Activism on Corporate Social Responsibility*

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Abstract

Using an extensive proprietary dataset of corporate social responsibility (CSR) engagements, we document positive market reactions to engagements with US public firms over 1999-2009. The average one-year abnormal return after initial engagement is 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, firms with more reputational concerns and higher capacity to implement CSR changes are more likely to be targeted and be successful in achieving the engagement objectives. Target firms experience improvements in operating performance, profitability, efficiency, and governance indices after successful engagements.

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Many funds engage with firms on Corporate Social Responsibility (CSR) issues, but there is a dearth of evidence on CSR activism. As a result, even the most basic questions about CSR activism remain unanswered: Which firms do CSR activists target and how do those targets respond? What determines the success of CSR activism? How does the market react to CSR engagements? Do activists succeed in implementing their objectives? An even more basic 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 on engagements and outcomes, we are able to answer the above questions.

Our dataset has been provided by a large institutional investor with a major commitment to responsible investment. 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 world's largest shareholders to promote the adoption of good environmental, social, and governance practices. It engages over 3,000 target companies around the world via letters, emails, telephone conversations, and direct face-to-face 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 portfolio. In recent years, engagements have been compiled as a detailed electronic file, and the complete dataset has been made available for the purposes of this study. To our knowledge, this is the first such point-in-time record of engagements and outcomes. We examine highly intensive engagements on environmental, social, and governance issues from 1999 to 2009.

The objective of these engagements is to increase firm value and, at the same time, to improve social welfare. The asset manager engages target companies on issues that include corporate governance, environment protection, labour standards, business ethics, and human rights, among others. The objectives and tactics of CSR activism lie between those of institutional activism and hedge fund activism. The objective is closer to the institutional perspective (e.g., valuing rights of stakeholders rather than shareholders only), whereas the

tactics in engagement (e.g., active interventions) focus on to increasing the value of the firm and are closer to the activities of hedge funds.

Unlike hedge fund activists who tend to target companies that are typically medium-sized "value" firms as documented in Brav et al. (2008), the firms in our sample are large in size, and have poor operating performance and corporate governance compared to size, market-to-book and industry matched firms. This finding suggests that economies of scale and room for improvement might play a role in CSR targeting. Target companies also have higher advertising expenditures and higher analyst coverage, suggesting that target firms have higher reputational capital. Conditional on targeting, we find that engagements in firms with larger size, higher advertising intensity, lower operating performance, lower investment levels, and greater cash holdings are more likely to be successful. Results suggest that reputation, economies of scale, and potential for improvement are important determinants of successful CSR changes.

Next, we find that the stock market reacts favorably to CSR engagements. This suggests that CSR activities create value. On average, CSR engagements generate a positive average abnormal return of 2% over a 12-month period after the initial engagement. We also document the positive abnormal returns are much higher for successful engagements (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 are consistent with Klein and Zur's (2009) observation that ex-ante the market is able to differentiate between overall successful and unsuccessful hedge fund activist campaigns. The wealth effect from engagements is much lower than that observed in hedge fund activism (7-10% in Brav et al., 2008 and Klein and Zur, 2009). There might be two potential explanations. First, the manager's CSR objectives may constrain it from engaging in the most profitable areas such as changes in business strategy or sale of the firm (Brav et al., 2008). Second, our dataset comprises engagement tactics that are less aggressive and less confrontational compared with activist hedge funds. On the other hand, the abnormal return is

higher than those from screened mutual funds[1] (2%) and institutional activists (negligible) (Margolis et al., 2007; Becht et al., 2008). Overall, this result is in line with the view that CSR activism lies between institutional activism and hedge fund activism.

We next examine the cross-section of these abnormal returns and find that successful engagements on the themes of corporate governance, within the broader area of governance, and climate change, within the broader area of environment, have significantly larger abnormal returns than those of other themes. We find that the average cumulative abnormal return of one additional successful engagement on corporate governance theme over Window (0, +12) is 7.1% and the average cumulative abnormal return of one additional successful engagement on the climate change theme over Window (0, +12) is 10.6%. Other engagements lack statistically significant stock market reactions. Interestingly, Brav et al. (2008) find no effect of governance related activism in their hedge funds sample, whereas in our sample it is the one with strongest impact.

Previous studies, from both a theoretical and an empirical perspective, have indicated three potential explanations for overall positive stock market reactions around CSR engagements. First, CSR activities may attract more socially-conscious consumers and increase consumer loyalty. Baron (2008) and Benabou and Tirole (2010) argue that consumers may reward consumer goods producers for its social expenditures. Besley and Ghatak (2007) also find that more responsible firms earn higher profits, as a reputational premium to support good behaviour. Empirically, Fisman, Heal, and Nair (2005) document that CSR is more prevalent in advertising intensive (consumer-oriented) industries and that firms use CSR as a means of differentiation in otherwise competitive environments. Similarly, CSR could improve the productivity of a firm by inducing employees to work harder or better, and could reduce hiring costs by intensifying employee royalty (Baron, 2008; Portney, 2008). Edmans (2010) documents that firms with high employee satisfaction outperform the market. Second, there may be clientele effects among companies'

[1] Screened mutual funds mainly use screening as a tool to promote CSR activities instead of actively engaging target companies' management.

shareholders. Baron (2008) and Benabou and Tirole (2010) argue that shareholders may demand that firms engage in philanthropy on their behalf. Hong and Kacperczyk (2009) document that sin stocks are less held by norm-constrained institutions such as pension plans and are less covered by analysts, while Eurosif (2010) contends that the SRI market remains largely driven by institutional investors representing, in Europe, 92% of the total assets under management. So by engaging in CSR, the target company may attract potential investors with strong preferences for social responsibility. Third, as suggested by the literature on hedge fund activism, investor interventions may signal future governance improvements that enhance the shareholder value of the target company (Brav et al., 2008; Klein and Zur, 2009).

We compare target firms' operating performance, efficiency, institutional ownership and governance indices, year(s) after the initial engagement, to the year before. We find evidence consistent with all three explanations. First, we find that the return on assets, profit margin, asset turnover, and sale-over-employee ratios improve significantly after successful engagements, suggesting improvements in sales, profitability, and potentially employee efficiency. Second, we also observe an increased shareholding from the CSR activist one year after successful engagements. Third, we find improvements in corporate governance measures, especially after successful engagements on corporate governance theme.

This paper also contributes to the CSR literature. Despite the trend towards Socially Responsible Investing (SRI) in the global financial market, for the past several decades, researchers have been looking for the answer to a question: Does it pay to be good? Enormous research efforts have been made to study the relation between Corporate Social Responsibility (CSR) and firm performance. Margolis, Elfenbein, and Walsh (2007) compile all the studies published in the management field on this topic between 1972 and 2007 and conduct a meta-analysis of their findings. Among 192 effects revealed in 167 studies, 58% document 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 quite small. Moreover, many of the studies

that document a positive relation are subject to criticisms, such as endogeneity and external generalizability.

Our paper contributes to the CSR literature in two ways by exploiting our rich and unique database. First, instead of relying on static measures for CSR performance – such as the environmental, social, and governance scores provided by KLD – the dynamic feature of our dataset enables us to conduct event-study type of analysis and attribute changes in firm performance to the changes of CSR activities. Also, instead of using "the convenient yet difficult to validate measures such as the *Fortune* ratings of admired companies and company insiders' self-reported impressions" (Margolis et al., 2007), our data is objective and quantifiable. Moreover, it covers CSR issues in all three of the environmental, social, and governance areas, which differentiates it from some of the prior work that focuses on specific types of CSR activities, such as charitable contributions or environmental performance. Second, although we are not the first to use an event study framework, the small number of studies that follow this approach have hitherto focused on the disclosure of corporate misdeeds – such as corporate crimes, product recalls, and environmental violations – or good deeds such as being shortlisted as a family-friendly company by *Working Month* magazine. A drawback of identifying corporate disclosure as an event is that, since there is no real CSR activity going on during the event window, it is possible that the stock market reaction merely reflects the normal adjustment of investor expectations about the intrinsic value of the underlying firm.

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 the changes in performance after engagements. In Section 6, we discuss possible alternative explanations for our findings. Section 7 concludes.

1. Data

Our data provider uses its influence as one of Europe's largest shareholders 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 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*.

We include three examples of the engagements in Appendix A.[2] The first example is a series of engagements with a well known technology firm on environmental issues. The target was engaged three times before a milestone was recorded. Since our data provider is not the leading activist on this issue, its influence is quite limited. To understand the causes and consequences of these engagements, we search on Factiva for news articles published around the engagements dates and have the following observations: The initial engagement had been triggered by a series of public events; for example, Greenpeace (an environmental advocate) criticized and demanded that the target be more environmental friendly before the

[2] Appendix A is available on request.

reordered engagement date. After a take-back and recycling plan was announced and passed in its shareholders meeting, this was recorded as a milestone. In general, we find that, when engagements are triggered by public events, the engagement dates roughly correspond to these event dates, with a lag no more than five days.

The second and third examples deal with social and governance issues. Unlike the previous example, we could not find in Factiva any news article that discussed these issues around the engagement dates. Therefore, we conclude that these engagements were not likely to be initiated by public events. Instead, they might be communicated through private channels. However, we do not expect engagements through private channels to be less effective than those triggered by public events, as Becht et al. (2008) show that shareholder activism can successfully and effectively be undertaken through private channels.

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 asset manager 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. An engagement sequence is defined as "successful" if a milestone is achieved at the end of the sequence and recorded in the database. Columns (3) and (4) report the number of successful engagements

and the percentage success rate under each theme. Column (7) reports the number of unsuccessful engagements. As can be seen at Column (4), 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 very 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 their influence on the target firm is often limited.[3]

Columns (5) and (8) 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 (6) 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.

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

[3] In the case of the technology firm described in Section 1, the asset manager was only playing the role of an active environmental advocate, rather than an active shareholder, who usually has a larger influence over the target company during the intervention.

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-process and milestones have not yet been achieved. However, identifying the not-yet-successful engagements as unsuccessful ones biases against us 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 targeted for CSR engagements? 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. Then, 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.[4] In the robustness analysis (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 match more

[4] The above matching rule follows Brav et al. (2008).

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 very 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 the 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. Unlike 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. Unlike hedge funds targeting 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), 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. The above findings combined together suggest a unique feature of the asset manager's targeting strategy: Instead of aggressive intervention supported by high voting power from block ownership in hedge fund activism,[5] 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 might potentially explain the relatively low success rates observed 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.

[5] Since active hedge funds need to have substantial voting power in order to intervene in target firms' operations, they focus on relatively smaller-sized firms in which they can acquire a sizeable number of shares.

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.[6] 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 research 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 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, 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 determinant 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

[6] The finding that targeting the firms with weaker governance is supported with both the governance index (G_INDEX) and the entrenchment index (E_INDEX) in the multivariate analysis; whereas 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.

financial constraints. 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 Reactions to Initial CSR Engagements

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

4.1. Cumulative Abnormal Returns around Initial CSR Engagements

Figure 1 shows the average cumulative abnormal returns of target companies around the initial engagement dates. 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 actions in both private and public engagements. Monthly stock return data are obtained from CRSP monthly files. The abnormal return is calculated as monthly stock return minus CRSP value-weighted market return.[7] All abnormal returns are winsorized at the 1st and 99th percentiles before calculating sample means for each window. 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

[7] A value-weighted benchmark is more appropriate as the target firms are very large in size.

unsuccessful engagements.[8] 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. This result indicates that the stock market is able to partially differentiate the successful engagements from those unsuccessful initially and fully distinguish these two types after one year. Indeed, 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 reacts 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.

(~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

[8] To remove duplications, for each sample, we keep only one engagement per firm and calendar month, although there may be engagements with the same firm on multiple occasions within a month. Our conclusions are not influenced by this empirical choice.

+6, and Months 0 to +12) on these counting variables.[9] 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, but this is only at the 10% 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. In particular, the positive abnormal return on success in the climate change theme suggests that investors expect changes on environmental issues also to increase value of the target firms.[10]

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.

[9] In unreported analysis, we use a dummy variable to replace each counting variable if its value is higher than 0 and get very similar results.

[10] We also document a positive reaction to successful engagements on public health theme. However, since we only have two observations of this engaging type (Table 1, Panel A), this result need to be interpreted with caution.

(~Insert Table 5 about here~)

4.3. Calendar-Time Portfolio Returns

In Table 6, we conduct a more formal long-term return analysis using calendar-time portfolio regressions around the initial CSR engagements. For each portfolio window (*X*, *Y*), we keep the return data around initial engagement dates from Month *X* through Month *Y*.[11] For each calendar month in our sample period where at least one stock return is non-missing, we calculate the arithmetic mean of returns across the whole sample. We then regress the excess portfolio returns on the four Fama-French / Carhart factors. Portfolio excess return is the average return minus risk-free rate. In Panel A, the sample is based on successful engagements. The positive and significant alpha at the event month suggests an abnormal return of 1.3%. We also observe a positive abnormal return of 0.8% during 3 months before the event, indicating possible leakage of information or lagged engagement dates. In Panel B, we do not observe any positive return around the event window for the unsuccessful sample.

To test whether the abnormal returns on these two samples are statistically different from each other, we create a trading strategy that longs the firms with successful engagements and shorts those with unsuccessful ones. The results reported in Panel C suggest that this long-short trading strategy generates an abnormal event window return of 0.8%. This finding confirms that the stock market predicts and rewards successful engagements in the short run.[12]

(~Insert Table 6 about here~)

4.4. Buy-and-Hold Returns

In this section, we calculate the return of a portfolio which 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

[11] Similar to the methodology used in Section 4.1, for each sample, we keep only one engagement per firm and calendar month. Our result is not influence by this empirical choice.

[12] 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.

portfolio using the median horizon of the successful engagements (12 months) as the holding period.[13] Table 7 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.[14] The above results are consistent with the findings in Figure 1.

(~Insert Table 7 about here~)

To sum up, results presented in these sections suggest that CSR engagements increase shareholders' value on average. 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.

5. Subsequent Changes in Performance after CSR Engagements

Lastly, we examine the sources of the abnormal stock performance of CSR engagements. The existing literature suggests three potential explanations for improved shareholder value after CSR engagements. First, CSR activities may improve a firm's

[13] Results are similar if we use average horizon (16 months) as the holding period for the unsuccessful engagements.

[14] Similar to the calendar-time portfolio analysis in the previous section, the purpose of this analysis is not to create a trading strategy as it uses *ex-post* success information. However, it is a useful test to understand and quantify the difference between the performance of the successful and unsuccessful engagements.

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., Bertrand, Duflo, and Mullainathan, 2004) by comparing the operating performance and efficiency, institutional ownership and corporate governance changes of successful engagements with that of unsuccessful ones. For each engagement sequence, we obtain information from the years before and after the initial engagement date.[15] 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 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 results remain the same.

(~Insert Table 8 about here~)

[15] The calendar year of the initial engagement date is defined as Year 0.

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 8, 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 that 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 asset manager and by other institutions. The results are reported in Columns (5) and (6) of Table 8, Panel A. We observe an increase in the asset manager's shareholding in target firms 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 8, Panel B). This is a strong result given that governance indices of firms do not change much. Interestingly, we find the results most pronounced for engagements in the governance area, suggesting that the data provider is effective in engaging on these issues (untabulated).

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: 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.[16] 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 shareholders' 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

[16] For a well-governed firm, engagements are always good for shareholder irrespective of success, as bad ones are automatically filtered out.

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, management's decision on whether or not to adopt CSR changes unlikely depends on the stock market performance. In addition, the calendar-time portfolio results reported in Table 6 indicate a positive reaction in the event month for the successful engagement sample but not in future time periods.

One may wonder if CSR activities improve shareholder value, why a firm would not voluntarily do so. 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 firms 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, as the examples presented in Appendix A[17] suggest, the engagements provide a large amount of directional guidance to target firms. In 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 generate a positive average abnormal return of 2% over a 12-

[17] Appendix A is available on request.

month period after the initial engagement. The average one-year abnormal return after initial engagement is 4% for successful engagements whereas there is no market reaction to unsuccessful ones. The positive abnormal returns are most pronounced for engagements on corporate governance and climate change themes. 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 CSR and shareholder activism literature.

Appendix A. Examples of CSR engagements

This appendix comprises three sections, each presenting a detailed case study of a sequence of CSR engagements with a particular company. The first case deals with environmental engagements with a technology firm regarding its unsatisfactory take-back and recycling policy. The second case focuses on social issues with an on-line service provider that was insufficiently robust on human rights violations while doing business with China. The third case describes governance issues at a manufacturer that had an incentive compensation scheme for senior executives that was inadequately aligned with shareholder interests. The cases provide extensive, timed information on all interactions with the company, and specify the milestones that were eventually achieved.

To conserve space, Appendix A has been omitted from this version of the paper. It is available on request from the authors.

Appendix B. Description of engagement themes

Area	Theme	Issue
Governance	Corporate Governance	Audit and control
		Board structure
		Remuneration
		Shareholder rights
		Transparency and Performance
		Other
	Business Ethics	Bribery and corruption
		Political influence
		Responsible marketing
		Whistle-blowing systems
		Other
	Sustainability Management and Reporting	Disclosure and reporting
		Governance of sustainability issues
		Stakeholder engagement
		UNGC compliance
		Other
Environment	Climate Change	Biofuels
		Climate change strategy
		Emissions management and reporting
		Other (Climate Change)
	Ecosystem Services	Access to land
		Biodiversity management
		Water
		Other
	Environmental Management	Environmental standards
		Pollution control
		Product opportunities
		Supply chain environmental standards
		Waste and recycling
		Other
Social	Public Health	Access to medicines
		HIV/AIDs
		Nutrition
		Product safety
		Other
	Human Rights	Community relations
		Privacy and free expression
		Security
		Weak governance zones
		Other
	Labour Standards	Diversity
		Health and safety
		ILO core conventions
		Supply chain labour standards
		Other

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. Columns (1) and (2) report the number of sequence, and the percentage among all sequences, of each category. Columns (3) and (7) break down each category into successful and unsuccessful sequences. Column (4) presents the success rate. Columns (5) and (8) 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. 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)	Num. of sequences (3)	% Success (4)	Num. of RA & RC (5)	Horizon (days) (6)	Num. of sequences (7)	Num. of RA & RC (8)
1. Governance (GOV)								
Corporate governance (CGR)	900	41.8%	218	24.2%	2.2	525 [369]	682	1.6
Business ethics (ETH)	211	9.8%	29	13.7%	4.8	647 [539]	182	2.2
Sustainability management & reporting (SUS)	149	6.9%	14	9.4%	3.8	284 [77]	135	1.8
2. Environmental (ENV)								
Climate change (CLC)	156	7.2%	16	10.3%	3.9	521 [524]	140	1.9
Ecosystem Services (ECO)	77	3.6%	8	10.4%	3.0	512 [123]	69	2.1
Environmental management (EMA)	221	10.3%	39	17.6%	3.2	386 [246]	182	1.8
3. Social (SOC)								
Public health (HTH)	31	1.4%	2	6.5%	3.5	622 [622]	29	1.6
Human rights (HUR)	182	8.5%	18	9.9%	4.7	591 [472]	164	3.1
Labour standards (LST)	225	10.5%	38	16.9%	2.8	410 [165]	187	1.6
Total/Average	2,152		382	17.8%	2.9	503 [349]	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. Columns 4 through 6 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 1%, 5%, and 10% 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 sequences is defined as successful if 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 1%, 5%, and 10% 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_AM	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 return

This table reports the average cumulative abnormal return (adjusted for value-weighted market return) and t-statistic around the initial engagements for nine engagement themes, as defined in Appendix B. The independent variables are dummy variables indicating nine engagement themes and are classified as successful and unsuccessful. Other independent variables are defined in Appendix C. All non-dummy 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 1%, 5%, and 10% 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_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_ETH	0.000	0.04	-0.003	-0.09	0.015	0.27
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
SUC_SUS	-0.007	-0.75	0.006	0.18	-0.008	-0.19
UNSUC_CGR	0.005	1.46	0.011	1.19	0.021*	1.78
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_ETH	-0.008	-1.26	0.027	1.49	0.034	1.57
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
UNSUC_SUS	0.002	0.25	0.028	1.15	0.040	1.62
Obs	1,392		1,385		1,362	
R2	0.016		0.022		0.037	

Table 6. Abnormal returns on calendar-time portfolios

This table reports regression estimates and t-statistics from equal-weighted calendar-time portfolio regressions. "Window" indicates the buying time relative to the event month and the holding period in months. "Alpha" is the estimate of the regression intercept from the factor models. "MKT" is the factor loading on the concurrent market excess return (the Fama-French RMRF). "SMB" and "HML", and "MOM" are the estimates of factor loading on the Fama-French size and book-to-market factors, and the Carhart momentum factor. *, **, and *** indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Successful engagements

	Alpha		MKT		SMB		HML		MOM		
Window (Months)	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Adj R^2
(-12, -10)	0.0020	0.45	1.147***	9.37	-0.194	-1.63	0.331**	2.32	0.027	0.35	0.47
(-9, -7)	0.0078*	1.85	0.615***	5.33	0.095	0.84	0.225*	1.65	-0.424***	-5.80	0.45
(-6, -4)	0.0007	0.17	0.984***	10.54	-0.180*	-1.70	0.124	1.05	-0.125*	-1.82	0.57
(-3, -1)	0.0082*	1.77	0.712***	6.64	0.157	1.22	0.216*	1.66	-0.269***	-3.23	0.42
Event	0.0130**	2.01	0.960***	6.35	-0.424**	-2.09	-0.022	-0.12	-0.194	-1.63	0.39
(1, 3)	-0.0014	-0.35	0.882***	9.27	0.121	1.06	0.373***	3.25	-0.093	-1.43	0.55
(4, 6)	0.0019	0.39	0.926***	8.23	0.217	1.49	0.156	1.18	0.007	0.09	0.48
(7, 9)	-0.0008	-0.19	0.855***	7.98	-0.045	-0.30	0.136	1.11	-0.125*	-1.66	0.50
(10, 12)	0.0040	0.94	1.016***	9.96	-0.033	-0.21	0.250**	2.04	0.134*	1.79	0.52
(13, 15)	0.0022	0.54	0.915***	9.03	-0.271*	-1.77	0.025	0.20	0.028	0.37	0.48
(16, 18)	-0.0020	-0.55	0.755***	8.36	0.179	1.33	0.244*	1.92	-0.135*	-1.94	0.59

Panel B. Unsuccessful engagements

	Alpha		MKT		SMB		HML		MOM		
Window (Months)	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Adj R^2
(-12, -10)	0.0112***	3.25	0.942***	10.13	-0.119	-1.25	0.229*	1.93	0.151***	2.47	0.49
(-9, -7)	0.0019	0.69	1.006***	14.61	0.139*	1.84	0.219***	2.54	0.070	1.41	0.70
(-6, -4)	-0.0009	-0.25	1.063***	12.61	0.063	0.60	0.151	1.47	0.062	0.96	0.63
(-3, -1)	-0.0032	-0.91	0.963***	11.40	-0.025	-0.26	0.181*	1.81	-0.036	-0.62	0.61
Event	0.0013	0.32	1.079***	10.82	-0.201	-1.28	-0.133	-1.11	0.022	0.31	0.61
(1, 3)	0.0019	0.57	1.040***	13.49	-0.428***	-4.69	0.258***	2.88	-0.124	-2.32	0.72
(4, 6)	-0.0008	-0.26	0.943***	12.46	-0.195**	-2.04	0.025	0.28	-0.186***	-3.54	0.71
(7, 9)	0.0009	0.26	0.938***	10.52	0.069	0.56	0.365***	3.49	0.066	1.09	0.58
(10, 12)	0.0017	0.38	0.927***	8.80	0.193	1.17	0.314**	2.28	-0.064	-0.76	0.55
(13, 15)	-0.0048	-1.39	1.058***	12.69	-0.052	-0.40	0.083	0.75	-0.047	-0.75	0.68
(16, 18)	-0.0117***	-2.48	1.144***	9.80	-0.114	-0.63	0.378**	2.23	-0.082	-0.89	0.59

Panel C. Long successful engagements & short unsuccessful engagements

	Alpha		MKT		SMB		HML		MOM		
Window (Months)	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Est.	t-stat.	Adj R^2
(-12, -10)	-0.0036	-1.06	-0.194**	-2.10	-0.080	-0.87	-0.050	-0.45	-0.064	-1.08	0.03
(-9, -7)	0.0036	1.15	-0.637***	-8.32	-0.088	-1.04	-0.244***	-2.54	-0.238***	-4.28	0.40
(-6, -4)	0.0037	1.42	-0.540***	-9.12	-0.223***	-3.13	-0.228***	-3.13	-0.082*	-1.8	0.48
(-3, -1)	0.0055	1.54	-0.515***	-6.15	-0.065	-0.67	-0.217**	-2.15	-0.016	-0.27	0.28
Event	0.0083*	1.94	-0.477***	-4.82	-0.509***	-3.76	-0.175	-1.44	-0.044	-0.62	0.32
(1, 3)	0.0008	0.28	-0.557***	-9.02	0.200***	2.71	-0.220***	-3.04	0.041	0.97	0.51
(4, 6)	0.0030	0.98	-0.376***	-5.24	0.085	0.92	-0.233***	-2.73	0.203***	4.00	0.42
(7, 9)	-0.0006	-0.18	-0.408***	-5.01	-0.080	-0.69	-0.347***	-3.64	-0.064	-1.12	0.24
(10, 12)	0.0024	0.74	-0.537***	-6.94	-0.064	-0.53	-0.345***	-3.62	0.034	0.58	0.42
(13, 15)	0.0051*	1.87	-0.628***	-9.61	-0.011	-0.10	-0.269***	-3.14	0.038	0.77	0.57
(16, 18)	0.0076**	2.28	-0.718***	-8.67	0.197	1.54	-0.439***	-3.70	0.060	0.90	0.54

Table 7. 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 1%, 5%, and 10% 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 8. Performance, institutional ownership and governance after CSR engagement

Panel A reports various statistics of target company performance and institutional ownership 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 1%, 5%, and 10% levels, respectively.

Panel A. Performance and institutional ownership

	POST=1 if Window=+1, POST=0 if Window=-1											
	(1)		**(2)**		**(3)**		**(4)**		**(5)**		**(6)**	
Dependent Variable	**ROA**		**MARGIN**		**TURNOVER**		**SALE_EMPL**		**INST_HOLD_AM**		**INST_HOLD_OTHER**	
	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
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
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
Firm Controls	Yes		Yes		Yes		Yes		Yes		Yes	
Industry Control	Yes		Yes		Yes		Yes		No		No	
Firm Fixed Effect	Yes		Yes		Yes		Yes		Yes		Yes	
Year Fixed Effect	Yes		Yes		Yes		Yes		Yes		Yes	
Obs	3,595		3,859		3,862		3,831		4,078		4,078	
R2	0.865		0.878		0.975		0.928		0.678		0.895	

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.