Active Ownership*

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JEL classification: G15, G23, G34.

Keywords: Shareholder engagement; corporate social responsibility (CSR); environmental, social, and governance (ESG); socially responsible investing (SRI); universal ownership; shareholder activism.

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Socially responsible investing (SRI), which seeks to accomplish both financial and social benefits, has in recent years attracted increasing attention. The United Nations' Principles for Responsible Investment lists 1,123 signatories with over $30 trillion in assets under management.[1] The European Sustainable Investment Forum estimates that the global SRI market reached approximately €7 trillion as of September 2010 (Eurosif, 2010). The US Forum for Sustainable and Responsible Investment estimates that SRI investing had by 2010 exceeded $3 trillion out of $25 trillion in the US investment marketplace (US SIF, 2010). These groups expect that by 2020 SRI will become the norm for major occupational pension funds, insurance companies and other global investors. In line with this trend, many large institutional investors have been actively engaging with public firms on corporate social responsibility (CSR) issues. These institutional investors are often *universal owners* because of their diversified and ultra-long-term portfolios with large ownerships. Their portfolios are exposed to risks from CSR externalities and hence it is in their interest to minimize (maximize) the potential costs (benefits) of those externalities by influencing the investee firms' businesses.[2]

Active engagement by universal owners on CSR issues (hereafter "CSR activism" or "active ownership") differs in motivation and execution from traditional shareholder activism (e.g., by pension funds or mutual funds) and hedge fund activism.[3] 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 (e.g., employees, customers, creditors). Universal owners have multiple roles (e.g., as shareholders or creditors) and responsibilities (e.g., to their customers or 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 (see, e.g., Zingales, 2000; Jensen, 2001; Acharya et al, 2011; Allen et al, 2011).

[1] See www.unpri.org. Site accessed 29 September 2012.

[2] See PRI (2011) for a detailed discussion on universal ownership and externalities.

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

Despite the growing prevalence of active ownership, data limitations have felt 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? An even more basic but fundamental question that researchers have been pondering for decades but cannot yet answer is: How do CSR activities impact firm performance? In this paper, drawing on a proprietary dataset of environmental, social and governance (ESG) 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, 2011). 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 engages with over 3,000 target companies around the world via letters, emails, telephone conversations, and direct dialogue with senior management. It also enforces its CSR strategies by exercising voting rights at the annual and extraordinary shareholders' meetings on behalf of its internal and external clients or by screening out irresponsible companies from its investment portfolios. In recent years, engagements have been compiled as a detailed electronic file. Although the complete worldwide dataset has been made available to us, for the purposes of this study we focus on engagements with US public companies.

We examine highly intensive engagements on environmental, social, and governance areas.[4] Our primary sample consists of 2,152 engagement events 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 the matched group. Conditional on being engaged, firms with

[4] See Appendix B for a detailed description of different themes and issues within each engagement area.

higher reputational concerns, economies of scale, and scope for improvement are more likely to implement the suggested changes on CSR issues (successful engagements). The success rate for engagements in our sample is 18% and on average it takes 2-3 engagements before success. The average (median) horizon from the initial engagement to success is a year-and-a-half (one year).

We then analyze the valuation effect of these engagements. As summarized by Benabou and Tirole (2010), the theoretical literature offers different views on CSR with conflicting predictions for its impact on firm value. One view is that CSR practices allow management to take a long-term perspective and maximize intertemporal profits. This is consistent with the interests of universal owners as well. Another view suggests that socially responsible firms may act as an efficient channel to express citizens' values on behalf of their stakeholders, i.e. delegated philanthropy. The above two views both suggest that CSR activities have positive impact on firm value. On the other hand, a third view suggests that CSR is not motivated by stakeholders' demands, but rather a reflection of an insider-initiated corporate philanthropy or managerial agency problem. This view suggests that CSR activities would most likely be value destroying. Beside suggesting differential impacts of CSR activities on firm value, these three views also provide different predictions on the linkage between CSR activities and corporate governance, which allows us to further disentangle them by examining the association between CSR engagements and corporate governance of the engaged firms.[5]

Consistent with the first two views discussed above, we find that CSR engagements generate a positive average abnormal return of 1.8% over a 12-month period after the initial engagement. Abnormal returns are much higher for successful engagements (4.4%) and gradually flatten out after one 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 on buy-and-hold returns. We document an annualized-market-adjusted holding-period return of 6.8% for successful engagements and zero for unsuccessful ones.

[5] The first view predicts improvements in corporate governance following CSR activities and the third view predicts that poor corporate governance leads to CSR activities. The second view does not suggest any linkage between CSR and corporate governance since the management caters to the demand of stakeholders and maximizes firm's profit. Our results do not support the third view since we do not find evidence that poor governance is a determinant of the success of shareholder engagements.

Next, we examine the cross-section of abnormal returns and find that positive market reaction to successful CSR engagements is most pronounced on the corporate governance and climate change themes. For these themes, the cumulative abnormal return of an additional successful engagement over a 12-month period after the initial engagement averages 7.1% and 10.6% respectively.

Finally, we investigate the sources of the positive market reaction to engagements. The literature suggests four channels through which CSR activities could have positive impact on firm value. First, CSR activities may boost firms' sales by attracting more socially conscious consumers or increasing customer loyalty (Besley and Ghatak, 2007). CSR activities may also improve firms' profit margin by increasing product differentiation and allowing them to charge a premium price. Second, CSR activities could improve firms' productivity by inducing employees to work harder or better, and could reduce hiring costs by intensifying employee loyalty. For example, Edmans (2011) documents that firms with high employee satisfaction outperform the market. Third, there could also be clientele effects among firms' stakeholders, who may demand that firms engage in philanthropy on their behalf. For example, Hong and Kacperczyk (2009) document that sin stocks are less held by norm-constrained institutions such as pension funds, and Di Giuli and Kostovetsky (2012) find that the political leanings of the management may also affect the firm's CSR behavior. Fourth, successful investor interventions may signal future governance improvements that enhance the shareholder value of the engaged firms (Gompers et al, 2003; Brav et al, 2008; Klein and Zur, 2009). In addition, having (costly) restrictions on certain dimensions (e.g., not using child labor) might induce engaged firms to look for improvements and savings 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 measures after successful engagements. Consistent with the above-mentioned mechanisms, we find, first, that the return on assets, profit margin, asset turnover, and sale-over-employee 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 a decrease in stock return volatility one year after successful engagements. This is consistent with the argument that CSR generates a clientele effect among shareholders. Third, we find improvements in corporate governance measures two years after successful engagements, especially on corporate governance issues.

Taken together our findings suggest that CSR activism improves social welfare, as it increases stakeholder value from various aspects when the engagements are successful and it does not destroy firm value even when engagements are unsuccessful. Engaging with firms that have inferior governance and subsequently improving their governance and performance after successful engagements are consistent with the view that CSR activism attenuates managerial myopia and hence helps minimize intertemporal losses of profit and negative externalities on stakeholders (the first view in Benabou and Tirole, 2010).

This paper contributes to two strands of literature. First, it contributes to the literature on shareholder activism by providing evidence on a new form of activism, i.e. CSR activism, which differs fundamentally from the traditional shareholder activism and hedge fund activism in terms of stated objectives, tactics and outcomes. Traditional shareholder activism is reported to achieve negligible (if any) benefits for shareholders whereas hedge funds are documented to generate considerable abnormal stock returns (7-10%) through their activism. This suggests that CSR activism, with the 2-3% average abnormal stock returns it generates, lies between the traditional shareholder activism and hedge fund activism in terms of the impact of engagements on stock market. There are two potential explanations. First, the stated objectives of CSR activism may not be as profitable as those that active hedge funds focus on, such as changes in business strategy or sale of the firm. Second, the engagement tactics used by the active owner are less (more) aggressive and less (more) confrontational compared with those of hedge fund activism (traditional shareholder activism). An important observation from our cross-sectional results is that successful engagements on corporate governance issues generate a substantial return. Hedge fund activists also engage on governance issues; however, those engagements fail to generate a positive reaction from the stock market (Brav et

al, 2008).[6] This suggests that the engagement tactics of universal owners are more effective in achieving improvements in target firms' corporate governance, as compared to hedge funds.[7]

Second, this paper contributes to the CSR/SRI literature. Extensive effort has been made to study the relation between responsible investing and firm performance. Margolis et al (2007) survey all the studies published in the management field on this topic between 1972 and 2007, and observe that majority of the studies report an insignificant relation between CSR and firm performance, 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. Moreover many studies are subject to methodological criticisms, such as endogeneity. In contrast to most previous studies, instead of relying on static and delimited measures for CSR performance (such as the widely used scores provided by KLD, a research agency that rates CSR activities of firms) the dynamic and incremental nature of our dataset enables us to conduct event-study analyses and to associate subsequent changes in firm performance to the changes of CSR activities. This offers an improved prospect of discerning causal relationships, rather than simply noting measures of association. In addition, instead of using "the convenient yet difficult to validate measures such as the *Fortune* ratings of admired companies and company insiders' self-reported impressions" (ibid., 2007), our data is objective and quantifiable.

The paper proceeds as follows. Section 1 describes the data. Section 2 examines the characteristics of the target firms. Section 3 examines the determinants of successful engagements. Section 4 looks at stock market reactions. In Section 5, we examine post-engagement changes in performance. In Section 6, we evaluate alternative explanations for our findings. Section 7 concludes.

[6] Activist hedge funds engage on corporate governance issues including executive remuneration, board structure, information disclosure, and takeover defense (see, e.g., Brav et al (2008) Table I). Besides these issues, the active owner in our sample also engages on other governance issues with a stakeholder-oriented focus, including producing CSR or sustainability reports, improving CSR disclosure and voluntarily expensing stock options, and adopting "say on pay".

[7] Recent empirical evidence suggests that shareholders start having more impact on the governance practices of firms after the Enron scandal and the passage of Sarbanes-Oxley Act of 2002. For instance, Ferri and Sandino (2009) and Ertimur et al (2011) study shareholder activism in the form of shareholder proposals related to employee stock options expensing and executive pay, respectively, and find an increasing shareholder influence on target firms' governance practices in these two areas in the post-Enron period. However, they do not analyze the impact of these activisms on firm value. Our findings that firm value increases after successful engagements on corporate governance issues complement their findings, especially since a substantial proportion of corporate governance engagements in our sample are related to issues on executive pay and employee stock options expensing.

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. Data Description

The data used in this paper includes detailed information about the different engagement actions taken by the asset manager. 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 poor 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 year 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 example 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 indicates 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. Instead, they might be communicated 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, CSR engagements in our sample might be 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 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.

The above examples also indicate that milestone dates might coincide with shareholder meeting dates when suggested changes get passed in these meetings. We obtain information on shareholder meeting dates from 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 target companies' shareholder meetings dates.

We take comfort that the recording process of engagements and milestones is based on objective criteria, and is unlikely to be a result of our data provider inserting backdated entries after observing the target firms' stock price movements.

1.2. Summary of CSR Engagements

Table 1 Panel A reports the number of engagement sequences by different engagement areas and themes. Based on the stated objectives, these engagements are divided into nine categories belonging to three major areas: governance, environmental, and social. A detailed description of different issues within each theme is listed in Appendix B. In a given day the CSR activist may contact target companies with several CSR issues.

An engagement sequence is defined as a series of engagements (including either *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. Columns (1) and (2) 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 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 issues are also most likely to be successful, with the success rate of 24.2%, 17.6%, and 16.9%, respectively. Issues on public health, sustainability management & reporting, and human rights 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 activist pension funds and hedge funds (56% in Smith, 1996; 40.6% in Brav et al, 2008; and 60% in Klein and Zur, 2009), potentially due to two reasons. First, it might be particularly difficult to convince management or other shareholders to accept projects that are costly but potentially beneficial to other stakeholders (employees, suppliers, local community, consumers, etc.). Second, compared with activist hedges funds, these engagement strategies are less aggressive and thereby their influence on the target firm might be limited. To illustrate, the technology firm, described at Appendix A and summarized in Section 1, was the recipient of environmental advocacy from the asset manager who, we conjecture, would have had less influence than an activist shareholder.

Columns (6) and (10) report the average number of *Raising Awareness* and *Request for Change* for successful and unsuccessful engagement sequences, respectively. Issues on human rights

and business ethics have the largest number of engagements per sequence, despite their low success rates, suggesting that it might be particularly difficult to persuade target companies to resolve issues in these areas. Column (7) reports the average (median) number of days between the initial engagement date and the milestone date for successful engagement sequences under each theme. Proposed changes on business ethics and public health seem to take longer for the target firm to adopt. For the whole sample, the average (median) horizon is 503 (349) days. This horizon 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 B reports the number of engagement sequences by calendar year of the initial engagement date. Initial engagement is the first engagement in a sequence. There are relatively few observations in our early sample 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. 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.

Table 1 Panel C reports the number of engagement sequences by industry classifications (1-digit SIC) of the target companies. Our target companies cover 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, size, and the market-to-book (MTB) 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 MTB sorted portfolios. If the above rule does not yield any match, we relax the industry to 2-digit SIC and the size/MTB to 5×5 sorted portfolios. 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 rule, 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.

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 C. 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 targets large and mature firms, indicated by higher SIZE and AGE and lower MTB, Tobin's q (Q), and sales growth (GROWTH) compared with the matched group. Due to their large size, our target firms also have lower block holder ownership (BLK_HOLD), higher liquidity (lower ILLIQ),

and higher analyst coverage (ANALYST). The asset manager's average shareholding of the target firms is only 0.1% (INST_HOLD_AM), although it is significantly higher than that of the control sample.

Performance. In contrast to hedge funds targeting more profitable firms (Brav et al, 2008; Klein and Zur, 2009), our data supplier seems to target less profitable ones. RET is the buy-and-hold stock return from the previous year and it is significantly lower for target firms compared with that of control firms. In addition, targets are less efficient firms, indicated by lower asset turnover ratio (TURNOVER) and lower sales over employee ratio (SALE_EMPL).

Discretionary spending. Whereas hedge funds target firms paying less dividends, our sample emphasizes those paying more, indicated by higher dividend yield (DIV_YIELD) and higher payout ratio (DIV_PAYOUT). In addition, target companies in our sample seem to spend less on research and development expenses (R&D) and capital investments (CAPEX).

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

Corporate governance. Target firms in our sample tend to have weaker corporate governance mechanisms (G_INDEX, E_INDEX)[8], consistent with the evidence in Table 1 that corporate governance is the area that most frequently triggers 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. The results 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 intensity, 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

[8] See Gompers et al (2003) and Bebchuk et al (2009) for the construction of the governance (G_INDEX) and entrenchment (E_INDEX) indexes, respectively.

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. The above findings combined together suggest a unique feature of the asset manager's targeting strategy: 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. However, note that voting power is exploited as a mechanism to publicize a position (e.g., in support of or in opposition to) for the firm's decisions.

In addition, the finding that engaged firms have low investment spending and weak corporate governance suggests that firms with potential for improvement are likely to be targeted.[9] Finally, as ownership is directly related to voting power, we find that targets are firms the manager is likely to have a larger shareholding.

(~Insert Table 3 about here~)

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 results reported

[9] The finding that engagement is with the firms that have weaker governance is supported by both the governance index (G_INDEX) and the entrenchment index (E_INDEX) in the multivariate analysis. In contrast, E_INDEX has the opposite sign in the univariate analysis where other firm characteristics are not controlled. Similarly, institutional ownership has opposite signs in univariate and multivariate analysis. In robustness analysis (unreported), we use board characteristics such as board size and independence as alternative measures for corporate governance and find similar results.

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 benefits 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, again consistent with the relatively non-confrontational engagement strategy that underpin these interactions. Corporate governance indices lose their significance, too, indicating that managerial entrenchment is not a determining factor for success.

In addition, we also find that engagements in target firms with lower R&D and capital expenditures, and more cash holdings, are more likely to succeed, probably due to fewer financial constraints. This is in line with Hong, Kubik, and Scheinkman (2012) who show that corporate social responsibility is costly and hence it is applied more in less financially constrained firms. Overall, the results suggest that target firms which benefit most from CSR activities and which have the necessary means do so are most likely to adopt the changes that have been proposed to them.

(~Insert Table 4 about here~)

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 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, it might take time for the market price to reflect private information. Second, as shown in examples in Section 1, some of the

engagements are triggered by public events and the recorded engagement dates might be a few days lagged from these events (or the stock reaction might have already started due to the public event). In these cases, we would expect market reactions to start earlier than the recorded engagement dates. Third, there might be a leakage of information in both private and public engagements, so measuring performance prior to and after the event month offers advantages compared to examining performance prior to or after the event day. Monthly stock return data are obtained from CRSP monthly files. Since the target firms are large in size, we compute abnormal returns as 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 average cumulative abnormal returns of target companies around the initial engagement dates. The blue line without a marker (whole sample) indicates an upward trend, suggesting that CSR engagements increase shareholders' value on average.

We further split the sample into successful and unsuccessful engagements. To remove duplications, for each sample, we keep only one engagement per firm and calendar month (our conclusions are not impacted by this empirical choice). The figure 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 4.3% at Months 12 and 16, when the median and average target firm in our sample achieves its milestone, respectively. Evidently, the stock market is able to partially differentiate the successful engagements from those unsuccessful initially and fully distinguishes these two types after a year. We find that the predicted probability of success from the probit model in Table 4 is positively associated with the cumulative abnormal returns in the future (untabulated).

Another observation from the figure is that the red line with round markers (successful sample) increases sharply from month 0 to month 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 suggests that the market

rewards engagements in an efficient way, insofar as significant improvements are usually made before milestones are recognized and recorded. The green line with asterisk markers (unsuccessful sample) 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 definition described in Section 1.1 and observe similar patterns for both samples.

(~Insert Figure 1 about here~)

4.2. Cross-Sectional Variation of Abnormal Returns

Table 5 reports the cross-sectional analysis of the cumulative abnormal returns. The same firm may be engaged multiple times in a month for the same or different issues. To disentangle market reactions to different CSR engagements, we therefore 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 control for lagged size (LAG_SIZE), lagged market-to-book ratio (LAG_MTB), past stock return (LAG_RET), and leverage (LEV) in the regressions. To facilitate the 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 market reacts differently to different types of engagements. The only variable with a significant coefficient is SUC_HUR with the 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 indicate 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 suggests that investors expect changes on environmental issues also to increase the value of target firms. 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 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 (HTH) over Window (0, +6), but this is based on just two observations of this type of engagement (Table 1, Panel A). The reaction to successful engagements on the ecosystem services theme (ECO) over Window (0, +6) is 7.4% and it is marginally insignificant. The median horizon for success is 123 days for this type of engagement (Table 1, Panel A), and this could be a reason for not observing significantly positive reactions on longer horizons. More generally, the varying number of days between initial engagements and the milestones for different engagement themes (Table 1, Panel A) is likely to bias against finding significant differences among the different engagement themes.

We do not document much significant abnormal return to unsuccessful engagements. The only exception is on the theme of corporate governance (UNSUC_CGR), with a positive coefficient of 2.1% significant at 10% level for Window (0, +12). This positive reaction could be due to the fact that although identified as unsuccessful, these engagements could still be potentially successful in the future.

(~Insert Table 5 about here~)

4.3. Buy-and-Hold Returns

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 in 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 (16 months) of successful engagements.

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 sample, and the unsuccessful engagement sample. The results suggest that 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 magnitude is much smaller compared with that documented in hedge fund activism studies (e.g., 14.3% in Brav et al (2008) Table VI). We also conduct a *t*-test by comparing the mean of the successful sample with the unsuccessful sample. Results suggest that the deal period return, the annualized raw return, and the annualized market adjustment return of the successful sample are all significantly larger than those of the unsuccessful sample.

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~)

To sum up, results presented in these sections suggest that CSR engagements increase shareholders' value on average.[10] The fact that we document different abnormal returns between successful and unsuccessful engagement samples mitigates the concern that the better stock performance is solely attributable to extraordinary stock-picking skills by the asset manager.

[10] This is in line with Aktas, de Bodt and Cousin (2011) who find positive market reaction for acquirers investing in target firms with good social and environmental risk management practices.

5. Post-Engagement Changes in Performance

Lastly, we examine the mechanism through which CSR engagements improve shareholder value. The existing literature suggests three potential sources. First, CSR activities may improve a firm's operating performance and efficiency by attracting more socially-conscious consumers and increasing consumer and employee loyalty (Baron, 2008; Portney, 2008; Benabou and Tirole, 2010; Besley and Ghatak, 2007). Second, CSR activities may improve a firm's stock performance by attracting socially-conscious shareholders (Baron, 2008; Benabou and Tirole, 2010). Third, CSR engagements, as a form of active investor intervention, may signal future governance improvements that enhance the shareholder value of the target 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 and corporate governance changes of successful engagements with that of unsuccessful ones. The calendar year of the initial engagement date is defined here as Year 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-level controls. At the firm level, we control for firm size, market-to-book ratio, and leverage ratio. We use the industry median of the dependent variable as the industry control. In addition, we also include firm fixed effects to control for unmeasured heterogeneity between firms and include year fixed effects to control for time trend. As a firm may 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 essentially the same.

(~Insert Table 7 about here~)

We examine a range of performance measures, including return on assets (ROA), profit margin (MARGIN), asset turnover (TURNOVER), and sales over employee (SALE_EMPL). The regression results on these measures 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 suggest that compared to firms with unsuccessful engagements, firms with successful engagements experience improved operating performance and efficiency one year after the initial engagements. These results support the first 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 SUCCESS dummy in Columns (1) and (4) indicate that the successful engagement sample has lower ROA and sales over employee before the engagement compared with the unsuccessful engagement sample. This result is consistent with the finding in Table 4 that target firms with lower ROA and sales over employee are more likely to be successful.

Next, we also examine the changes in shareholdings by the CSR activist and by other institutions, and the changes in return volatility (RET_VOL, which is defined as RET_STD but for the current year). The results are reported in Columns (5) and (7) of Table 7, Panel A. We observe an increase in the activist's shareholding in target firms and a decrease in target firms' return volatility with successful engagements, which supports the second explanation that CSR activities attract socially conscious shareholders. We also observe an increase in shareholding from other institutions for all target firms, but it seems that other institutions do not differentiate whether the engagement is successful or not.

Lastly, we examine the changes in corporate governance indices of target firms after engagements. The results support the third explanation that intervention leads to improved governance (Table 7, Panel B). This is a strong result given that governance indices change only every three years – in particular, note that we observe a significant result on governance indices only

using window +2. This, together with the findings from targeting and success analyses in Tables 3 and 4, contrasts with Cheng et al (2012) who argue that CSR is due to managerial agency problems.

In Section 4.2, we find that positive market reactions mainly come from engagements on corporate governance and climate change themes. To examine cross-sectional variation of subsequent performance change in different engagement themes, we adopt a similar approach to that used in Section 4.2 by regressing the number of successful and unsuccessful engagements under different themes on the changes in performance. We find that the successful engagements on climate change are positively associated with changes in ROA and profit margin.

6. Alternative Explanations

A key question is whether one can infer causality between activist engagements and subsequent target firm performance. This question permeates the entire literature in shareholder activism, and our study is no exception. There is an alternative explanation: namely, that the observed performance improvement is merely a reflection of management filtering: that is, the management of target firms accepts changes proposed by active shareholders only if these changes are expected to increase firm value. In other words, the abandoned (unsuccessful) proposals might be potentially harmful. As we cannot directly measure management's project-picking skills, we argue that it is likely to be positively correlated with a company's corporate governance. In other words, better-governed companies are more likely to adopt CSR proposals that will increase firm value and abandon the ones that are potentially harmful. If this alternative explanation holds, we should observe abnormal return positively associated with governance on average. To test this argument, we include E_INDEX and G_INDEX in the regressions presented in Table 5 but do not document any significant coefficients on these two variables (untabulated). This finding suggests that the observed performance improvement is unlikely to be attributable solely to management filtering.

In Section 5, we document a positive cumulative abnormal return for successful engagements and zero return for unsuccessful ones and conclude that (expected) CSR changes in target firms

increase their shareholder value. One alternative explanation for this result is that managers of target firms wait and adopt the requested changes only if their stock prices increase. In other words, it is positive stock market performance which causes CSR changes in the target firms, rather than the other way around. To exclude this alternative explanation, in untabulated analysis, we include the annualized market adjusted buy-and-hold returns defined in Section 5.4 as an additional independent variable in the prediction model as described in Table 4. This alternative explanation suggests that the buy-and-hold return should have a positive and significant coefficient, as success depends on the target firm's stock performance during the engagement period. We use several different holding windows, such as from the month of the initial engagement to the month the milestone is achieved, Window (0, 0), Window (0, -1), Window (0, -2), Window (+1, -1), etc., but none of them has a coefficient significantly different from zero. The above results suggest that the target firm's stock performance during the engagement period is unlikely to be a determinant factor of success. In other words, it is unlikely that management decisions on whether or not to adopt CSR changes depends on the stock market performance.

Along a similar line, one may argue that the recording of milestones is endogenous and self-fulfilling. In other words, the CSR activist may only record milestone after they observe a positive market reaction. However, the finding that one third of our milestone dates coincide with shareholder meeting dates alleviates this concern and suggests that the recording of milestone is relatively objective, at least for the cases that coincide with shareholder meetings. We also repeat the analysis in Section 4 by splitting the successful engagement sample into two based on the availability of shareholder meeting. If the positive market reaction were driven by self-fulfilling milestones, we would not observe any result on the objective ones (i.e., milestones coinciding with shareholder meetings). Instead, we find very similar results across these two subsamples.

One may wonder, if CSR activities improve shareholder value, why a firm would not voluntarily pursue such a strategy. We argue that it is possible for a firm to adopt CSR changes in the absence of intervention, but that it is unlikely to happen for our sample for two reasons. First, Table 3

suggests that target firms have poorer corporate governance compared with control firms, indicating that our sample firms may face serious agency issues, in which managers deviate from the objective of maximizing shareholder value. Therefore, managers may be reluctant to initiate CSR projects even though they might be value-enhancing. Second, engagements provide a large amount of directional guidance to target firms. In the absence of external pressure, target companies may lack the capability to become aware of or to form appropriate responses to CSR needs.

7. Conclusion

Using 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 engagements give rise to a positive average abnormal return of 1.8% over a 12-month period after the initial engagement. The average one-year abnormal return after initial engagement is 4.4% for successful engagements whereas there is no market reaction to unsuccessful ones. The positive abnormal returns are most pronounced for engagements on the themes of corporate governance and climate change. We find, compared to matched firms, that companies with more 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 engagement objectives. We further explore the sources of the improved shareholder value. Consistent with arguments that CSR activities attracts socially-conscious customers and investors, we find that target firms experience improvements in their operating performance, profitability, efficiency, shareholding, and governance after successful engagements. Our study makes meaningful contributions to the literatures on responsible investing and shareholder engagement.

Appendix A: Examples of CSR engagements[11]

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 host 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".

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

Appendix B. Description of engagement themes

Area	Theme	Issue	Num. of sequences	% Sample	% Success
Governance (GOV)	Corporate Governance (CGR)	Audit and control	35	1.6%	0.0%
		Board structure	71	3.3%	15.5%
		Remuneration	77	3.6%	14.3%
		Shareholder rights	32	1.5%	12.5%
		Transparency and Performance	102	4.7%	20.6%
		Other	583	27.1%	29.3%
	Business Ethics (ETH)	Bribery and corruption	140	6.5%	15.7%
		Political influence	23	1.1%	0.0%
		Responsible marketing	6	0.3%	0.0%
		Whistle-blowing systems	17	0.8%	0.0%
		Other	25	1.2%	28.0%
	Sustainability Management and Reporting (SUS)	Disclosure and reporting	62	2.9%	4.8%
		Governance of sustainability issues	37	1.7%	0.0%
		Stakeholder engagement	11	0.5%	0.0%
		UNGC compliance	2	0.1%	0.0%
		Other	37	1.7%	29.7%
Environment (ENV)	Climate Change (CLC)	Biofuels	3	0.1%	0.0%
		Climate change strategy	22	1.0%	4.5%
		Emissions management and reporting	26	1.2%	0.0%
		Other	105	4.9%	14.3%
	Ecosystem Services (ECO)	Access to land	2	0.1%	0.0%
		Biodiversity management	45	2.1%	15.6%
		Water	16	0.7%	0.0%
		Other	14	0.7%	7.1%
	Environmental Management (EMA)	Environmental standards	23	1.1%	0.0%
		Pollution control	5	0.2%	0.0%
		Product opportunities	20	0.9%	0.0%
		Supply chain environmental standards	22	1.0%	0.0%
		Waste and recycling	4	0.2%	0.0%
		Other	147	6.8%	26.5%
Social (SOC)	Public Health (HTH)	Access to medicines	7	0.3%	14.3%
		HIV/AIDs	8	0.4%	12.5%
		Nutrition	3	0.1%	0.0%
		Product safety	5	0.2%	0.0%
		Other	8	0.4%	0.0%
	Human Rights (HUR)	Community relations	19	0.9%	5.3%
		Privacy and free expression	11	0.5%	18.2%
		Security	5	0.2%	0.0%
		Weak governance zones	7	0.3%	0.0%
		Other	140	6.5%	10.7%
	Labour Standards (LST)	Diversity	11	0.5%	0.0%
		Health and safety	16	0.7%	6.3%
		ILO core conventions	13	0.6%	0.0%
		Supply chain labour standards	27	1.3%	14.8%
		Other	158	7.3%	20.9%

Appendix C. Variable definitions

Variable name	Definition	Data source
SIZE	Market value of equity (in million $)	Compustat
MTB	Market value of equity/book value of equity	North
Q	Tobin's Q, (market value of equity +book value of debt)/(book value of equity+book value of debt)	America
AGE	Firm age relative to the year when the firm initially appeared in Compustat	
GROWTH	Annual sales growth rate	
ROA	Earnings before interest, taxes, dep., and amort. (EBITDA)/average total assets	
TURNOVER	Sales/average total assets	
SALE_EMPL	Sales/number of employees	
MARGIN	Earnings before interest and taxes (EBIT)/sales	
CASH_FLOW	(Net income before extraordinary items +dep. and amort.)/ average total assets	
RET	Buy-and-hold stock return of the previous year	
RET_STD	Standard deviation of monthly stock return of the previous year	
LEV	Book value of debt/(book value of debt+book value of equity)	
CASH_HOLD	Cash/total assets	
DIV_YIELD	Total dividends/(market value of common equity+book value of preferred equity)	
DIV_PAYOUT	Total dividends/Net income before extraordinary items	
R&D	R&D expenditures/Average total assets	
CAPEX	Capital expenditures/Average total assets	
ADVEX	Advertising expenditures/Average total assets	
HHI	Herfindahl-Hirschman index computed using all firms within the same industry (4-digit SIC)	
ADV_IND	Industry (4-digit SIC) median of advertising intensity (Advertising expenditures/sales)	
TANG	Tangibility ratio, net PP&E/total assets	
INST_HOLD_AM	Percentage of shares held by the asset manager	Thomson
INST_HOLD_OTHER	Percentage of shares held by institutions other than asset manager	Reuters 13F
ACT_HOLD	Percentage of shares held by activist institutions; an activist is defined as per Cremers and Nair (2005), specifically, the following public pension funds are classified as activists: institutions with the following manager numbers on Spectrum 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), State of Wisconsin Investment Board (93405); Manager numbers are in parentheses	
ACTIVIST	Number of activist institutions	
BLK_HOLD	Percentage of shares held by blockholders; an institution is defined as blockholder if it holds larger than 1% of the target firm's total shares outstanding	
BLK	Number of block holders	
ILLIQ	Amihud (2002) illiquidity measure, defined as the yearly average of	CRSP
ANALYST	Number of analyst following	IBES
G_INDEX	Gompers, Ishii, and Metric (2003) governance index	RiskMetrics
E_INDEX	Bebchuk, Cohen, and Ferrell (2009) entrenchment index	

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Table 1. Descriptive statistics

Panel A 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 sequence, 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 coincide with shareholder meetings. Panel B reports the number of engagement sequences by calendar year for the whole sample, the successful sub-sample, and each category of area. Engagement sequences are classified into calendar years according to the initial engagement date. Panel C reports the number of engagement sequences by industry of the target firm.

Panel A. Summary of CSR engagements by area and theme

	Whole sample			Successful					Unsuccessful	
Engagement Areas & Themes	**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 (GOV)										
Corporate governance (CGR)	900	41.8%	44.7%	218	24.2%	2.2	525 [369]	44.4%	682	1.6
Business ethics (ETH)	211	9.8%	43.6%	29	13.7%	4.8	647 [539]	25.9%	182	2.2
Sustainability management & reporting (SUS)	149	6.9%	56.4%	14	9.4%	3.8	284 [77]	23.1%	135	1.8
2. Environmental (ENV)										
Climate change (CLC)	156	7.2%	54.5%	16	10.3%	3.9	521 [524]	18.8%	140	1.9
Ecosystem Services (ECO)	77	3.6%	46.8%	8	10.4%	3.0	512 [123]	25.0%	69	2.1
Environmental management (EMA)	221	10.3%	46.6%	39	17.6%	3.2	386 [246]	17.1%	182	1.8
3. Social (SOC)										
Public health (HTH)	31	1.4%	80.6%	2	6.5%	3.5	622 [622]	50.0%	29	1.6
Human rights (HUR)	182	8.5%	40.1%	18	9.9%	4.7	591 [472]	18.8%	164	3.1
Labour standards (LST)	225	10.5%	45.8%	38	16.9%	2.8	410 [165]	8.6%	187	1.6
Total/Average	2,152		46.6%	382	17.8%	2.9	503 [349]	33.4%	1,770	1.9

Numbers in brackets are median figures.

Panel B. Summary of CSR engagements by year

	Number of sequences						
Engagement Year	**Whole sample**	**% Sample**	**Successful**	**% Success**	**Gov.**	**Env.**	**Soc.**
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		382	17.8%	1,260	454	438

Panel C. Summary of CSR engagements by industry

	Number of sequences						
Industry Division	**Whole sample**	**% Sample**	**Successful**	**% Success**	**Gov.**	**Env.**	**Soc.**
Agriculture, Forestry, and 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
Transportation, Communications, Electric, Gas, and Sanitary Services	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, and 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		382	17.8%	1,260	454	438

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 industry/size/market-to-book matched firms, the t-statistic for the average difference, and the Wilcoxon signed rank statistics. Please see Appendix C for variable definitions.

	Summary Statistics				Difference with Matched Firms		
	Mean	Median	StDev	Obs	Avg. Diff.	t-stat	Z-stat
Firm Characteristics	(1)	(2)	(3)	(4)	(5)	(6)	(7)
SIZE	53.54	18.486	74.307	1,747	49.057	27.766	33.891
MTB	4.044	2.896	3.661	1,747	-0.294	-2.723	1.189
Q	2.975	2.173	2.452	1,740	-0.143	-2.231	-0.940
AGE	33.064	32.000	18.138	1,747	12.141	27.449	18.846
GROWTH	0.121	0.086	0.247	1,743	-0.151	-10.505	-13.703
ROA	0.148	0.152	0.102	1,597	-0.001	-0.289	1.895
TURNOVER	0.847	0.706	0.712	1,747	-0.095	-5.764	-3.826
SALE_EMPL	0.679	0.396	0.849	1,718	-0.474	-7.176	-0.909
CASH_FLOW	0.100	0.108	0.090	1,597	0.001	0.540	2.471
RET	0.105	0.084	0.398	1,691	-0.137	-9.749	-6.918
RET_STD	0.090	0.075	0.053	1,710	-0.022	-16.234	-13.635
LEV	0.372	0.331	0.266	1,740	0.039	6.695	2.842
CASH_HOLD	0.086	0.053	0.091	1,709	-0.019	-8.317	-9.119
DIV_YIELD	0.019	0.012	0.023	1,747	0.002	3.167	5.925
DIV_PAYOUT	0.321	0.190	0.670	1,747	0.059	2.505	7.370
R&D	0.030	0.001	0.046	1,747	-0.002	-2.373	-0.393
CAPEX	0.049	0.035	0.054	1,701	-0.005	-3.715	-2.879
ADVEX	0.013	0.000	0.027	1,747	0.003	4.041	-4.833
HHI	0.337	0.285	0.251	1,658	0.018	3.523	0.470
ADV_IND	0.005	0.000	0.012	1,661	0.001	4.343	-2.843
INST_HOLD_AM	0.001	0.000	0.001	1,747	0.000	7.354	12.705
INST_HOLD_OTHER	0.658	0.703	0.293	1,747	-0.042	-4.865	-3.219
ACT_HOLD	0.024	0.027	0.011	1,747	0.002	5.306	9.202
BLK_HOLD	0.382	0.376	0.215	1,747	-0.087	-13.704	-13.069
ILLIQ	0.015	0.010	0.017	1,701	-0.022	-34.894	-36.137
G_INDEX	9.140	9.000	2.421	1,212	0.202	2.190	1.863
E_INDEX	1.856	2.000	1.317	1,212	-0.305	-6.493	-7.227
ANALYST	16.633	17.000	8.428	1,747	6.877	35.640	25.782
ACTIVIST	11.180	13.000	4.600	1,747	2.351	18.215	29.875
TANG	0.244	0.175	0.214	1,584	0.000	-0.034	-0.406

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 C. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	**(1)**		**(2)**		**(3)**	
1 if targeted, 0 o/w	**Mar. Eff.**	**t-stat**	**Mar. Eff.**	**t-stat**	**Mar. Eff.**	**t-stat**
SIZE	0.008***	7.70	0.008***	5.86	0.008***	5.89
Q	-0.004	-0.92	-0.001	-0.12	-0.001	-0.19
AGE	0.001***	2.62	0.001**	2.30	0.002***	3.00
GROWTH	-0.046***	-3.09	-0.146***	-4.06	-0.147***	-4.21
ROA	-0.258***	-3.43	-0.072	-0.71	-0.042	-0.42
SALE_EMPL	-0.018	-1.57	-0.008	-0.48	-0.011	-0.66
CASH_HOLD	0.133	1.61	0.006	0.05	-0.014	-0.14
LEV	-0.005	-0.16	0.047	1.25	0.044	1.17
DIV_YIELD	0.321	0.87	-0.371	-0.63	-0.327	-0.57
CAPEX	0.139	1.10	-0.309*	-1.84	-0.313*	-1.93
R&D	-0.237	-1.39	-0.187	-0.92	-0.184	-0.91
ADVEX	0.571**	2.33	0.702**	2.38	0.669**	2.34
INST_HOLD_AM	23.711***	4.77	20.953***	2.81	20.039***	2.79
INST_HOLD_OTHER	0.023	0.91	0.091***	2.90	0.085***	2.72
ILLIQ	-0.172	-0.68	-1.365**	-2.26	-1.387**	-2.36
ANALYST	0.004***	3.35	0.005***	3.37	0.005***	3.20
G_INDEX			0.009***	2.79		
E_INDEX					0.013**	2.05
Year Fixed Effect	Yes		Yes		Yes	
Obs	2,950		2,218		2,218	
Pseudo R2	0.461		0.542		0.538	

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 C. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	**(1)**		**(2)**		**(3)**	
1 if success, 0 o/w	**Mar. Eff.**	**t-stat**	**Mar. Eff.**	**t-stat**	**Mar. Eff.**	**t-stat**
SIZE	0.000***	3.39	0.000**	2.55	0.000**	2.54
Q	-0.004	-0.78	-0.006	-0.80	-0.006	-0.87
AGE	0.001	1.12	0.001	1.15	0.001	1.22
GROWTH	0.018	0.38	0.071	1.00	0.072	1.01
ROA	-0.345*	-1.92	-0.540**	-2.31	-0.517**	-2.18
SALE_EMPL	-0.010	-0.90	-0.011	-0.69	-0.015	-0.94
CASH_HOLD	0.281**	1.96	0.402**	2.00	0.398**	1.97
LEV	-0.084	-1.47	-0.104	-1.41	-0.113	-1.49
DIV_YIELD	-0.340	-0.44	-1.037	-0.87	-0.943	-0.79
CAPEX	-0.758**	-2.49	-0.716*	-1.78	-0.717*	-1.80
R&D	-0.943***	-3.64	-1.174***	-3.15	-1.185***	-3.19
ADVEX	0.761*	1.77	1.328**	2.33	1.324**	2.31
INST_HOLD_MF	12.004	0.94	8.050	0.50	8.258	0.51
INST_HOLD_OTHER	-0.025	-0.68	-0.062	-1.17	-0.064	-1.20
ILLIQ	-3.931**	-2.08	-7.933**	-2.54	-8.039**	-2.55
ANALYST	0.008***	4.21	0.010***	3.69	0.010***	3.69
G_INDEX			0.006	1.13		
E_INDEX					0.011	0.93
Year Fixed Effect	Yes		Yes		Yes	
Obs	1,475		1,109		1,109	
Pseudo R2	0.219		0.198		0.198	

Table 5. Cross-sectional variation on abnormal returns

This table reports the average cumulative abnormal returns (adjusted for the value-weighted market returns) and t-statistic around the initial engagements for nine engagement themes, as defined in Appendix B. The independent variables are counting variables indicating the number of successful and unsuccessful engagement under each theme. Other independent variables are defined in Appendix C. 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. *, **, and *** indicate 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
LAG_SIZE	0.008	0.28	-0.144*	-1.91	-0.360***	-2.95
LAG_MTB	-0.001	-1.50	-0.002	-0.88	-0.004	-1.47
LAG_RET	-0.009	-0.29	-0.317	-1.08	-0.802	-1.32
LEV	-0.011	-1.18	-0.004	-0.15	-0.004	-0.09
SUC_CGR	0.002	0.38	0.036***	2.62	0.071***	3.88
SUC_ETH	0.000	0.04	-0.003	-0.09	0.015	0.27
SUC_SUS	-0.007	-0.75	0.006	0.18	-0.008	-0.19
SUC_CLC	-0.012	-0.82	0.071**	2.26	0.106**	2.32
SUC_ECO	-0.021	-0.87	0.074	1.62	0.114	1.03
SUC_EMA	-0.013	-0.94	0.004	0.18	0.013	0.30
SUC_HTH	-0.012	-0.20	0.119***	2.87	0.032	1.42
SUC_HUR	0.040*	1.82	0.076	1.45	0.005	0.08
SUC_LST	0.012	0.78	0.045	1.32	0.058	0.86
UNSUC_CGR	0.005	1.46	0.011	1.19	0.021*	1.78
UNSUC_ETH	-0.008	-1.26	0.027	1.49	0.034	1.57
UNSUC_SUS	0.002	0.25	0.028	1.15	0.040	1.62
UNSUC_CLC	0.002	0.30	-0.015	-0.77	-0.029	-1.16
UNSUC_ECO	-0.001	-0.08	-0.024	-0.86	-0.016	-0.45
UNSUC_EMA	-0.007	-1.32	0.005	0.31	0.007	0.31
UNSUC_HTH	0.015	0.78	0.052	1.16	0.046	0.86
UNSUC_HUR	-0.005	-0.69	0.018	0.78	0.019	0.67
UNSUC_LST	-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 304 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. *, **, and *** indicate 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**
1%	-0.815	-0.750	-0.821	-0.842	-0.902	-0.842	-0.692	-0.911	-0.692
5%	-0.540	-0.346	-0.569	-0.559	-0.522	-0.579	-0.450	-0.491	-0.445
25%	-0.130	-0.066	-0.159	-0.136	-0.088	-0.155	-0.161	-0.157	-0.165
50%	0.059	0.068	0.058	0.064	0.091	0.055	-0.012	0.002	-0.017
75%	0.277	0.325	0.264	0.261	0.241	0.264	0.161	0.169	0.160
95%	0.773	0.996	0.700	0.718	0.742	0.710	0.579	0.709	0.555
99%	1.437	1.437	1.453	1.471	4.386	1.471	1.146	3.293	1.146
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	0.00	0.00	0.00	0.00	0.01	0.01	0.19
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, institutional ownership and governance after CSR engagements

Panel A reports various statistics of target company performance, institutional ownership and return volatility in excess of a matched sample in years before and after being targeted. Panel B reports governance and entrenchment indices of target company in excess of a matched sample in years before and after being targeted. All variables are defined in Appendix C. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Performance, institutional ownership and return volatility

	POST=1 if Window=+1, POST=0 if Window=-1													
	(1)		(2)		(3)		(4)		(5)		(6)		(7)	
Dependent Variable	ROA		MARGIN		TURNOVER		SALE_EMPL		INST_HOLD_AM		INST_HOLD_OTHER		RET_VOL	
	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat
POST	-0.003	-0.96	0.000	0.06	-0.035***	-4.01	-0.039	-1.17	-0.118	-1.33	0.024***	3.39	0.005*	(1.79)
SUCCESS	-0.007*	-1.77	-0.004	-0.51	-0.003	-0.19	-0.066**	-2.30	-0.096	-1.46	0.002	0.27	0.006*	(1.67)
POST x SUCCESS	0.009**	2.08	0.014*	1.75	0.020*	1.66	0.090**	2.43	0.263***	2.69	0.016	1.48	-0.014***	(-2.99)
Firm Controls	Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Industry Control	Yes		Yes		Yes		Yes		No		No		No	
Firm Fixed Effect	Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Year Fixed Effect	Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Obs	3,595		3,859		3,862		3,831		4,078		4,078		3,713	
R2	0.865		0.878		0.975		0.928		0.678		0.895		0.615	

Panel B. Governance and entrenchment indices

	POST=1 if Window=+1, POST=0 if Window=-1				POST=1 if Window=+2, POST=0 if Window=-1			
	(1)		(2)		(3)		(4)	
Dependent Variable	G_INDEX		E_INDEX		G_INDEX		E_INDEX	
	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat	Coef.	t-stat
POST	-0.030	-0.77	-0.005	-0.18	-0.033	-0.72	-0.007	-0.24
SUCCESS	0.171**	2.58	0.058	1.17	0.152**	2.54	0.042	0.89
POST x SUCCESS	-0.093	-1.37	-0.035	-0.79	-0.259**	-2.34	-0.120	-1.62
Firm Controls	No		No		No		No	
Industry Control	No		No		No		No	
Firm Fixed Effect	Yes		Yes		Yes		Yes	
Year Fixed Effect	No		No		No		No	
Obs	2,708		2,708		2,510		2,510	
R2	0.956		0.923		0.956		0.920	

Figure 1. Cumulative abnormal returns (CARs) around initial CSR engagements

This figure plots the average monthly cumulative abnormal returns (adjusted for CRSP value-weighted market return) around the initial engagements from 1 month prior to the engagement month to 18 months afterwards.