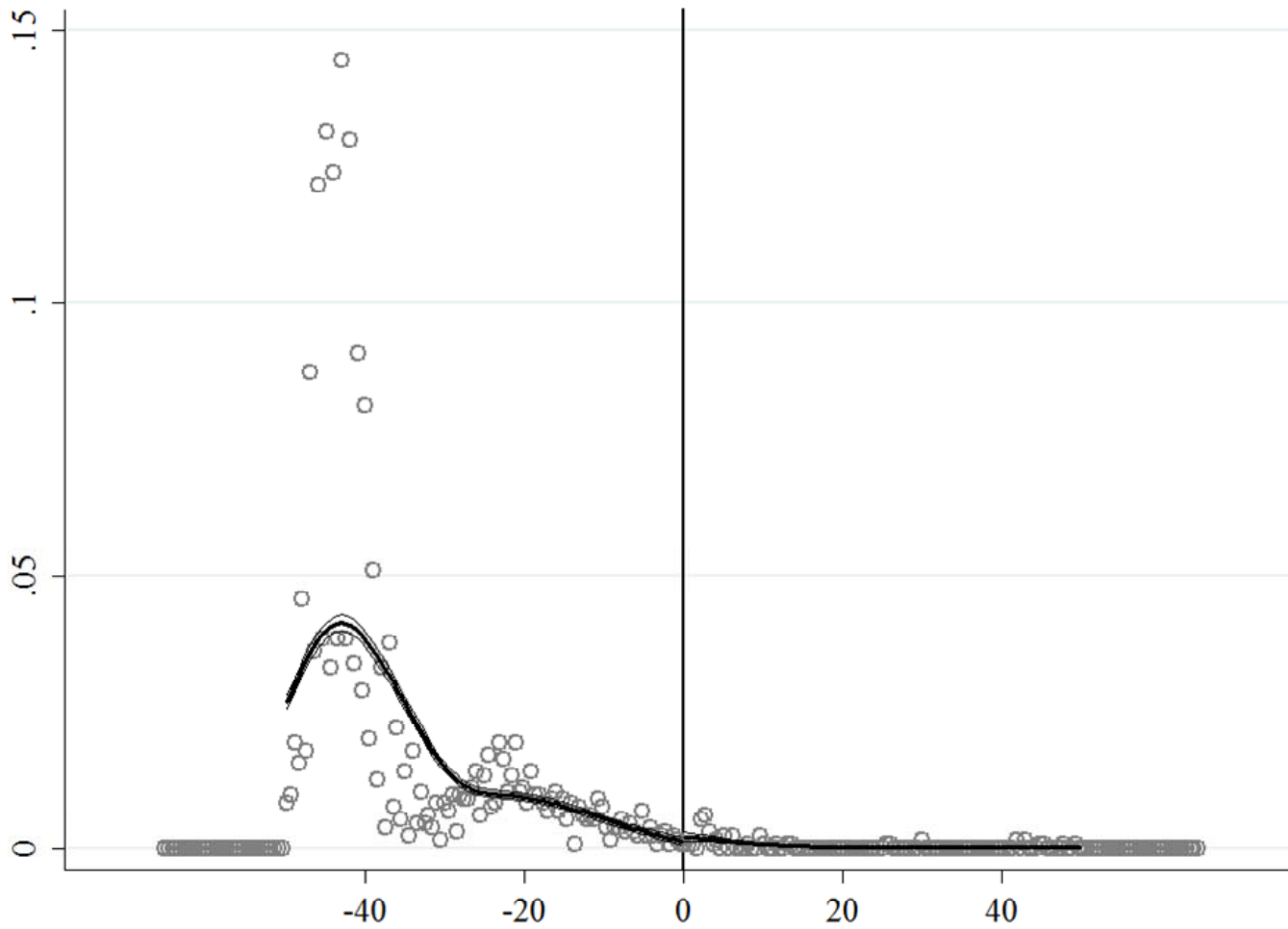
Figure 3. Abnormal Returns on the Day of the Vote

Notes. The vertical axis indicates abnormal returns on the day of the vote. Abnormal returns are computed using the four-factor model of Carhart (1997). The horizontal axis indicates the victory margin (i.e., the vote share minus the majority threshold). Each dot in the figure represents the average abnormal return in 2% bins of victory margin. The solid line plots predicted values of abnormal returns from third-order polynomials in victory margin estimated separately to the left and right of the majority threshold.
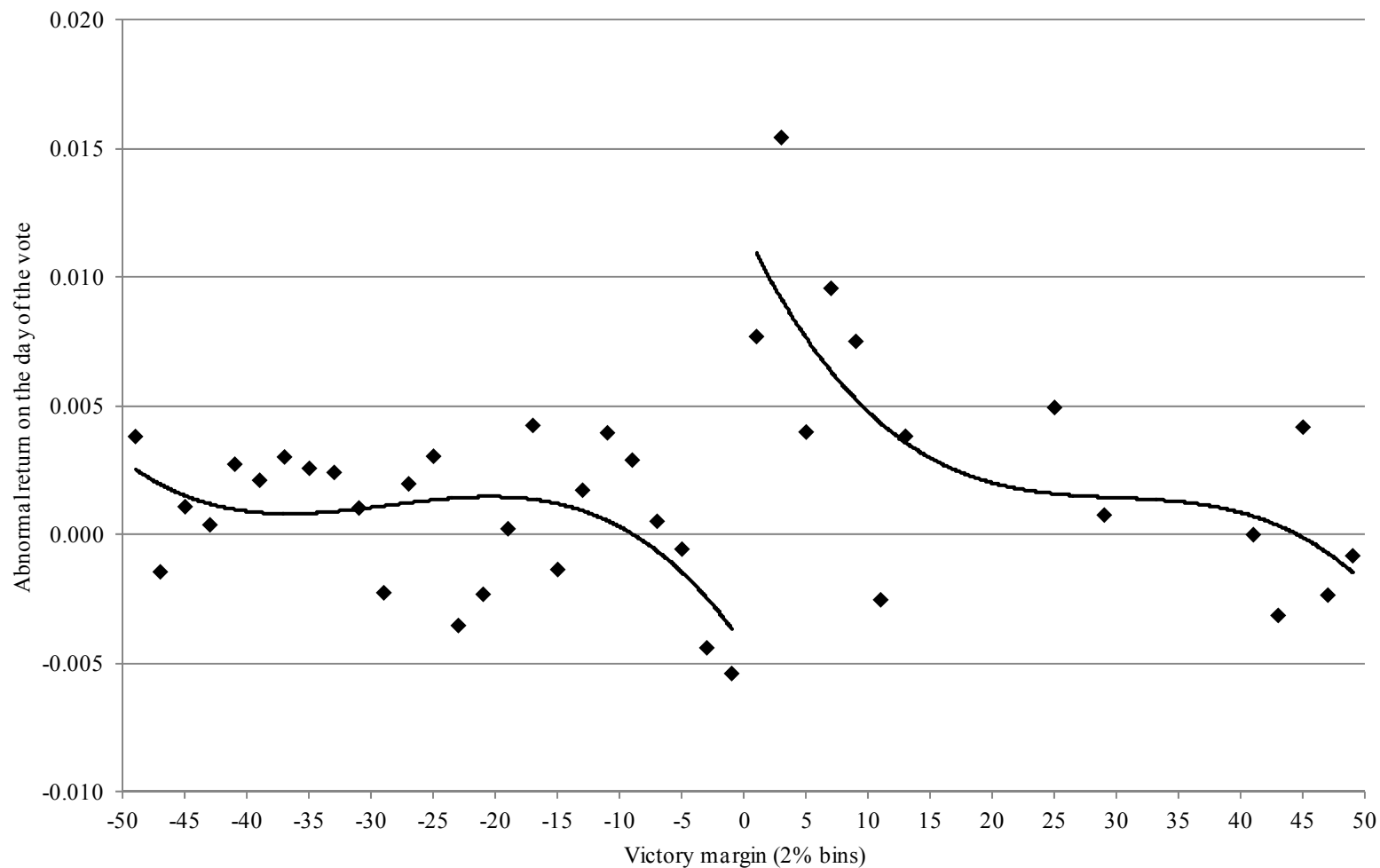
Table 1. Examples of CSR Proposals

Notes. This table presents two examples of CSR proposals. Panel A describes a proposal that was rejected by a small margin of votes. Panel B describes a proposal that was marginally approved.

Panel A: Example of CSR Proposal that was Closely Rejected

Company:	Lear Corporation
Meeting Date:	May 11, 2006
Proposal:	(...) [T]he shareholders request that the company commit itself to the implementation of a code of conduct based on the aforementioned ILO human rights standards and United Nations' Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights, by its international suppliers and in its own international production facilities, and commit to a program of outside, independent monitoring of compliance with these standards.
Voting Result:	Rejected (49.8% of the votes)
Source:	SharkRepellent

Panel B: Example of CSR Proposal that was Closely Approved

Company:	HCC Insurance Holdings, Inc.
Meeting Date:	May 10, 2007
Proposal:	The Shareholders request that management implement equal employment opportunity policies based on the aforementioned principles prohibiting discrimination based on sexual orientation and gender identity.
Voting Result:	Passed (52.2% of the votes)
Source:	SharkRepellent

Table 2. Shareholder CSR Proposals

Notes. This table displays the frequency of shareholder proposals, the frequency and percentage of approved proposals, the mean and standard deviation of the percentage of favorable votes, as well as the frequency of proposals whose vote share is within 5% and 10% of the majority threshold. The sample consists of all CSR proposals in the RiskMetrics and SharkRepellent databases from 1997 to 2012. In Panel A proposals are classified by year, in Panel B by type of CSR, and in Panel C by the proposal's sponsor.

Panel A: Summary Statistics by Year

Year	Shareholder Proposals	Approved Proposals	% Approved Proposals	Average Vote Outcome	Std. Dev. Vote Outcome	Vote Outcome [−5%, +5%]	Vote Outcome [−10%, +10%]
1997	111	0	0.00%	7.05%	3.72%	0	0
1998	119	0	0.00%	7.83%	5.39%	0	0
1999	126	1	0.79%	7.82%	7.61%	0	0
2000	144	0	0.00%	7.42%	4.75%	0	0
2001	159	1	0.63%	9.23%	7.60%	0	0
2002	162	2	1.23%	10.01%	8.77%	1	2
2003	142	1	0.70%	11.84%	11.13%	0	2
2004	187	4	2.14%	11.36%	13.10%	0	1
2005	195	2	1.03%	9.97%	9.14%	0	3
2006	206	5	2.43%	14.08%	12.98%	5	7
2007	215	7	3.26%	17.23%	15.73%	15	20
2008	212	6	2.83%	15.32%	14.58%	8	12
2009	196	8	4.08%	18.01%	14.88%	10	19
2010	197	4	2.03%	18.66%	14.77%	6	20
2011	179	7	3.91%	20.15%	16.33%	8	19
2012	179	3	1.68%	19.69%	14.26%	8	17
Total	2,729	51	1.87%	13.48%	12.97%	61	122

Panel B: Summary Statistics by Type of CSR Proposal

Proposal Type	Shareholder Proposals	Approved Proposals	% Approved Proposals	Average Vote Outcome	Std. Dev. Vote Outcome	Vote Outcome [−5%, +5%]	Vote Outcome [−10%, +10%]
Add Minorities/Women to Board	79	2	2.53%	18.29%	12.60%	2	4
Animal Rights	130	0	0.00%	4.99%	3.19%	0	0
Environmental Issues	504	5	0.99%	13.08%	11.58%	7	19
Health Issues	391	1	0.26%	7.54%	7.60%	0	1
Human Rights	227	1	0.44%	11.90%	11.12%	0	4
Labor Issues	455	24	5.27%	16.42%	14.69%	23	36
Other Social Issues Related	355	9	2.54%	9.29%	11.64%	7	9
Political Issues	444	6	1.35%	19.11%	13.84%	12	30
Sustainability Report	144	3	2.08%	22.29%	15.67%	10	19

Panel C: Summary Statistics by Sponsor

Proposal Sponsor	Shareholder Proposals	Approved Proposals	% Approved Proposals	Average Vote Outcome	Std. Dev. Vote Outcome	Vote Outcome [−5%, +5%]	Vote Outcome [−10%, +10%]
Individual	449	6	1.34%	8.88%	9.77%	5	7
Public Pension Fund	437	17	3.89%	21.28%	14.71%	27	49
Religious	834	5	0.60%	10.55%	10.31%	5	14
SRI Fund	506	17	3.36%	16.94%	15.16%	13	33
Union	201	4	1.99%	15.48%	12.15%	7	13
Other	302	2	0.66%	10.06%	10.58%	4	6

Table 3. Summary Statistics

Notes. The 2,729 CSR proposals considered in this study correspond to 1,845 firm-year observations. Abnormal returns on the day of the vote are computed using the four-factor model of Carhart (1997). All Compustat variables are computed in the fiscal year that ends prior to the date of the vote. Market value is the number of shares outstanding (Compustat item CSHO) multiplied by the stock price at the end of the fiscal year (PRCC_F). Total assets is the book value of total assets (AT). ROA (return on assets) is the ratio of operating income before depreciation (OIBDP) to the book value of total assets. ROE (return on equity) and NPM (net profit margin) are defined similarly except that the denominator is the book value of equity (CEQ) plus deferred taxes and investment tax credit (TXDITC), and sales (SALE), respectively. Tobin's Q is the ratio of the market value of total assets to the book value of total assets. The market value of total assets is the book value of total assets plus the market value of equity (CSHO times PRCC_F) minus the sum of the book value of equity (CEQ) plus deferred taxes and investment tax credit (TXDITC). Labor productivity is the ratio of sales (SALE) to the number of employees (EMP). Capital expenditures is the ratio of capital expenditures (CAPX) to total assets. Sales growth is the growth in sales (SALE) compared to the previous fiscal year. Leverage is the ratio of debt in current liabilities (DLC) and long-term debt (DLTT) to total assets. Cash is the ratio of cash and short-term investments (CHE) to total assets. The KLD-index is the number of CSR strengths (from the Kinder, Lydenberg, and Domini database). The G-index is the governance index of Gompers, Ishii, and Metrick (2003), obtained from RiskMetrics. The KLD- and G-index are measured in the calendar year prior to the vote. Institutional ownership is the percentage of shares owned by institutional investors in the quarter that ends prior to the date of the vote (from Thomson-Reuters institutional holdings database). Inside ownership is the percentage of shares owned by all executives of the firm in the fiscal year prior to the date of the vote (from Execucomp). All ratios are winsorized at the 5th and 95th percentiles of their empirical distribution. Note that the number of observations may change due to missing values.

	N	Mean	Median	Std. Dev.	10th Per.	90th Per.
Abnormal Return on Meeting Day	1,845	0.001	0.001	0.023	-0.019	0.024
Market value ($ million)	1,845	37,881	12,673	62,748	1,286	108,424
Total Assets ($ million)	1,838	77,365	16,539	238,890	1,441	138,354
ROA	1,810	0.137	0.137	0.083	0.037	0.251
ROE	1,561	0.362	0.333	0.270	0.161	0.721
NPM	1,810	0.194	0.173	0.140	0.065	0.377
Tobin's Q	1,588	1.890	1.493	1.102	0.985	3.500
KLD-index	1,687	4.06	3.00	3.82	0.00	9.00
G-index	1,666	9.23	9.00	2.62	6.00	13.00
Institutional Ownership (%)	1,750	63.27	68.40	26.99	8.38	91.34
Inside Ownership (%)	1,761	0.64	0.00	4.14	0.00	0.97
Labor Productivity	1,824	437	332	328	128	1,090
Capital Expenditures	1,788	0.051	0.042	0.042	0.005	0.106
Sales Growth	1,781	0.071	0.062	0.132	-0.102	0.255
Leverage	1,836	0.264	0.254	0.158	0.049	0.474
Cash	1,833	0.101	0.057	0.120	0.008	0.252

Table 4. Pre-Existing Differences as a Function of the Vote Outcome

Notes. This table tests whether the adoption of CSR proposals is systematically related to firm characteristics prior to the meeting. All characteristics are defined in Table 3. In columns (1) and (2), these characteristics are measured in the year preceding the shareholder meeting ($t - 1$). Columns (3) and (4) consider the change in these characteristics between years $t - 2$ and $t - 1$. The exception is the abnormal return in the first row of the table where t refers to days instead of years (e.g., $t - 1$ is the day prior to the meeting). Each row corresponds to a different characteristic and each entry comes from a separate regression. Columns (1) and (3) report the differences among all firms, whereas columns (2) and (4) report the differences at the majority threshold by controlling for a third-order polynomial in the vote share on both sides of the threshold. Standard errors (in parentheses) are clustered at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% level, respectively.

	Before Meeting ($t - 1$)		Change from ($t - 2$) to ($t - 1$)	
	(1)	(2)	(3)	(4)
Abnormal Return	-0.000	-0.002	0.001	0.003
	(0.006)	(0.006)	(0.008)	(0.009)
Market value ($ million)	-1.519***	-0.264	0.064	0.000
	(0.391)	(0.642)	(0.075)	(0.161)
Total Assets ($ million)	-1.579***	-0.375	0.003	0.009
	(0.346)	(0.588)	(0.031)	(0.061)
ROA	-0.045**	-0.004	0.001	-0.008
	(0.020)	(0.030)	(0.006)	(0.010)
ROE	-0.088**	0.037	0.039	0.038
	(0.038)	(0.063)	(0.045)	(0.071)
NPM	-0.046	-0.026	0.005	-0.024
	(0.043)	(0.099)	(0.004)	(0.036)
Tobin's Q	-0.027	0.005	0.026	0.009
	(0.064)	(0.084)	(0.022)	(0.031)
KLD-index	-2.709***	-0.059	0.092	0.291
	(0.543)	(0.879)	(0.280)	(0.437)
G-index	0.276	-1.057	-0.067	0.046
	(0.470)	(0.733)	(0.063)	(0.060)
Institutional Ownership (%)	8.388*	-0.817	-2.567**	-1.188
	(4.924)	(8.420)	(1.241)	(2.473)
Inside Ownership (%)	-0.355*	0.072	0.570	0.011
	(0.208)	(0.128)	(0.782)	(0.718)
Labor Productivity	-0.015	-0.006	-0.003	-0.017
	(0.179)	(0.316)	(0.032)	(0.052)
Capital Expenditures	-0.009	0.004	-0.007**	-0.007
	(0.008)	(0.013)	(0.003)	(0.008)
Sales Growth	0.005	-0.004	0.027	-0.018
	(0.028)	(0.051)	(0.033)	(0.059)
Leverage	-0.053	-0.093*	-0.001	0.020
	(0.033)	(0.053)	(0.016)	(0.028)
Cash	0.051**	-0.004	-0.007	0.000
	(0.025)	(0.039)	(0.006)	(0.010)
Polynomial in Vote Share	No	Yes	No	Yes

Table 5. Abnormal Returns around the Majority Threshold

Notes. This table presents regressions of the abnormal returns on the day of the vote on the "pass" dummy, i.e. a dummy variable that equals one if the proposal is adopted and zero otherwise. Abnormal returns are computed using the four-factor model of Carhart (1997). In column (1), the sample consists of all 2,729 CSR proposals. Column (2) restricts the sample to "non-close" CSR proposals (i.e., those proposals whose vote share is more than 10% above or below the majority threshold). Columns (3)–(6) restrict the sample to CSR proposals whose vote share is within 10%, 5%, 2.5%, and 1.5%, respectively, of the majority threshold. Column (7) estimates the specification given by equation (1) in the full sample (see Section 3.2). This specification controls for two polynomials of order three in the vote share on both sides of the majority threshold. Column (8) is a variant of the specification in column (7), except that the regression also includes control variables. The control variables include all variables listed in Table 3 measured prior to the vote, as well as year dummies. Standard errors (in parentheses) are clustered at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% level, respectively.

	All Votes	Non Close	[−10%, +10%]	[−5%, +5%]	[−2.5%, +2.5%]	[−1.5%, +1.5%]	Full Model	Full Model with Controls
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Pass	0.0064	-0.0008	0.0107**	0.0136**	0.0109***	0.0117	0.0118**	0.0107**
	(0.0040)	(0.0044)	(0.0046)	(0.0058)	(0.0038)	(0.0074)	(0.0053)	(0.0052)
R-squared	0.001	0.000	0.056	0.099	0.255	0.204	0.007	0.044
Observations	2,729	2,607	122	61	23	9	2,729	1,780

Table 6. Abnormal Returns of Passing CSR Proposals

Notes. The regression in column (1) estimates the effect of passing a CSR proposal on the four-factor abnormal returns on the day of the vote (*t*), the following day (*t* + 1), and over the period from *t* + 2 to *t* + 7 (the cumulative abnormal returns over this period). Columns (2)–(4) present variants of the regression in column (1). In column (2), abnormal returns are computed using the market model instead of the four-factor model. In column (3), the dependent variable is a dummy variable that equals one if the (four-factor) abnormal return is positive and zero otherwise. In column (4), the sample excludes all shareholder meetings in which a governance proposal received a vote share within 10% of the majority threshold. The regression specification used in all columns is the dynamic specification given by equation (2), in which multiple CSR proposals in a given meeting are "aggregated" (see Section 3.2). All regressions include firm-meeting fixed effects, distance-to-the-election fixed effects, as well as year fixed effects. Standard errors (in parentheses) are clustered at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% level, respectively.

| | | Robustness | | |
| | | Market Model | Positive Returns | No Confounding Governance Proposal |
	(1)	(2)	(3)	(4)
Day of vote, *t*	0.0092**	0.0093**	0.2685***	0.0101**
	(0.0036)	(0.0037)	(0.0871)	(0.0041)
Day of vote, *t* + 1	-0.0009	-0.0004	0.0973	0.0005
	(0.0023)	(0.0025)	(0.0635)	(0.0027)
Days *t* + 2 to *t* + 7	-0.0043	-0.0019	0.0540	-0.0050
	(0.0092)	(0.0099)	(0.0741)	(0.0102)
R-squared	0.043	0.042	0.016	0.009
Observations	9,225	9,225	9,225	7,615
Number of Firm-Meetings	1,845	1,845	1,845	1,523

Table 7. Cross-Sectional Heterogeneity

Notes. This table presents variants of the regression in column (1) of Table 6. In column (1) (column (2)), the sample is restricted to companies whose KLD-index in the year preceding the vote lies below (above) the median across all firms in the same 2-digit SIC industry. In column (3) (column (4)), the sample is restricted to companies that operate in a 2-digit SIC industry in which institutional pressure to engage in CSR―defined as the fraction of shareholder CSR proposals to the total number of shareholder proposals―in the year preceding the vote lies below (above) the median across all industries. The regression specification used in all columns is the dynamic specification given by equation (2). All regressions include firm-meeting fixed effects, distance-to-the-election fixed effects, as well as year fixed effects. Standard errors (in parentheses) are clustered at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% level, respectively.

	Low KLD-index	High KLD-index	Low Institutional Pressure	High Institutional Pressure
	(1)	(2)	(3)	(4)
Day of vote, t	0.0102**	0.0054*	0.0055	0.0148*
	(0.0047)	(0.0031)	(0.0033)	(0.0078)
Day of vote, $t+1$	0.0011	-0.0039	-0.0024	0.0013
	(0.0031)	(0.0029)	(0.0029)	(0.0044)
Days $t+2$ to $t+7$	-0.0061	-0.0004	-0.0008	-0.0055
	(0.012)	(0.0092)	(0.0066)	(0.0144)
R-squared	0.021	0.088	0.063	0.037
Observations	4,215	4,220	4,605	4,620
Number of Firm-Meetings	843	844	921	924

Table 8. Long-Run Effects of CSR Proposals

Notes. The regressions presented in this table estimate the effect of passing a CSR proposal on several firm outcomes in the year of the vote (t), the following year ($t + 1$), and the subsequent three years (average of the outcome variable from $t + 2$ to $t + 4$). The dependent variables in columns (1)–(8) are the KLD-index, return on assets (ROA), net profit margin (NPM), return on equity (ROE), Tobin's Q, sales growth, labor productivity (in logarithm), and investment (capital expenditures), respectively. All these variables are defined in Table 3. The regression specification used in all columns is the dynamic specification given by equation (2). All regressions include firm-meeting fixed effects, distance-to-the-election fixed effects, as well as year fixed effects. Standard errors (in parentheses) are clustered at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% level, respectively.

	Implementation	Performance				Mechanism		
	KLD-index	ROA	NPM	ROE	Tobin's Q	Sales Growth	Labor Prod.	Investment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Year of the meeting, t	0.521**	0.0018	0.0017	0.0052	0.0195**	0.0089	0.0141	-0.0002
	(0.213)	(0.0019)	(0.0026)	(0.0069)	(0.0079)	(0.0083)	(0.0176)	(0.0025)
One year later, $t + 1$	0.541**	0.0043*	0.0046*	0.0091	0.0215**	0.0155*	0.0437***	0.0008
	(0.220)	(0.0023)	(0.0026)	(0.0077)	(0.0085)	(0.0089)	(0.0156)	(0.0026)
Years $t + 2$ to $t + 4$	0.429**	0.0050**	0.0052*	0.0115	0.0158**	0.0132*	0.0373*	0.0001
	(0.207)	(0.0024)	(0.0030)	(0.0082)	(0.0078)	(0.0080)	(0.0194)	(0.0024)
R-squared	0.413	0.845	0.915	0.559	0.859	0.360	0.948	0.849
Observations	7,653	8,291	8,291	7,322	7,283	8,388	8,364	8,266
Number of Firm-Meetings	1,689	1,815	1,815	1,651	1,675	1,803	1,837	1,819

Appendix Table A. Types of CSR Proposals

Notes. This table provides a description of the nine CSR categories from the SharkRepellent database (source: SharkRepellent).

Proposal Type	Proposal Description
Panel A: Environmental Issues	
Environmental Issues	Shareholder sponsored proposals to request that the board issue a report detailing the company's impact on the environment, or to request that the board adopt policies to minimize the company's negative impact on the environment. If a proposal combines health and environmental issues, SharkRepellent will generally classify it in the "Health Issues" category. If a proposal focuses on preparing a sustainability report regarding environmental practices, SharkRepellent will generally classify it in the "Sustainability Reports" category.
Sustainability Report	Shareholder sponsored proposals to request that the board issue a report describing the company's strategies to ensure sustainability, usually focusing on actions to address greenhouse gas emissions and other environmental and social considerations.
Panel B: Social Issues	
Add Minorities/Women to Board	Shareholder sponsored proposals to request that the board take steps to ensure that women and minority candidates are in the pool from which board nominees are chosen.
Animal Rights	Shareholder sponsored proposals to encourage the company to consider animal interests throughout its production and business processes, or to request that the board adopt an animal welfare policy. People for the Ethical Treatment of Animals (PETA) has submitted the majority of these proposals.
Health Issues	Shareholder sponsored proposals to request that the board institute policies to protect human health or that the board issue a report regarding the company's stance on certain health-related issues.
Human Rights	Shareholder sponsored proposals to request that the board institute policies to protect and/or promote human rights. Such actions could include respecting human rights throughout the company's production process or refusing to do business with countries or businesses that contribute to human rights abuses.
Labor Issues	Shareholder sponsored proposal to request that the board institute certain labor-related policies. Such labor policies may include prohibiting discrimination based on sexual orientation and gender identity or abiding by certain fairness principles.
Other Social Issues Related	Shareholder sponsored proposal to request that the board provide a report regarding certain social issues. Common topics may include the examination of the company's effect on national security, the safety of the company's operations from terrorists attacks, and the company's lending practices.
Political Issues	Shareholder sponsored proposals to request that the board provide a report detailing the company's policies regarding political contributions.

Appendix Table B. Sample Selection

Notes. This table compares the sample used in this study ("CSR proposal sample") with the Compustat universe. Means and medians for the CSR proposal sample are restated from Table 3. Means and medians for the Compustat sample are computed across all available firm-year observations during the sample period (1997-2012). The last column provides the *p*-value of the difference-in-means test. All variables are defined in Table 3.

	CSR Proposal Sample		Compustat		Difference-in-means
	Mean	Median	Mean	Median	*p*-value
Market value ($ million)	37,881	12,673	3,266	251	0.000
Total Assets ($ million)	77,365	16,539	8,868	385	0.000
ROA	0.137	0.137	0.049	0.080	0.000
ROE	0.362	0.333	0.144	0.199	0.000
NPM	0.194	0.173	0.045	0.123	0.000
Tobin's Q	1.890	1.493	1.905	1.401	0.904
KLD-index	4.06	3.00	1.26	0.00	0.000
G-index	9.23	9.00	8.99	9.00	0.159
Institutional Ownership (%)	63.27	68.40	36.49	25.89	0.000
Inside Ownership (%)	0.64	0.00	1.39	0.00	0.000
Labor Productivity	437	332	323	217	0.000
Sales Growth	0.071	0.062	0.133	0.077	0.000
Advertising Expenses	0.032	0.021	0.022	0.007	0.000
Leverage	0.264	0.254	0.214	0.168	0.000
Cash	0.101	0.057	0.181	0.088	0.000